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Perfect Competition

One can say that competition can be considered a cornerstone of free-market enterprise—the system that has proved its efficiency in correlation to other economic models. In such regard, when a market consists of competing companies, there is a definite focus on increasing customer's satisfaction and lowering prices—processes that make tangible goods more affordable and accessible to consumers. However, while the neoclassical model of perfect competition has its definite benefits, and withstood the pressure of previous decades, the current market changes and new tendencies seemingly require some alteration. In such case, along with exploring the fundamentals of the perfect competition theory as well as its benefits, it is crucial to point out particular drawbacks of the model and suggest an alternative approach—one that can preserve the component of competition and be more efficient in the context of ongoing market changes. Thus, the perfect competition theory fails when it equals the distribution of income and goods—something that can make the comparative advantage theory to substitute the approach.

According to the perfect competition theory, the model represents a market structure in which many companies offer a homogeneous product. In such a context, there is low pressure for entering a market, and firms have an opportunity to gain normal profits while keeping prices low, thus increasing customer satisfaction (Pettinger 2018). As to the foundational components of the theory, one should indicate that in the perfect competition model, there is a freedom of exit and entry of a market—something that requires low sunk costs. While all the rivaling companies produce a homogeneous product, such firms create a perfectly elastic demand curve, mainly because of price-taking strategy. Finally, in the model, companies are open to perfect information along with knowledge—which is the condition that makes it easier for competitors to survive and proceed with competing with one another (Pettinger 2018). As a result, fundamentally, the perfect competition model favors every stakeholder, making it easy for companies to run their business. The advantages of the approach can be witnessed in Internet-related industries because technological advances made it easy to compare prices and have equal access to information (Pettinger 2018). In such sense, the perfect competition approach balances benefits for shareholders and, at the same time, offers companies equal chances in the market.

Speaking about the advantages and disadvantages of the perfect competition model, one should say that its definite upward growth is the fact that the system allows companies to operate at maximum efficiency, equipped with sufficient knowledge to make the best decisions. In addition, it is beneficial for consumers since they are presented with products of the lowest prices as a result of competition (Hamel). On the other hand, when speaking about the disadvantages of the system, one should mention the adverse effect of lowering the prices and having a homogeneous product. When firms exist in a stable competitive environment, there can be insufficient profits for investment, namely because companies receive normal financial gains. In fact, along with a lack of product variety and the lack of investment profits in perfect competition, the unequal distribution of income can be examined. In fact, the downside of the theory refers to the fact that only companies with the most financial power have access to perfect information—something that offers them an upper hand in the market and fuels further unequal wealth distribution (Hamel). In such a sense, while the perfect competition model offers the lowest prices, it also creates a condition when firms with the most influence have the best means to make profits.

Finally, when it comes to presenting a system that can serve as a substitute for the perfect competition model, it is crucial to explore the comparative advantage theory as a possible candidate. The critical aspect that differentiates this theory from the perfect competition model is the introduction of opportunity costs—the element allowing firms to choose between different options of production (Deligonul and Cavusgil 65-66). In such regard, while maintaining the principle of competition, the comparative advantage theory creates market conditions that enable not only the lowering of prices but the diversity of products as well. In fact, with such an approach, customers will have a greater variety of options to choose from—something crucial for market development and preservation of the demand curve. Following the recent market changes, the approach that advocates marketing orientation, the comparative advantage theory presents itself as more adaptive to the changes in contrast to the perfect competition model (Deligonul and Cavusgil 65). As a result, when building the system valuing market differentiation and preservation of competition, the comparative advantage theory is the one to choose.

Considering the above, one should say that while the perfect competition theory had been the cornerstone of the free-enterprise system for decades, the ongoing market changes require some alterations. Such a term of adaption should be engaged by a means that will both preserve the factor of competition, keep prices low, and will make the market more differentiated. In such a context, the comparative advantage theory proves to be the best candidate to substitute the perfect competition model, making firms strive for efficiency, product variety, and equality in terms of wealth distribution.

Works Cited

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