Elements of Microeconomics

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Chapter 21

Where Are We Going?

- Last week we reviewed the costs of production. These vary depending on the structure of the market.
- This week we will be taking a look at our first market structure.
- Enter: **perfectly competitive markets**
- Also your exam is next week and will cover chapters: 6, 7, 8, 21, 13, 14.

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  3. There is free entry and exit.

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In **perfectly competitive** markets. A firm's marginal revenue is equal to the market price.

$$P = MR$$

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- Is MC above or below MR?
  - If MC is below MR the firm is leaving money on the table.
  - Once MC is above MR then the firm loses money for each additional unit it produces.

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- Both of these questions require some analysis on our part.

When to Produce

- Everyone's favorite microeconomics buzzwords are back: **time horizons**.
- How we go about our analysis of whether or not to produce (Question 1 from the prior slide) will depend on which time horizon we are considering.
- In the **short run** our production decision revolves around the **AVC**.
- In the **long run** our production decision revolves around the **ATC**.