Behind the Demand Curve…

- Consumer Theory

  Stepping back from the market…to the __________________________…

0

Behind the Demand Curve…

- Utility Approach:
  - Utility = ________________________
  - The individual is willing to pay ___________ ______________________ from the purchase.
  - Utility
    - * Total utility: _____________________ from consumption of a good/service
    - * Marginal utility (MU): ___________________ received from consuming _______________ *(Total/Marginal/Average)*
    - * Eventually…______________ with consumption

1

Consumer Theory

Buy satisfaction;

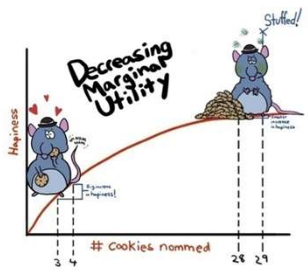
____

____

____

Willingness to pay falls as _________ ______________.

(Law of Demand holds)



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Behind the Supply Curve…

- Producer Theory
- Industrial Organization

____

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Why Firms Are in Business

- Assume: Firm's goal is to maximize profit.

______ = ______________ – ______________

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Costs: Explicit vs. Implicit

- ________________ – require an outlay of money

- _________________ – do not require a cash outlay (Think opportunity cost!)

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Economic Profit vs. Accounting Profit

- ________________
  = total revenue minus total explicit costs
- ________________
  = total revenue minus total costs (including explicit and implicit costs)

clq
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Why Firms Are in Business

- Assume: Firm's goal is to ______________

Profit = Total revenue – Total cost

Total revenue
= price of the good times the quantity sold
= ________________

What prices? What quantities?

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Market Structure

- Market Structure:
  - The _________________________ -- i.e. the environment a firm produces and sells in.
- Determined by three characteristics…

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Market Structure

- ________________________________ :
  - One? A few? Lots?
- __________________________ :
  - Identical products? Similar? Very different?
- ____________________________ the market:
  - Easy? Hard? Impossible?

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Market Structure

- "Group" like firms
- Four categories:
  - Perfect Competition
  - Monopolistic Competition
  - Oligopoly
  - Monopoly

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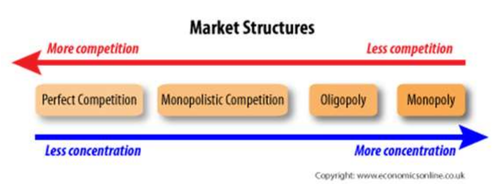
Market Structure – Concentration Continuum



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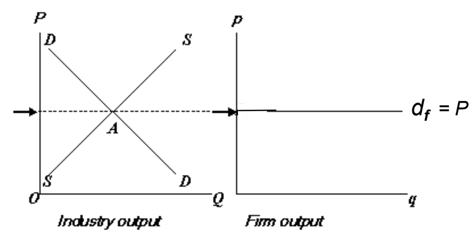
Perfect Competition

- "__________" of firms
- __________________
- ______________ Entry/Exit
- Price _____________ …

The Firm is the ___________________…

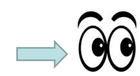


…and the _______________________.

Monopolistic Competition

- ____________ number of firms
- ____________ Entry/Exit
- _______________ product
- Advertising!
- Price ____________
- Brand __________________

Oligopoly

- A ___________________
- _________can affect the market 
- Standardized or _________________ products
- ____________________________ to Entry
  - Entry can occur… ____________________ !

Oligopoly

- Price Maker
  - Collusion/________________
  - Non-price competition
  - _____________________
- ____________________________ : % of output attributed to the largest firms in a market

Monopoly…Characteristics

- One firm: __________________ of a product
- _____________ Product (no close substitutes)
- Barriers to Entry…
- Price ___________ – the ability to ___________ market price

Why Monopolies Arise

The main cause of monopolies is **barriers to entry** – other firms cannot enter the market.

Three sources of barriers to entry:

1. Ownership of a _______________ (DeBeers – diamond mines)
2. Govt gives a single firm the _____________ to produce (patents, copyright laws)
3. ___________ Barriers – (huge FC to operate: manuf. cars, planes; natural monopoly)

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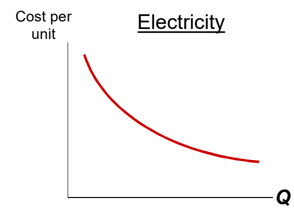
Why Monopolies Arise

Natural monopoly: a _____________ can produce the entire market equilibrium quantity _____________ _____________ than could several firms.

For 1,000 homes, the **cost per unit** is lower for one firm than for two each serving 500.



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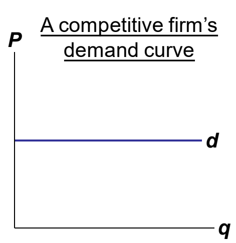
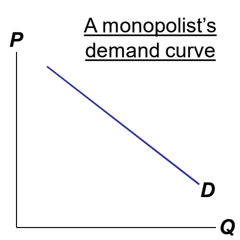
Competition vs. Monopoly: Demand Curves

A monopolist faces the ____________________.





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Public Policy Toward Monopolies

- Increasing competition with _________________
- Regulation
- ______________________
- Do ______________

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Comparing Market Types					
Type of Market	Number of Producers	Kind of Competition	Barriers to Entry	Another Name for Firms	Special Traits
Monopoly	One	None	No entry possible	Price-setter	Only one firm
Oligopoly	A few	Primarily non-price competition	Medium barriers (difficult entry)	N/A	Firms can collude and behave as a monopolist
Monopolistic Competition	Many	Non-price competition; price competition	Low barriers (easy entry)	Price-maker	Product differentiation and branding
Perfect Competition	A great many	Price competition	No barriers (free entry)	Price-taker	Perfectly elastic demand

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