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1. Why is the demand curve horizantal for a firm in a perfectly competitive market?

In a perfect competition, each firm is a price taker because its output is infinitesimal relative to the total market. The market sets a single price, so the firm can sell any quantity at that price, making its demand curve perfectly elastic (horizantal) at the market price.

2. How can price discrimination be fair?

Price discrimination can be seen as "fair" when it expands acess to a good or service by changing lower prices to consumers with lower prices to consumer with lower prices to consumers with lower willingness or ability to pay, while higher paying segments subsidize the lower prices. it can also reflect differences in cost or service provision, making the pricing structure efficient for different consumer groups.

3. What is the difference between perfect competition & imperfect competition?

Perfect competition involves many firms selling homogenous products, free entry / exit and price taking behaiviour, leading to zero economic profit in the long run. Imperfect competition includes markets with differentiated products, fewer firms or barriers to entry (monopoly, oligopoly, monopolistic competition) giving firms some price-setting power.

4. What are the primary sources of product differentiation?

Product differentiation arises from physical attributes, branding and marketing, quality perceptions, location, service features, and consumer preferences, Firms use these differences to make their products appear unique and attract specific market segments.

5. What are the gains from collusion?

Colluding firms can increase profits by jointly restricting output or fixing prices, thereby raising the market price above competitive levels. The gains come from capturing monopoly-like profits that would other wise be competed away in a non-collusive environment.

6. What are barriers to entry?

Barriers to entry are obstacles that prevent new firms from easily entering a market, such as high startup costs, economies of scale, legal restrictions (licenses, patents) brand loyalty or control of essential resources

7. How can firms try to deter entry?

Firms may deter entry by straties like limit pricing (setting price low enough to make entry unprofitable) investing in excess capacity to threaten output expansion, creating strong brand loyalty, securing exclusive contracts or patents or engaging in agressive advertising and predatory pricing.

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