Economics

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Pure Competition

A perfectly competitive market is one which has homogeneous products, has a multitude of sellers and buyers and in which the buyers have perfect knowledge of the products. Another major element of a perfectly competitive market is that there are no barriers to entry for new competitors. The industry of grocery stores is an example of a perfectly competitive market because it fulfils all of the aforementioned requirements. The products being sold are homogenous in nature. This means that completely similar products are being sold by different sellers. Since, these sellers are not producers of these products, the product supplied to them is by the same producers, hence the homogeneity of the products. Moreover, there are a multitude of sellers and buyers in the market, implying that one player cannot alter the prices through manipulation. This condition also applies to grocery stores as there are many grocery stores in America and the number of buyers is in the millions. Furthermore, buyers have perfect knowledge of products in grocery stores which means that the specifications of products are not hidden from anyone. The perfectly competitive model also entails that there are no barriers to entry on new competitors so any new sellers can arrive in the market. This is true for grocery stores as well as new grocery stores can be opened freely, with no external intervention.

Industries dealing in finite resources are known as increasing cost industries. An example will be the oil and gas industry which is running on fossil fuels that are limited in supply. On the other hand, decreasing cost industries are those whose average prices decrease as more vendors arrive in the market. Economies of scale is the major element that allows companies to reduce prices. An example is the manufacturing of car parts as more vendors drive the cost down. Whereas, a constant cost industry is one in which the number of new entrants does not affect prices as the production costs remain constant. Vegetables are an example of an industry which is constant cost.