Market Structures

Perfect Competition

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Perfect Competition Collection

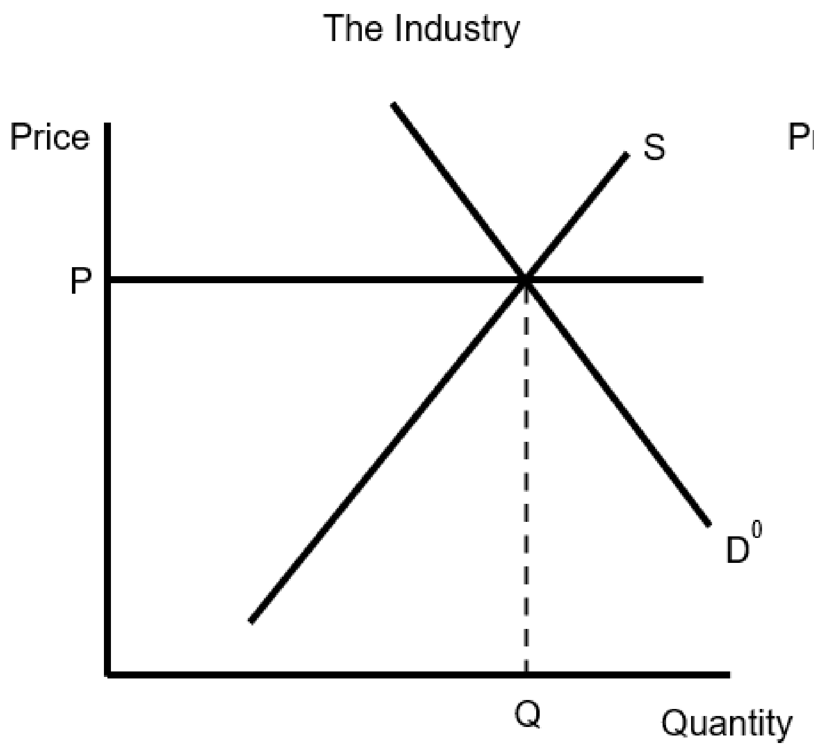
Slides 3-7 depict a perfectly competitive market and a firm in that market. The progression shows the areas of total revenue (TR), total cost (TC), and profit.

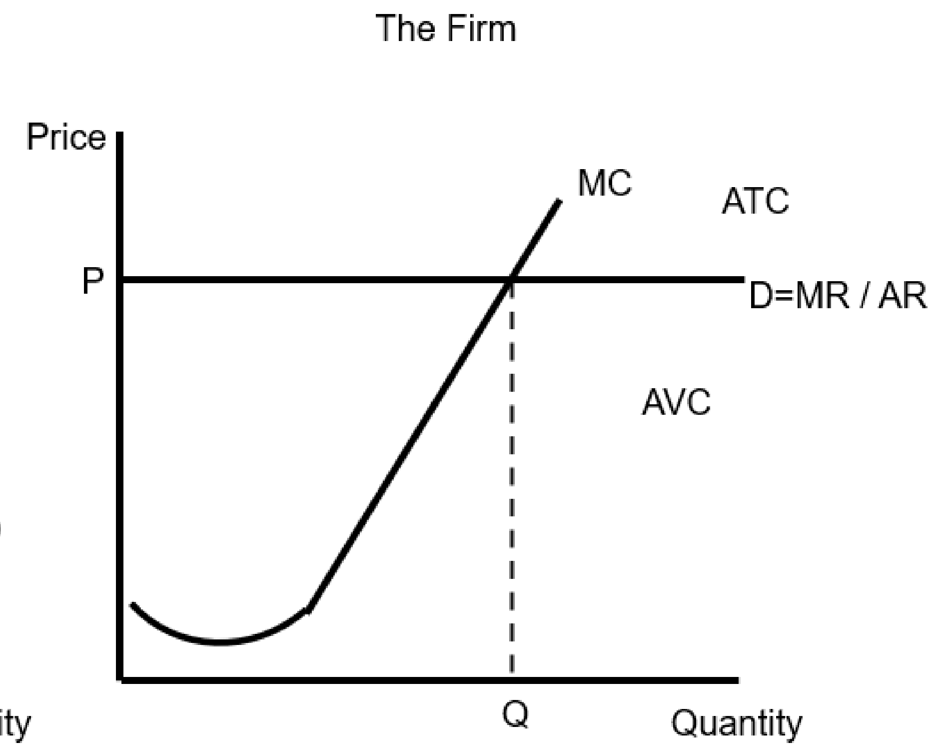
Slides 8-11 illustrate a decrease in demand and how the new market price reduces TR and causes the firm to operate at a loss. The decrease drives the price below the ATC of the firm, which decreases total revenue and produces a loss for the firm. The firm is covering its variable costs and part of its fixed costs and does not shut down.

Slides 12-15 illustrates a further decrease in demand, reducing the price for the firm to a point below the AVC curve. The slides indicate even greater loss. At this point, the firm will shut down as it cannot cover variable costs, but it will still be obligated to its fixed costs.

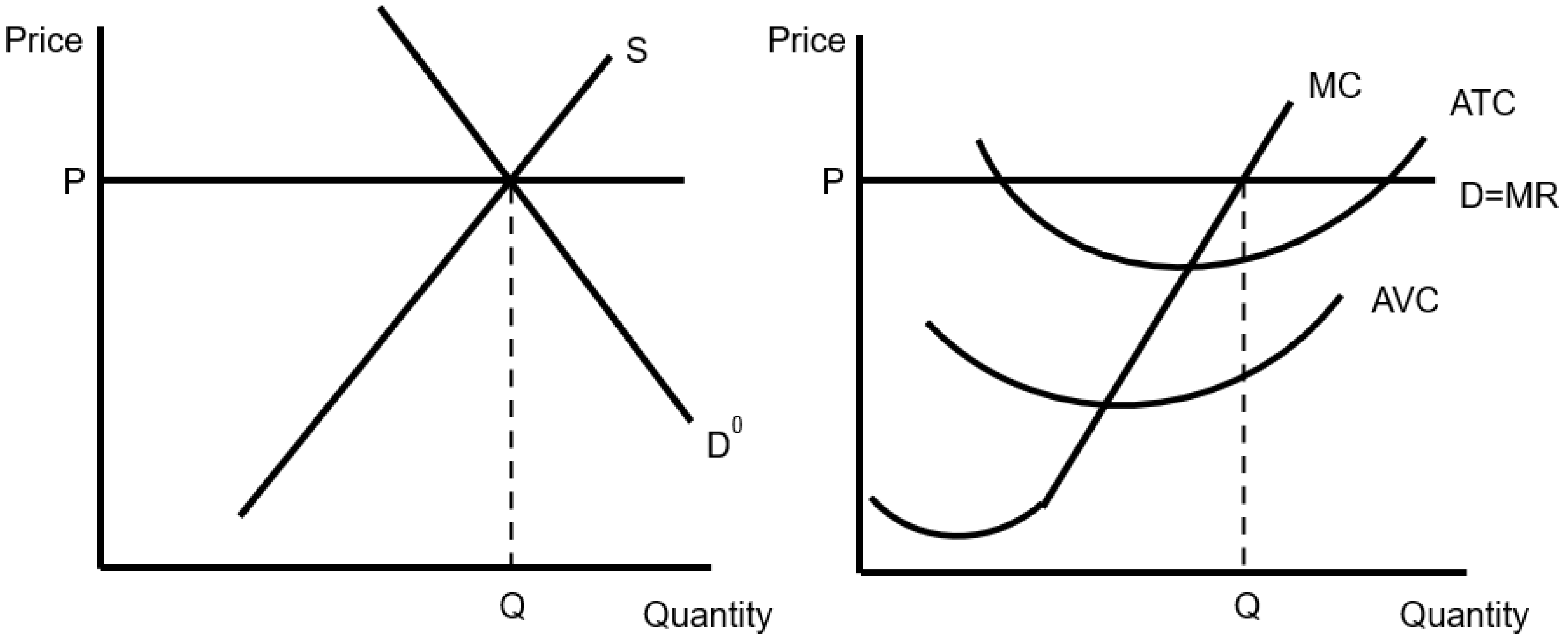
The table could be printed so that students would have it handy while viewing the graphs. For best results, print the table in "landscape" orientation.

Step 1: Profit maximizing quantity for industry is where supply meets demand
Profit maximizing quantity for firm is where MR = MC

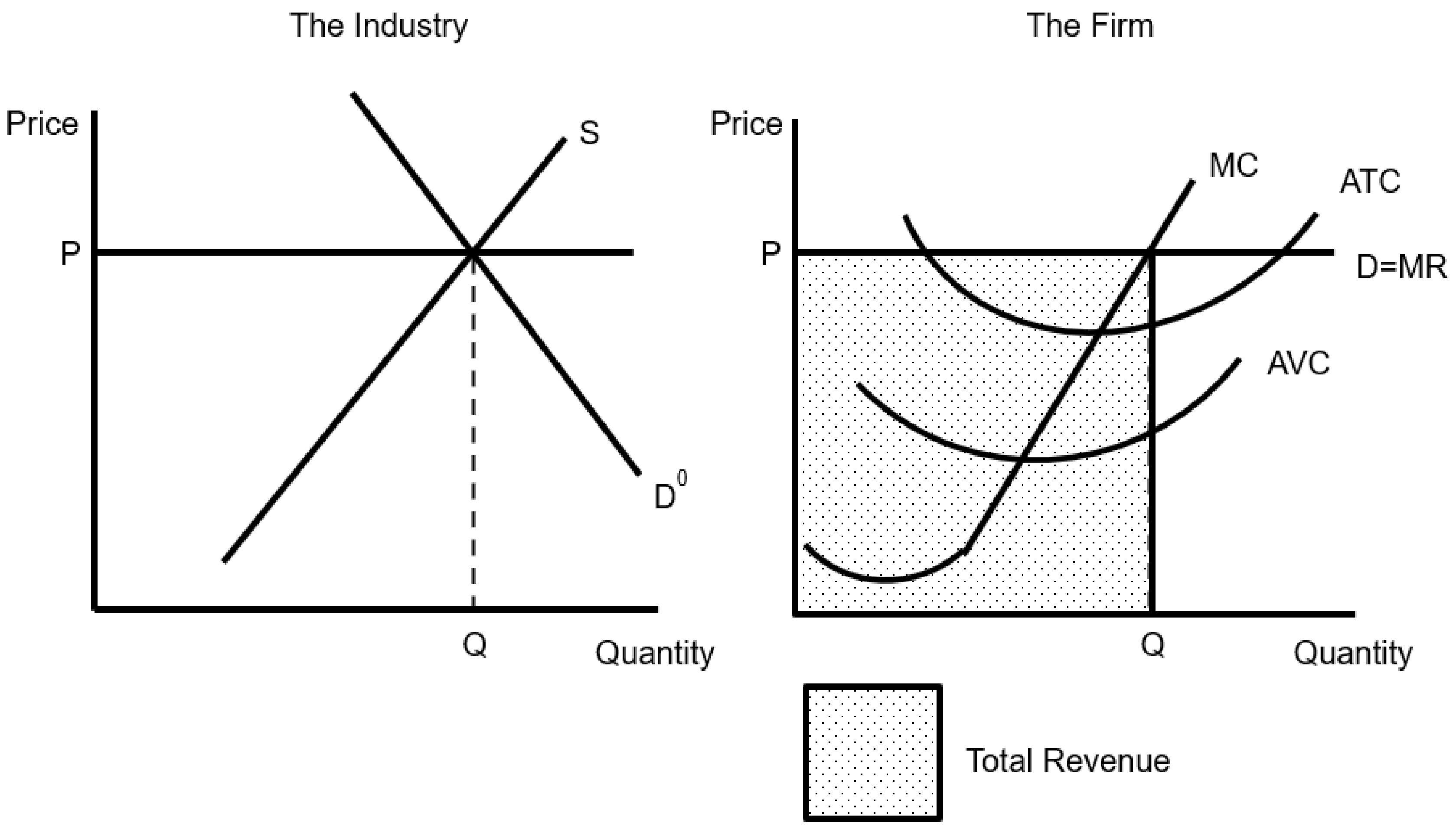




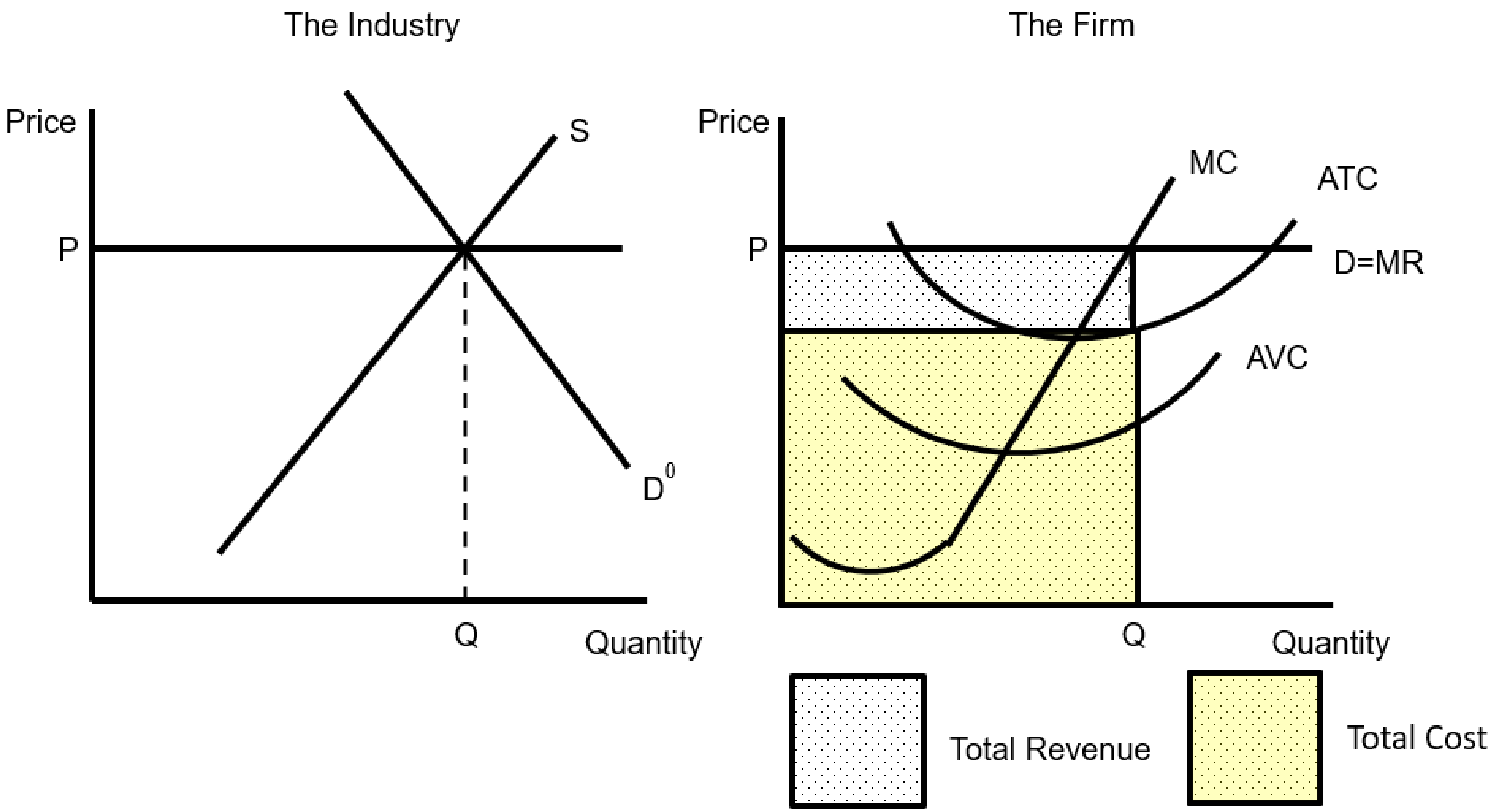
Step 2: To determine profit/loss for firm, Average Variable Cost & Average Total Cost must be added



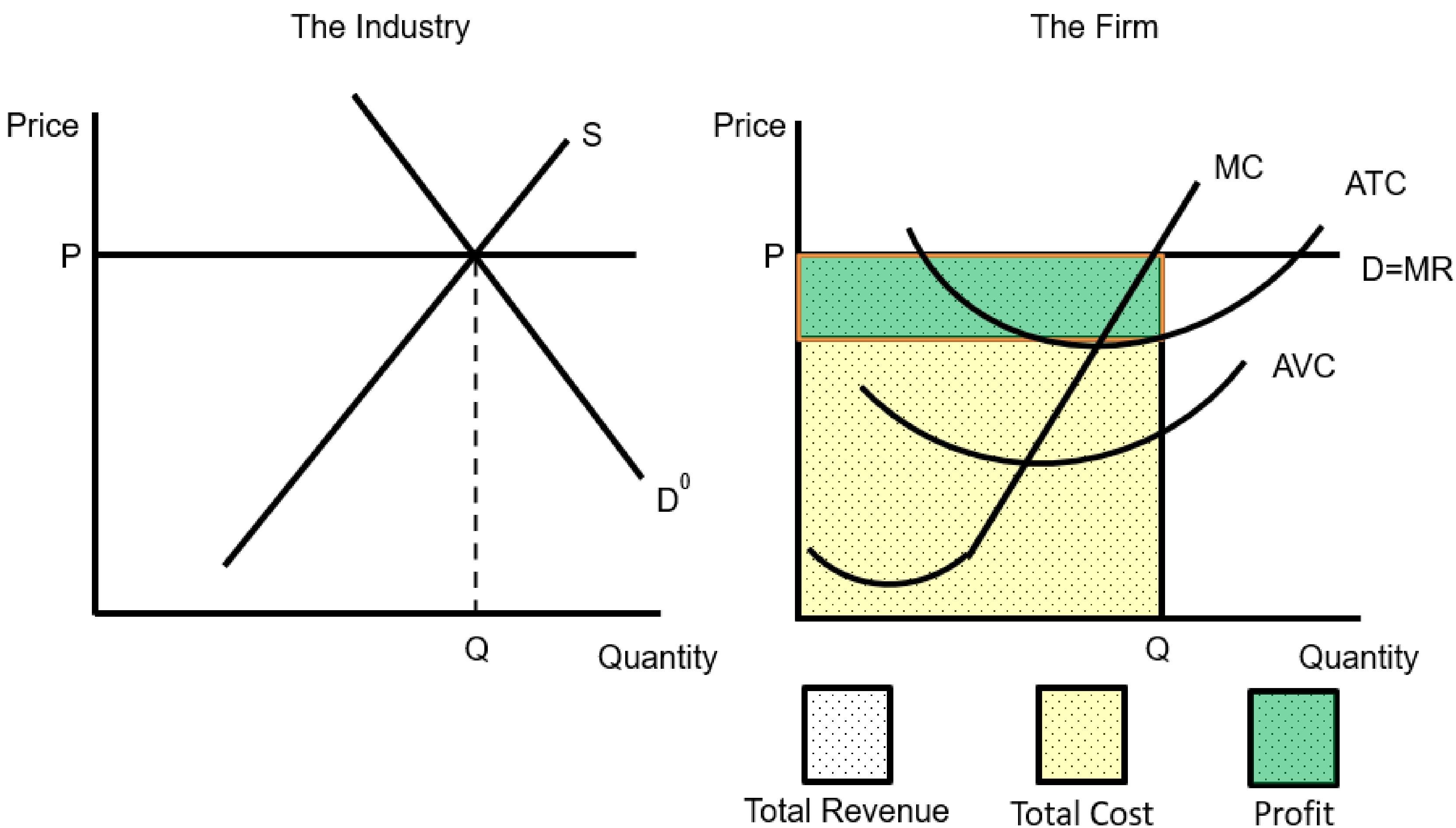
Step 3: Total Revenue is price x profit maximizing quantity



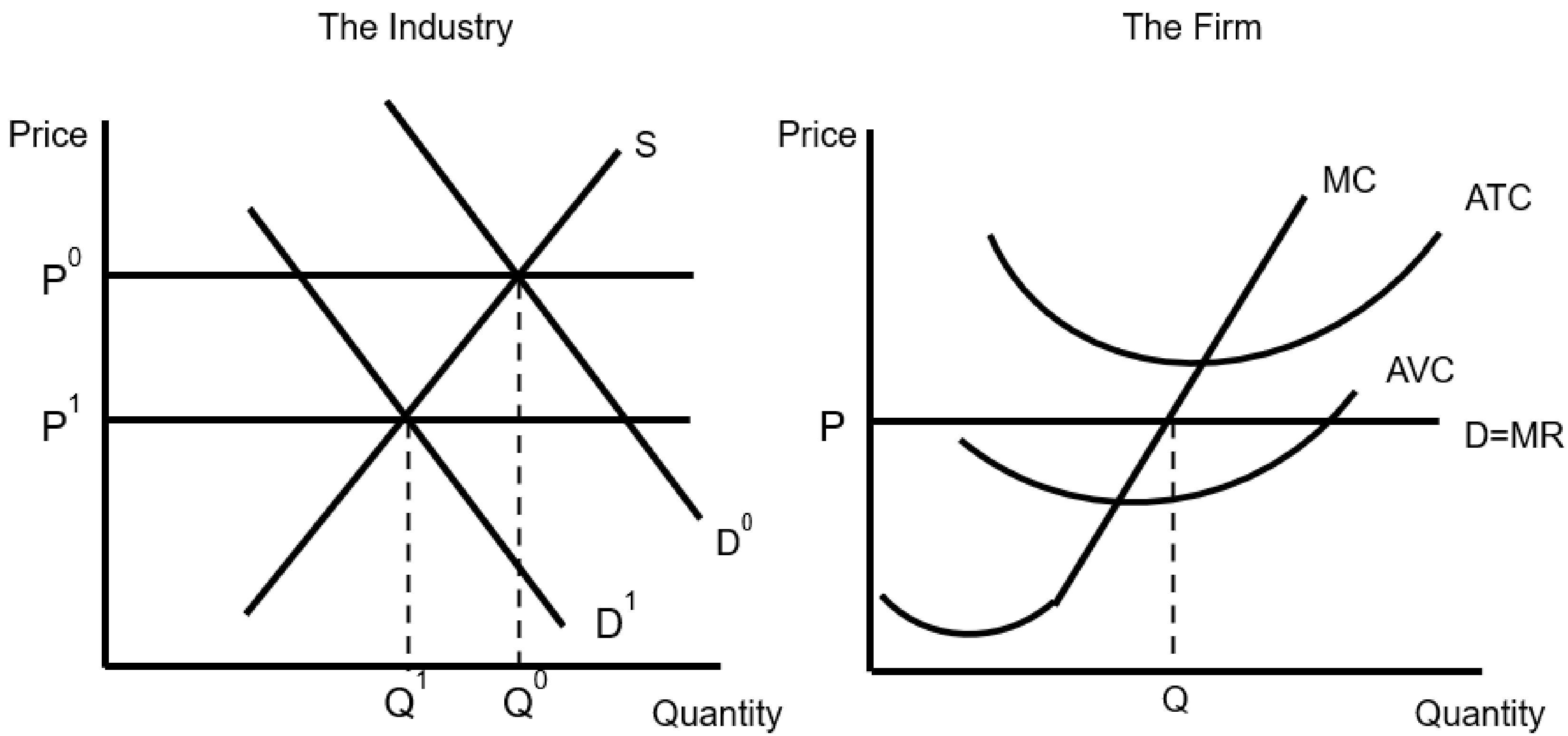
Step 4: Total Cost is the area BELOW Average Total Cost crosses Quantity



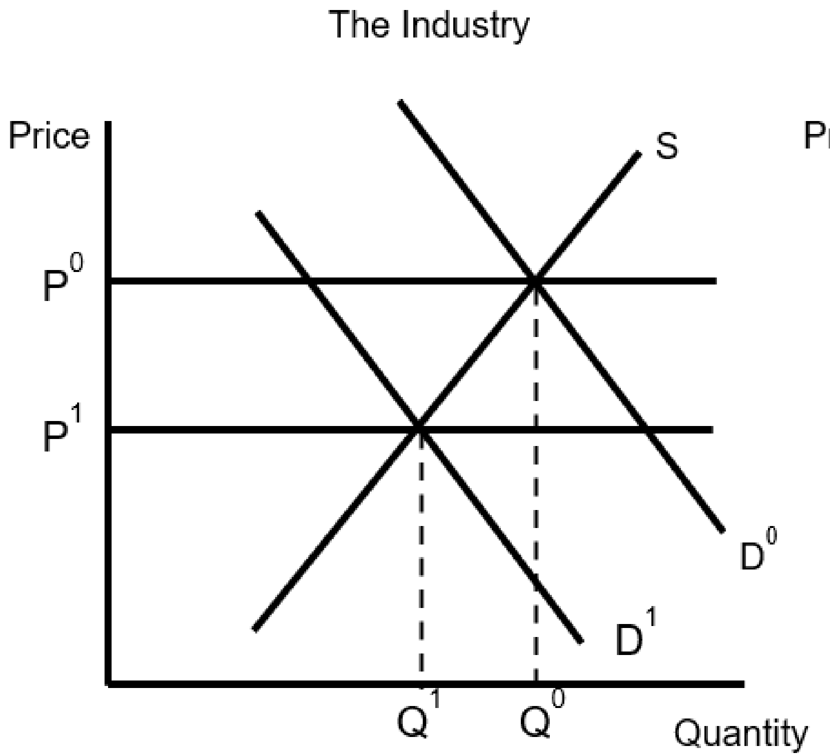
Step 5: Total Profit is area ABOVE Average Total Cost crosses quantity to market price

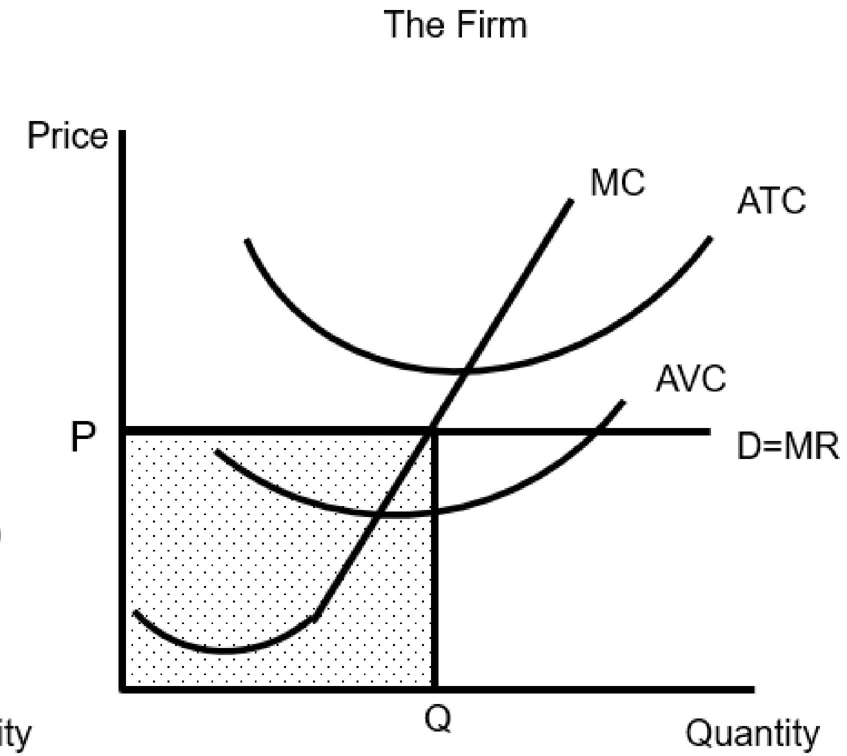


Step 6: Assume demand shifts left, decreasing price and quantity

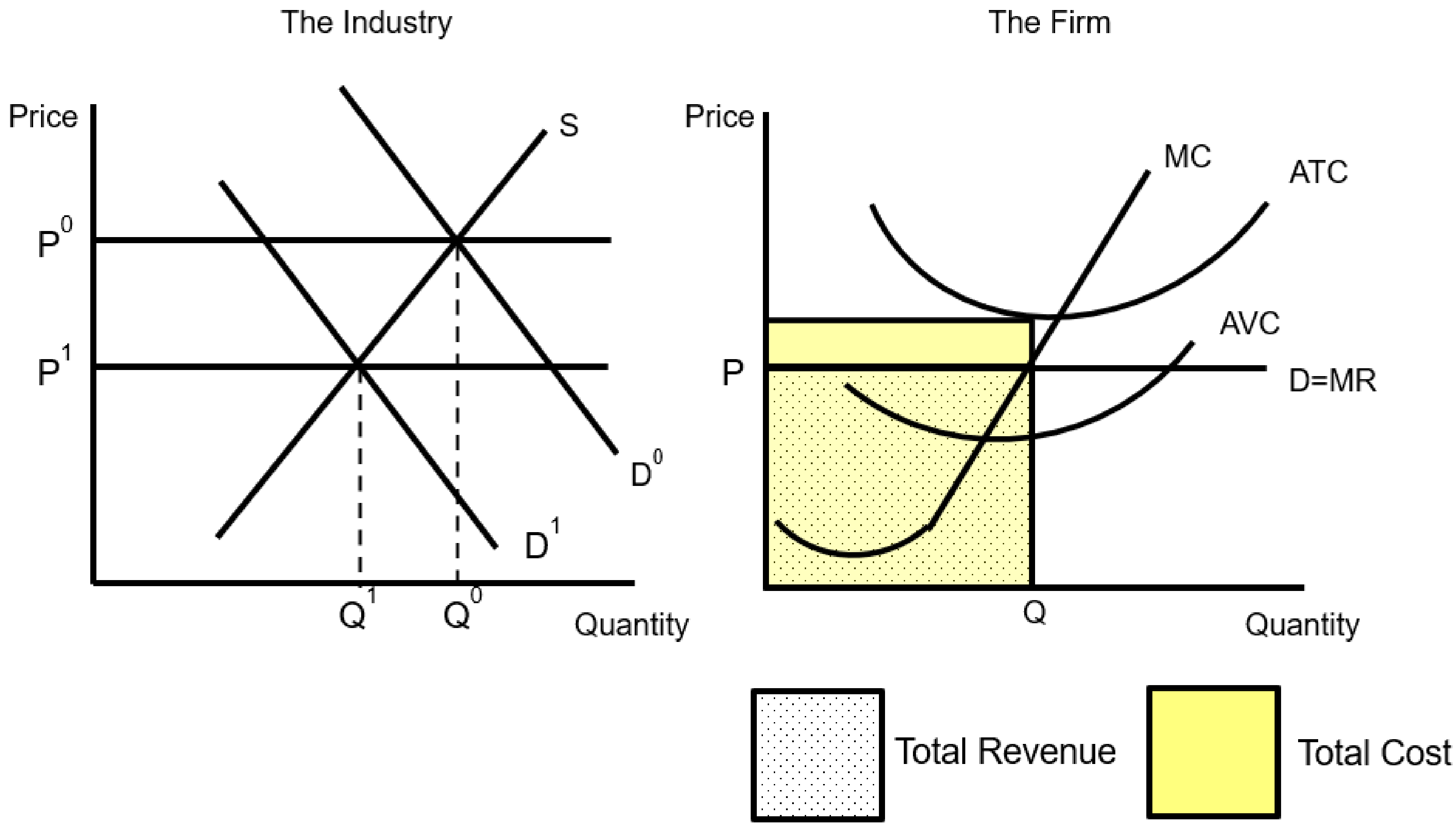


Step 7: Total Revenue is price x profit maximizing quantity

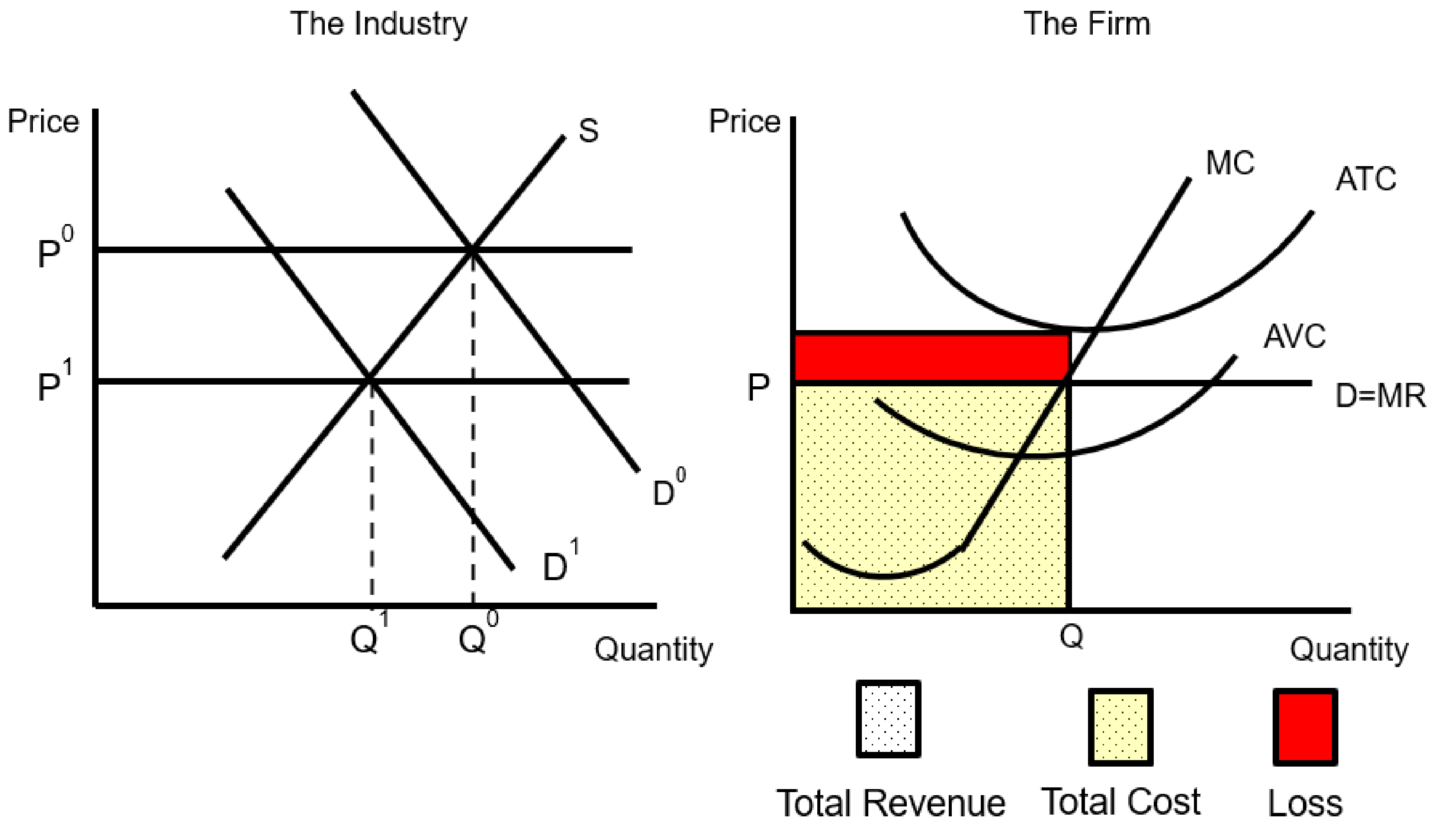




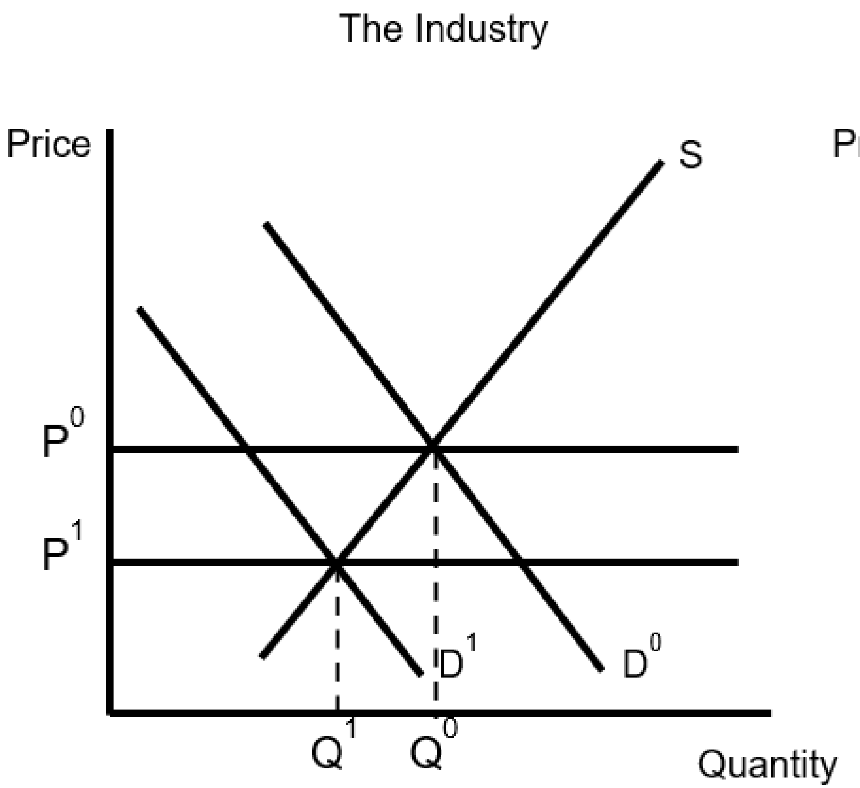
Step 8: Total Cost is the area BELOW Average Total Cost crosses Quantity

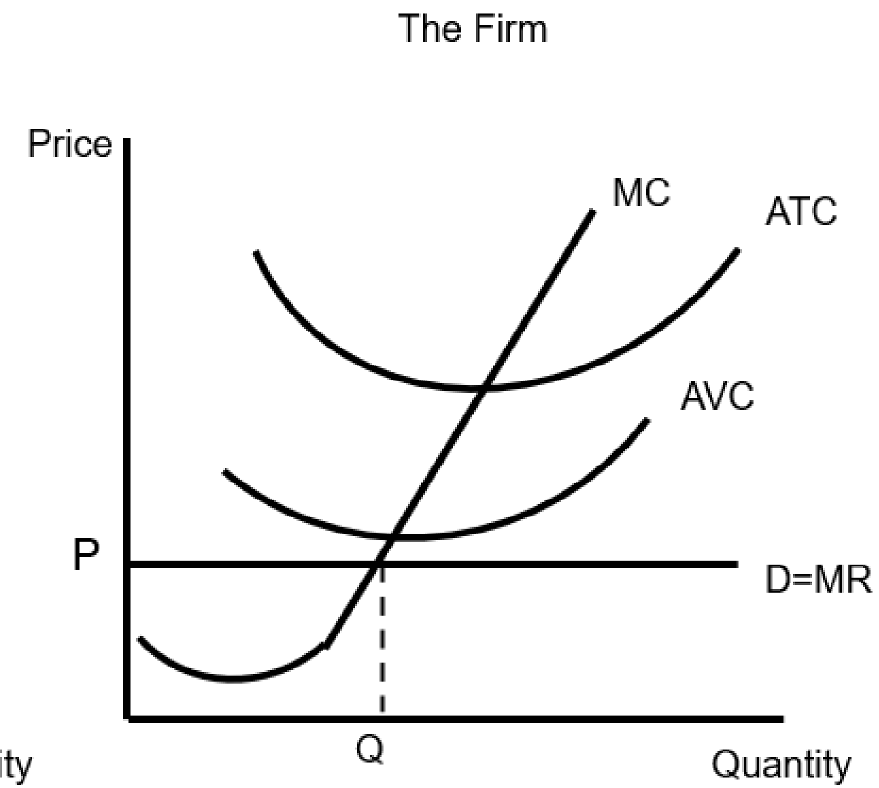


Step 9: Loss is area between Average Total Cost crosses quantity ABOVE Price. Firm loses money in short run but does NOT shut down

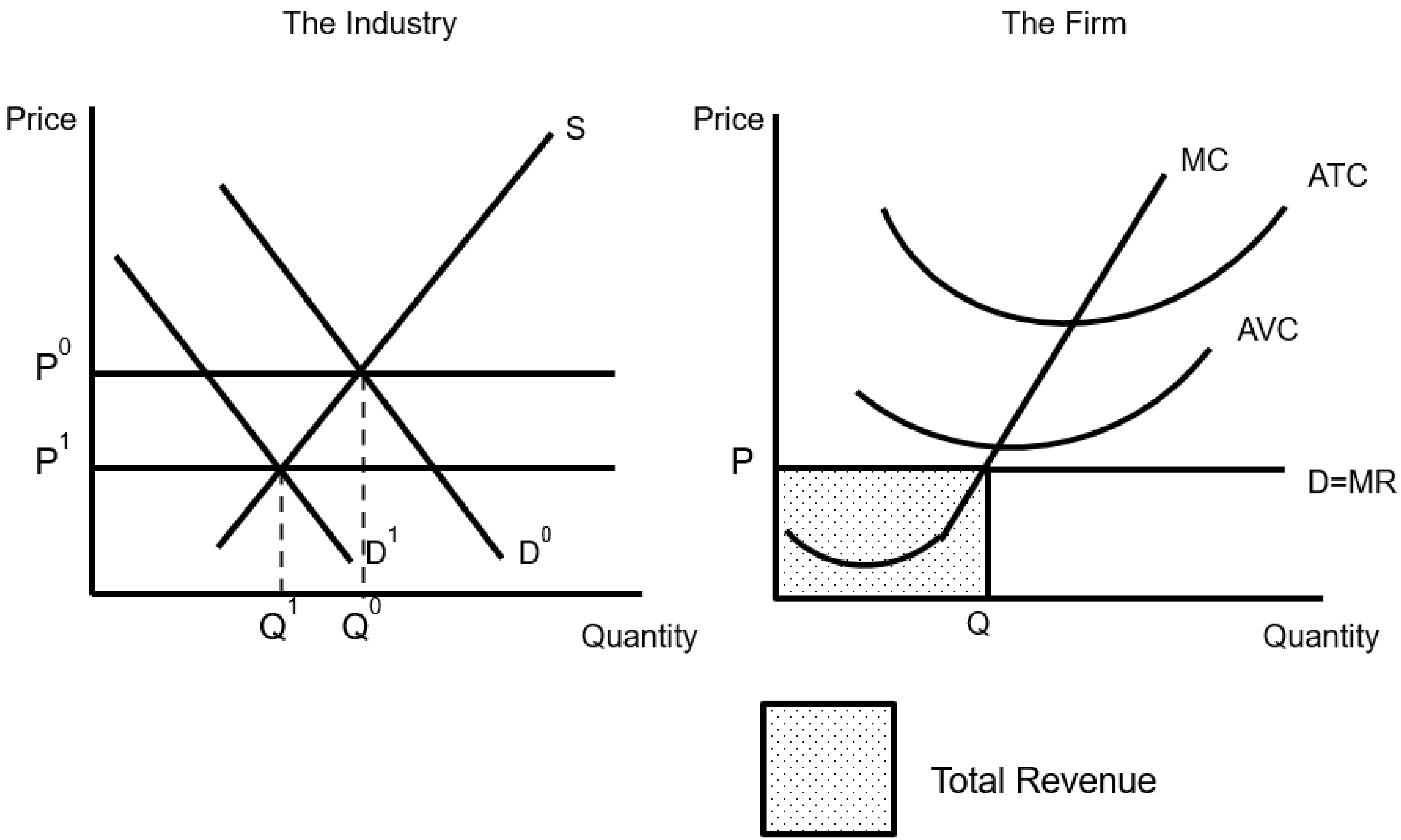


Step 11: Assume further demand shift to left decreases price and quantity demanded

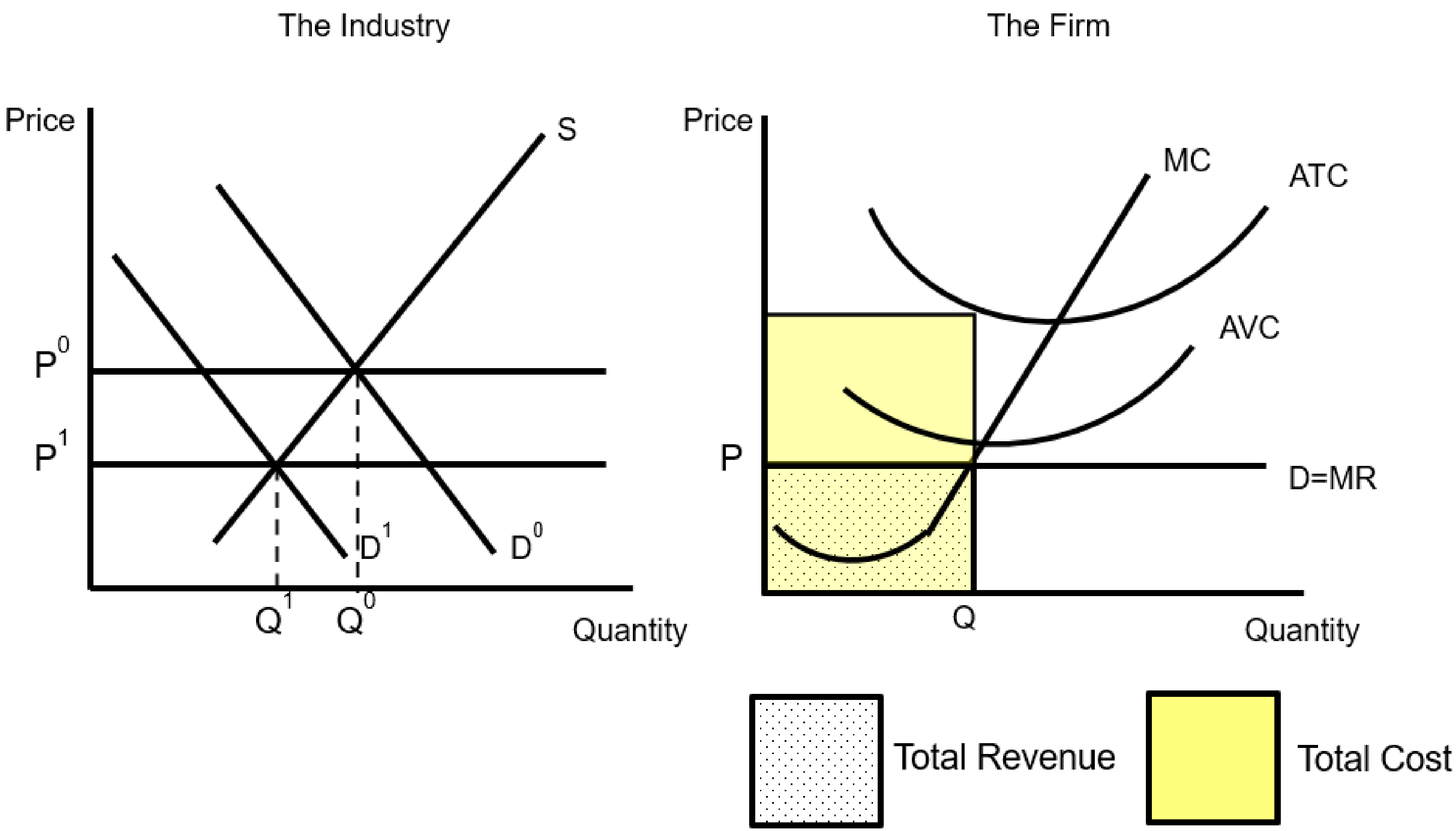




Step 12: Total Revenue is price x profit maximizing quantity



Step 13: Total Cost is the area BELOW Average Total Cost crosses Quantity



Step 14: Loss is area between Average Total Cost crosses quantity ABOVE Price. Firm cannot cover Average Variable Cost and SHUTS DOWN