★ Equilibrium :-->

• Perfect Competition :

Equilibrium in perfect competion is the point where market demand will be equal to market supply. A firm's price will be determined at this point.

In the short run, equilibrium will be affe by demand. In the long run, both the demand and supply of a product will affect the equilibrium in perfect competition. A firm will receive only normal profit in the long run at the equilibrium point.

• Monopolistic Competition :

Equilibrium of a firm under monoplistic competition is often couched in terms of shor peroid and long peroid. In the short run, Chamberlin's model of monopolistic competition comes cl to monopoly. That is to say, there is virtually no difference between monopolistic competition & monopoly in the short run.

In the long run, monoplistic competition comes closer to perfect competition because the freedom of entry and exit allows firms to enjoy only normal profit.

Whenever some firms earn pure profit in the long run some other firms may be attracted to join this product group, thereby shifting the demand curve or AR curve downward and to the ~~left~~ left. Thus, entry of new firms would cause decline in market share by reducing the demand for its product.

- Monopoly:

The conditions for Equilibrium in Monopoly are the same as those under perfect competition. The marginal cost (MC) is equal to the marginal revenue (MR) and the MC curve cuts the MR curve from below.

• **Oligopoly:** In the study of oligopoly, the Nash Equilibrium assumes that each firm makes relational profit maximizing decisions while holding the behavior of rival firms constant.

This assumption is made to simplify oligopoly models, given the potential for enormous complexity of strategic interactions between firms.

☆ Assumptions:

• **Perfect Competition:**

The model of perfect competition is based on the following assumption:

1. Large numbers of sellers and buyers:

The industry or market includes a large numbers of firms (and buyers), so that each individual firm, however large, supplies only a small part of the total quantity offered

in the market. The buyers are also numerous so that no monopolistic power can affect the working of the market. Under these conditions each firm alone can't affect the price in the market by changing its output.

2. Product homogeneity:
The industry is defined as a group of firms producing a homogeneous product. The technical characteristics of the product as well as the services associated with its sale and delivery are identical. There is no way in which a buyer could differentiate among the products of different firms. If the product were differentiated the firm would have some discretion in setting its price. This is ruled out ex-hypothesis in perfect competition.

3. Free Entry or Exit of firms:
There is no barrier to entry or exit from the industry. Entry or exit may take time, but firms have freedom of movement in and out of the industry. This assumption is supplementary to the assumption of large numbers. If barriers exist the number of firms in the industry may be reduced so that each one of them may acquire power to affect the price in the market.

4. Profit Maximization:
The goal of all firms is profit maximization. No other goals are pursued.

Date : ..../......../........
Page No. : ....

5. No Government regulation :

There is no government intervention in the market. The above assumptions are sufficient for the firm to be a price-taker and have an infinitely elastic demand curve.

The market structure in which the above assumptions are fulfilled is called pure competition. It is different from perfect competition, which requires the fulfillment of the following additional assumptions.

6. Perfect knowledge :

It is assumed that all the sellers and buyers have complete knowledge of the conditions of the market. This knowledge refers not only to the prevailing condition in the current period but in all future periods as well. Information is free and costless.

Under these conditions uncertainty about future development in the market is ruled out.

Date : ..../......./.......
Page No. : ....

- **Monopolistic Competition :**

Let's discuss the assumption of monopolistic competition :

1. **Large number of sellers and buyers are in the group :**

In fact, this ~~come~~ condition is similar to the condition in perfect competition. This condition implies that one seller provides only a small share of the market demand. One can't make any influence on the market price by their individual actions.

This condition is different from the corresponding condition in Monopoly. Under the monopoly, there is only one seller in the market. He can make an influence on both price and market supply.

2. **The products are differentiated, yet they are close substitutes for each other:**

The products of the monopolistically competitive firms are not homogeneous. They are differentiated products that are close substitutes for each other. This condition is different from the corresponding condition of perfect competition. The products are homogeneous in perfect competition.

3. **Free entry and exit from the market :**

Another monopolistic competition assumption is that entry and exit from the market is free.

Potential sellers are not limited in their ability to join the market. They can enter the market at any time. Existing firms can also quit the market without limitation if they find it unfavorable.

4. Perfect knowledge or information :
Firms under monopolistic competition have a reasonable knowledge of all aspects of the product group. Each company has a strong sense of how much other companies pay for inputs and how much they charge for output. They all have the same level of access to the existing technology base, government licenses, and other market data.