Task 11.09.2025

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

Ans : In perfect competition, each firm is a price taker because it is so small relative to the market that it cannot influence the market price. The firm faces a perfectly elastic (horizontal) demand curve at the market-determined price, meaning it can sell any quantity at that price but nothing at a higher

2. How can price discrimination be fair ?

Ans : Price discrimination can be seen as fair if it increases overall access to goods/services (e.g., lower prices for students or low-income groups) or enables services to be provided to markets that would otherwise be unserved. It may improve efficiency and allow cross-subsidization that benefits disadvantaged

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

Ans : In perfect competition, many firms sell identical products, there are no barriers to entry, and firms are price takers.
In imperfect competition (monopoly, oligopoly, monopolistic competition), firms have some market power, products may be differentiated, barriers to entry exist, and firms are price makers to varying

4. What are the primary sources of product

Ans :

- Physical differences in quality, design, or features.
- Location/convenience.
- Brand image, advertising, and perceived differences.
- Services, warranties, and after-sales support.

5. What are the gains from collusion?

Ans : Collusion allows firms to act like a monopoly by restricting output and raising prices, leading to:

- Higher profits for colluding firms.
- Reduced market uncertainty.
- Avoidance of competitive price wars.

6. What are barriers to entry?

Ans : Barriers to entry are obstacles that prevent new competitors from entering a market easily.

Examples:

- High startup or capital costs.
- Economies of scale of incumbents.
- Legal barriers (patents, licenses).
- Control over essential resources.
- Strong brand loyalty.

7. How can firms try to deter entry?

Ans :

- Limit pricing: Setting prices low enough to make entry unprofitable.
- Excess capacity: Maintaining spare capacity to threaten increased output if entry occurs.
- Aggressive advertising and branding to increase
- Long-term contracts with customers or suppliers.
- Predatory pricing (temporarily pricing below cost to drive out entrants).