

# Perfect Competition Essay Question (IB)

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IB ECONOMICS – 1.5 THEORY OF THE FIRM AND MARKET  
STRUCTURE (HL ONLY)

# Past Paper Questions

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Using diagrams, explain why a perfectly competitive firm can make economic (abnormal) profit only in the short run. *[10 marks]*

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Answers **may** include:

- Definitions of perfect competition, economic (abnormal) profit and short run
- Diagrams of economic (abnormal) profit in the short run and normal profit (zero economic profit) in the long run
- An explanation of how economic (abnormal) profit acts as a signal for new firms to enter the market, shifting market supply to the right until normal profits are restored
- Examples of markets where this might occur.

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Explain why a loss-making firm in perfect competition would shut down in the long run. *[10 marks]*

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Explain why a loss-making firm in perfect competition would shut down in the long run. *[10 marks]*

Answers **may** include:

- Definitions of perfect competition and long run
- Diagram(s) to show the shut-down point in perfect competition
- An explanation why a firm shuts down in the long run when a loss-making firm can cover its variable costs in the short run but cannot cover its total costs in the long run. It is not making a normal profit
- Examples of markets which have features of perfect competition.

# Past Paper Questions

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Discuss the view that perfect competition is a more desirable market structure than monopoly.  
*[15 marks]*

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Discuss the view that perfect competition is a more desirable market structure than monopoly.  
*[15 marks]*

Answers **may** include:

- Definitions of market structure, perfect competition and monopoly
- Diagram(s) to compare and contrast perfect competition and monopoly
- An explanation that perfect competition has a number of advantages like lower prices, greater choice and allocative and productive efficiency compared with monopoly
- Examples of markets which have features of perfect competition and monopoly.
- Synthesis or evaluation (discuss)

Discussion **may** include:

Reference to benefits of monopoly such as economies of scale, research and development, natural monopoly, and/or the disadvantages of monopoly (higher price, lower output). To focus on the word “desirable” in the question, discussion may also include the advantages and disadvantages of perfect competition.