EC 131 - Lecture 12

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October 2012

Textbook readings: Chapter 14

1 Production in competitive markets

- Competitive markets
  - Many buyers
  - Many sellers (price takers)
  - Homogeneous goods
- Aditional assumptions
  - Free entry
  - Free exit
- Marginal revenue (MR)
- Profit maximization condition: $MR = MC$
- Relationship between MC curve and firm's supply curve
- Shutdown (short-run) and exit (long-run)
- Sunk costs
- Shutdown condition ($P < AVC$)
- Exit condition ($P < ATC$)
- Short and long-run supply curves for a firm
- Profits in the cost curves graph

- Market supply curve
  - Short-run
  - Long-run
    * Relationship between profits, entry/exit and price changes in the long-run
    * Zero economic profits in the long-run
    * Zero economic profits condition: $P = ATC$
    * Efficient scale
    * Elastic long-run market supply curve
    * Shifts in short-run demand and supply curves and how they relate to the long-run zero profit condition