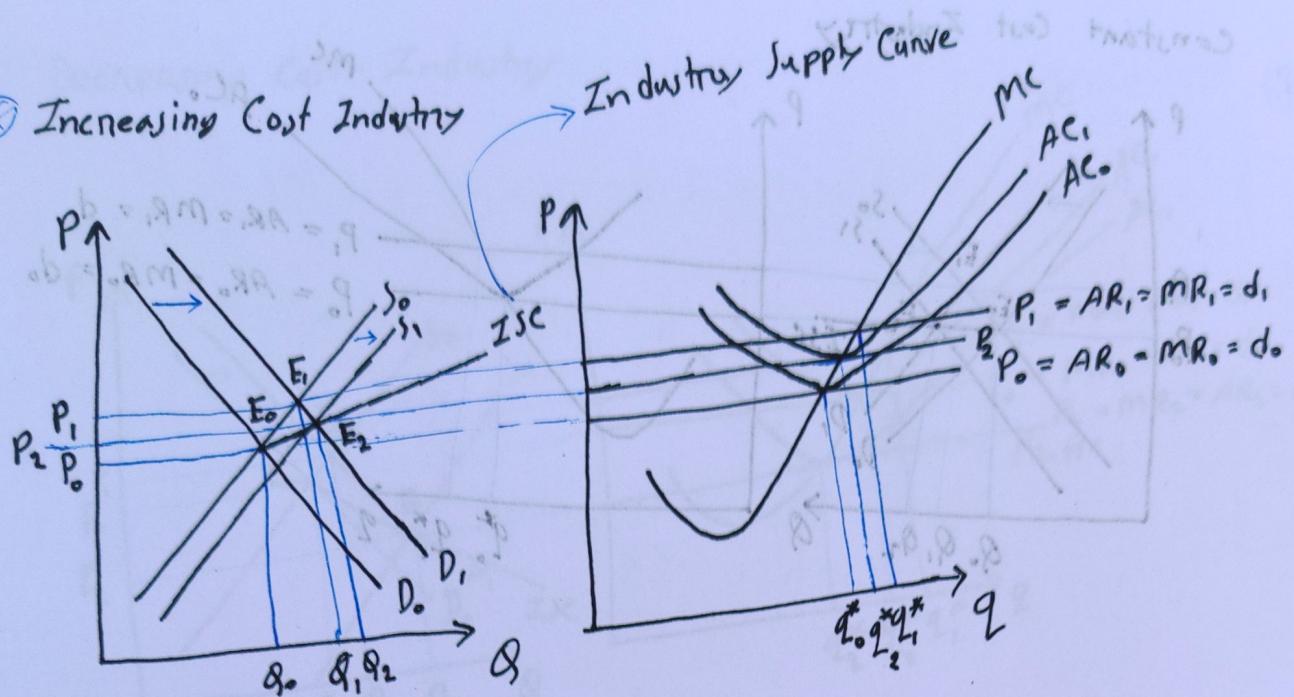


(*) Increasing Cost Industry



$\Rightarrow D \uparrow \Rightarrow P \uparrow \Rightarrow q \uparrow \text{ to } q_1$

at q_1^* , $AC \uparrow$, $P > AC_1 \Rightarrow \text{Profit}$

$\Rightarrow \text{New Entry}$

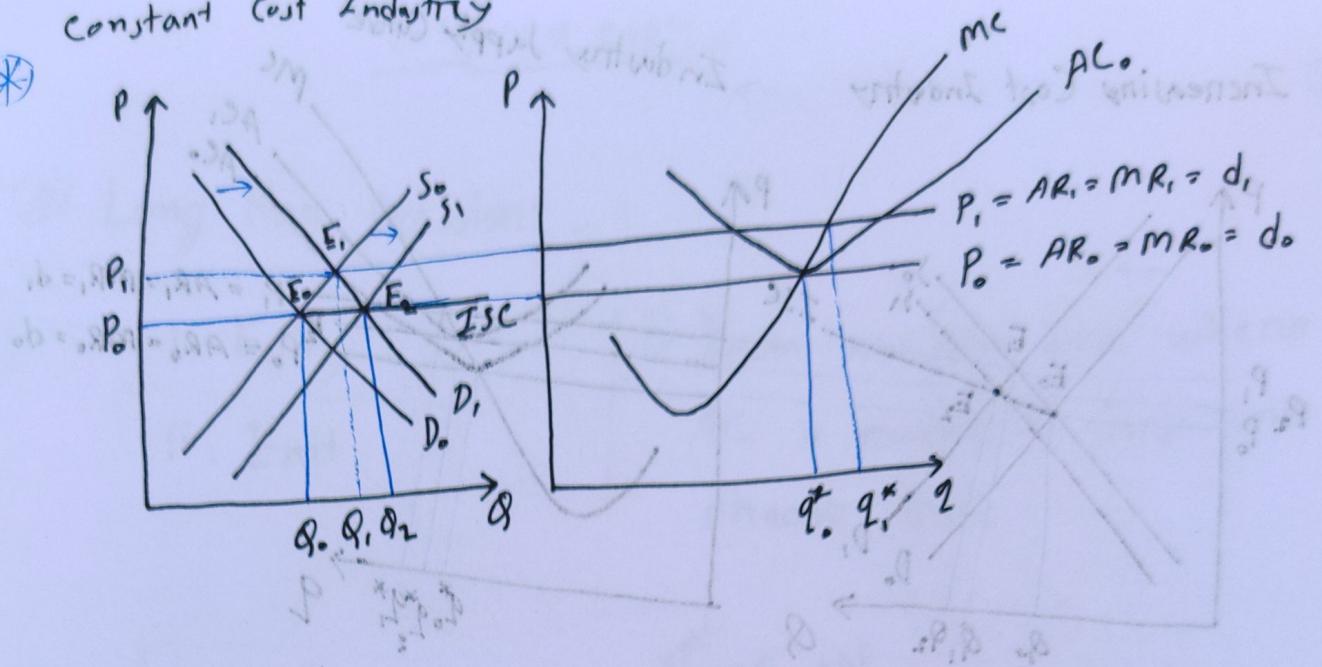
$\Rightarrow S \uparrow \Rightarrow P \downarrow \Rightarrow q \downarrow \text{ to } q_2^*$

$A^+, q_2^*, P = AC \Rightarrow \text{Zero Economic Profit.}$

Overall,

$Q \uparrow$ $E_1 + E_2 = \text{Industry Supply Curve}$
 $q \uparrow$ $P \uparrow$

constant cost Industry



$\Rightarrow D \uparrow \Rightarrow P \uparrow \text{to } P_1 \Rightarrow q \uparrow \text{to } q_1$

at q_1^* ,

$P > AC_0 \Rightarrow \text{Profit} \Rightarrow \text{New Entry}$

$\Rightarrow S \uparrow, \Rightarrow P \downarrow \text{to } P_0 \Rightarrow q \downarrow \text{to } q_0$

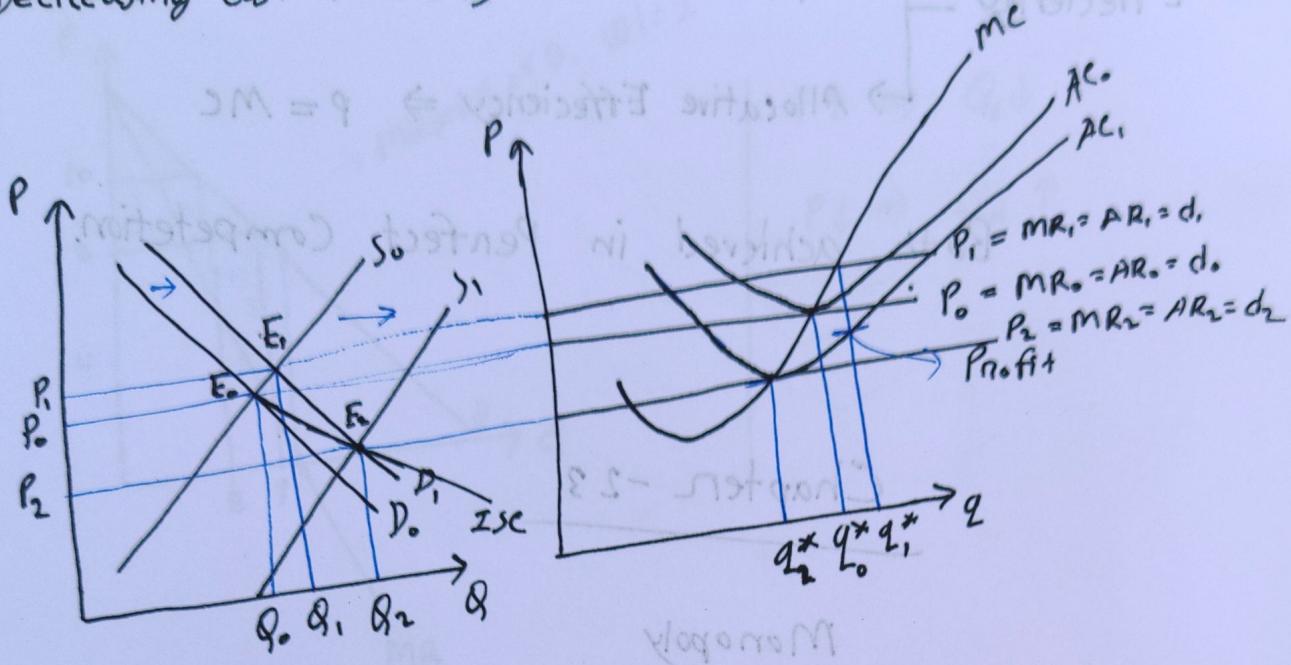
$\Rightarrow Q \uparrow \text{to } q_1$

Again at q_0^* , $P = AC = 0$ Economic Profit

Overall,

$\overbrace{\begin{array}{c} \overline{P} \\ q_1 \\ q_0 \end{array}}^{\text{Supply}} \quad E_1 + E_2 = \text{Industry Supply Curve}$

Decreasing Cost Industry



$\Rightarrow D \uparrow \Rightarrow P \uparrow \Rightarrow q \uparrow \Rightarrow AC \downarrow$

at q_1^* , $P > AC_1$ = Economic Profit \Rightarrow New Entry

$\Rightarrow S \uparrow \uparrow \Rightarrow P \downarrow \Rightarrow q \downarrow \Rightarrow q \uparrow$

at q_1^* , $P = AC_1$ = Zero Economic Profit

Overall,

$P \downarrow$
 $q \uparrow$
 $q \downarrow$

$E_0 + E_1$ = Industry Supply Curve

Must One Question from
these three state
Final

Efficiency → Production Efficiency \Rightarrow Lowest Part of AC
 Efficiency → Allocative Efficiency $\Rightarrow P = MC$

Both achieved in Perfect Competition.

Chapter - 23

Monopoly

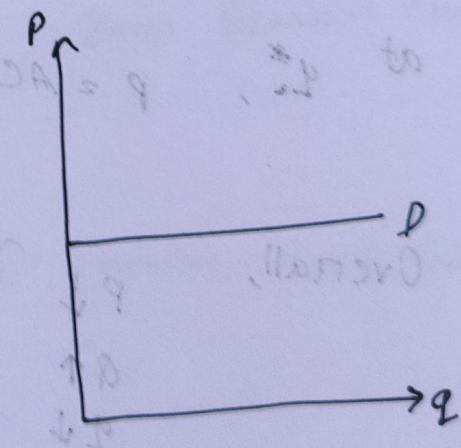
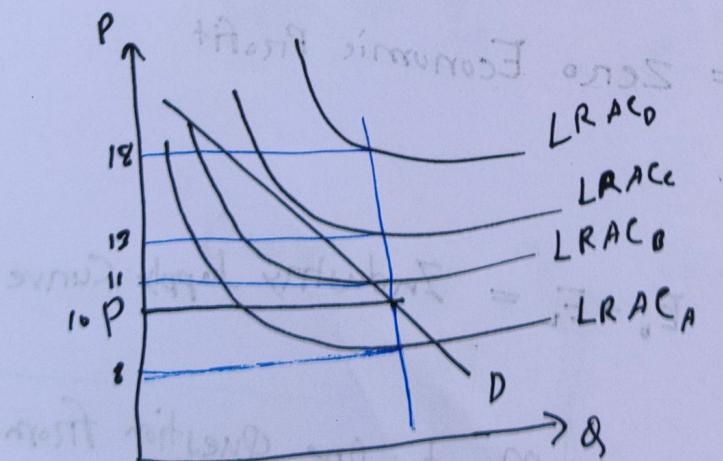
- Only one seller

- No substitutes

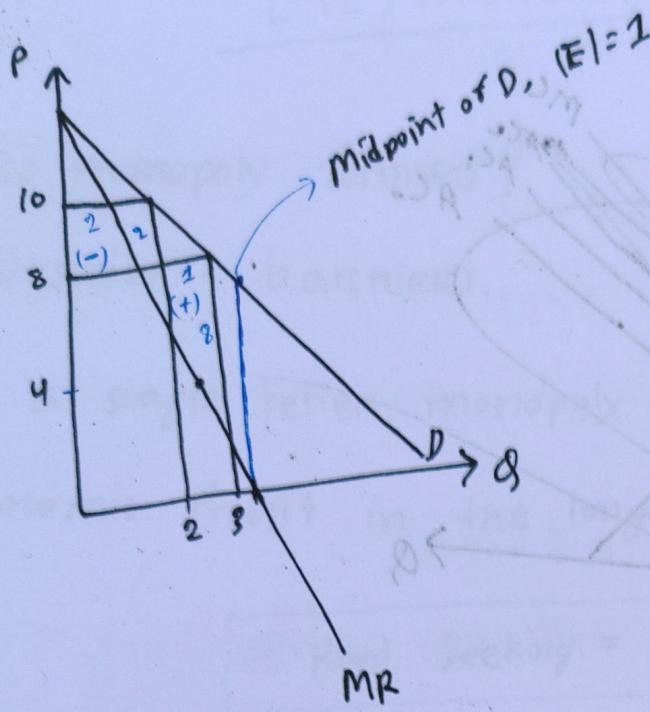
- Barriers to entry

↳ Legal \rightarrow Legal Monopoly

↳ Natural \rightarrow Natural Monopoly



\Rightarrow Demand Curve of a single farm in Perfect competition



$P \uparrow \Rightarrow Q_d \downarrow$
 $P \downarrow \Rightarrow Q_d \uparrow$

$\Rightarrow P \downarrow \Rightarrow Q \uparrow \Rightarrow \text{Revenue} \uparrow$

$$MR = \text{Revenue Gain} - \text{Revenue Loss}$$

$$= 8 - 4 = 4$$

$$MR = \text{Price} - \text{Revenue Loss}$$

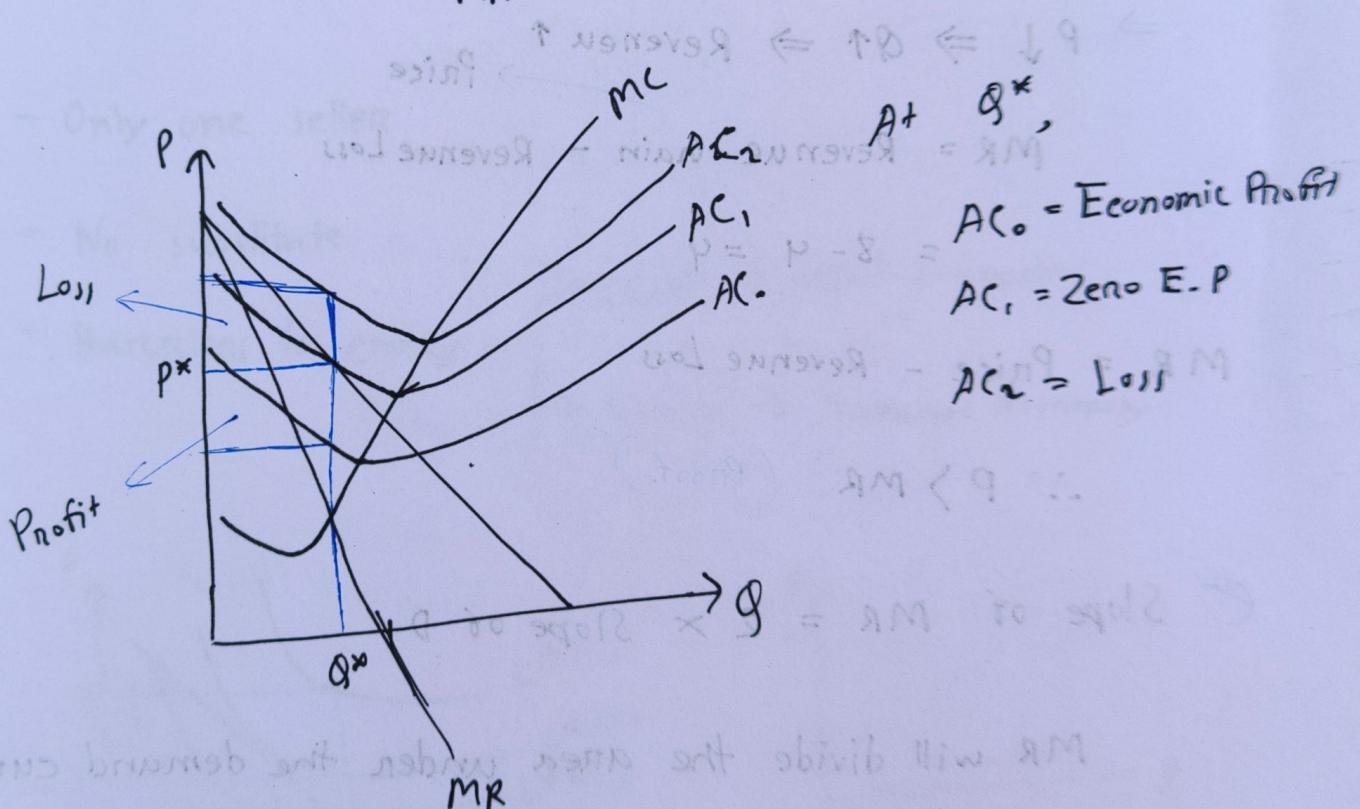
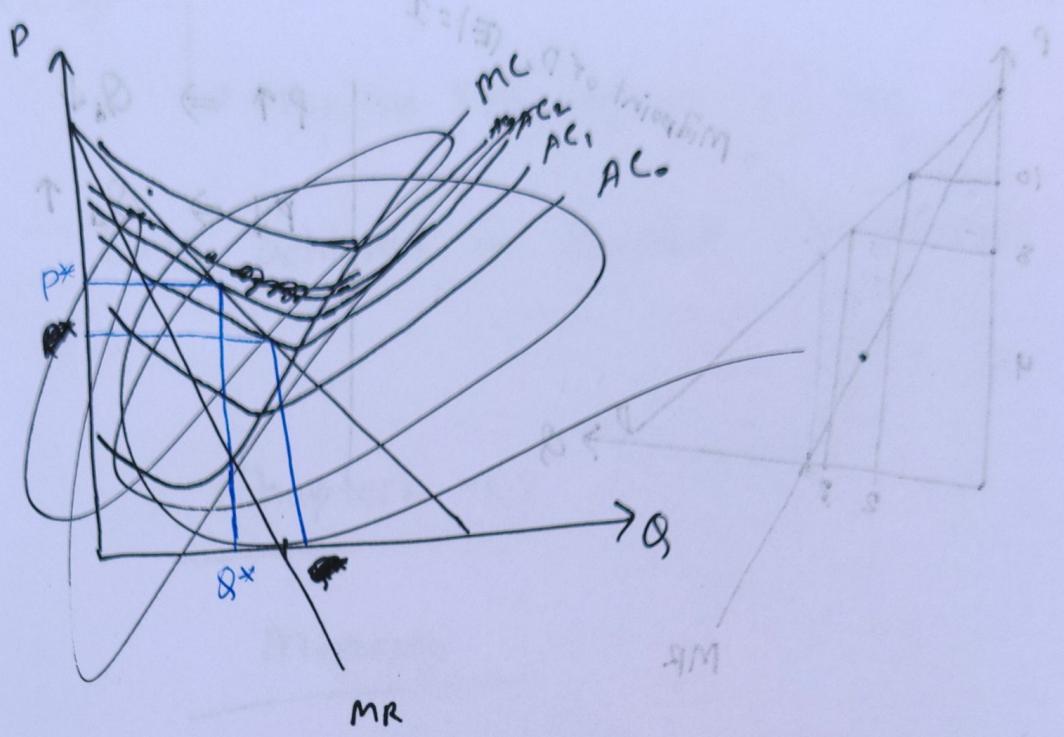
$$\therefore P > MR \quad (\text{Proof.})$$

⊗ Slope of $MR = 2 \times \text{Slope of } D$

MR will divide the area under the demand curve equally.

$$\text{Elasticity} = 1 = \text{Mid point of demand} = MR(0)$$

MR can be negative.



(a) $SM = \text{Gross Margin} = P - C = \text{Economic Profit}$

✳️ How monopoly formed?

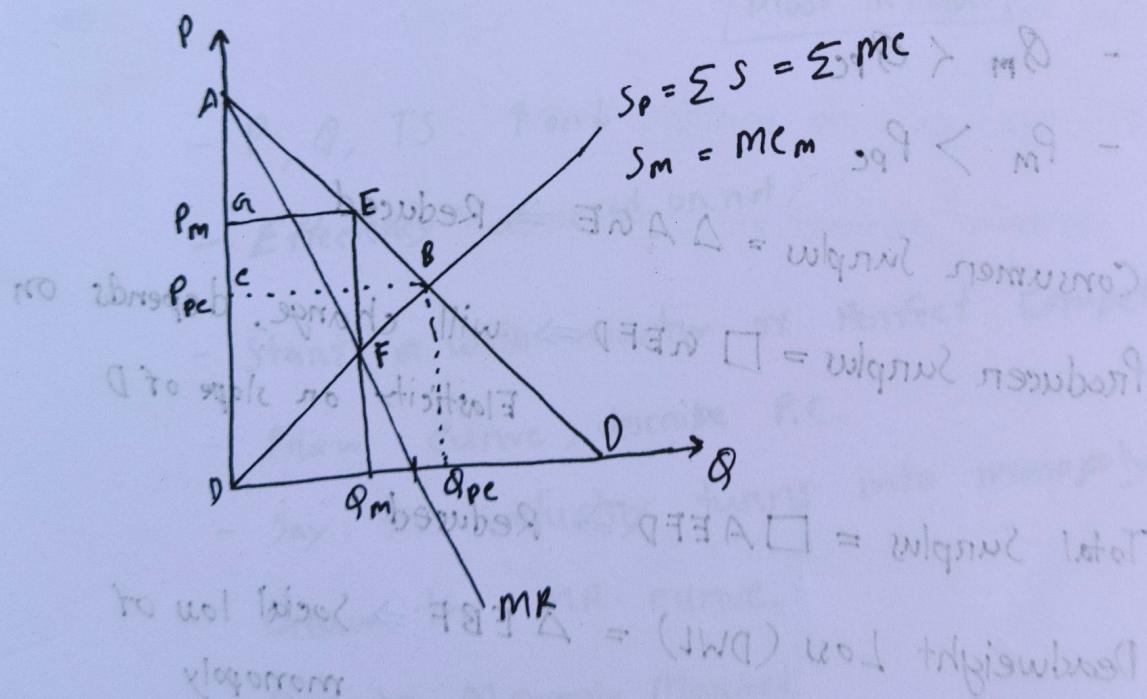
⇒ Describe barriers.

✳️ As a single seller, monopoly market will earn Economic Profit in the long run.

Rent Seeking = No need for Final

✳️ Comparison between Perfect Competition and Monopoly

⇒ In a single diagram



⇒ In Perfect Competition, $Q_{pc} \gg P_{pc}$

Consumer Surplus = $\triangle ABC$

Producer Surplus = $\triangle CBD$

(i) Total Surplus = $\triangle ABD \Rightarrow$ Maximized

(ii) As, $P = MC$ ($\because MB = MC$)

- Allocative Efficiency achieved

(iii) As, the lowest point of LRAC

- Production Efficiency is achieved.

⇒ In Monopoly Market, $Q_m \ll P_m$

- $Q_m < Q_{pc}$

- $P_m > P_{pc}$

Consumer Surplus = $\triangle AGE \Rightarrow$ Reduced

Producer Surplus = $\square GEF$ will change, depends on Elasticity of slope of D

Total Surplus = $\square AEFD \Rightarrow$ Reduced

Deadweight Loss (DWL) = $\triangle EBF \Rightarrow$ Social loss of monopoly

Why Perfect competition market is most Efficient?

⇒ Describe 3 points.

Why Monopoly is not efficient?

⇒ DWL, total surplus is not maximized

- $P_m > M_c$, Allocative efficiency is not achieved.
- Monopoly never operate at the lowest point of AC, Because D-curve is downward. (Possible if Horizontal)
So, Production efficiency is not achieved.

Compare Monopoly and Perfect Competition:

⇒

Must in Final

- P, Q, TS
- Efficiency achieved or not
- Start with industry of Perfect competition.
- Draw curve, describe P.C.
- Say this industry turns into monopoly. So, we draw the MR curve.
- Describe Monopoly Market.

Price Discrimination:

- ⇒ Before discussed monopoly was ~~using~~ a single price monopoly.
- ⇒ The practice that the monopoly can ~~try~~ change different quantity at different ~~chart~~ price in ~~not~~ different market, is called Price discrimination.
- Control Over Price
 - Distinguish to buyer
 - Resale not possible (Black Market Sale)

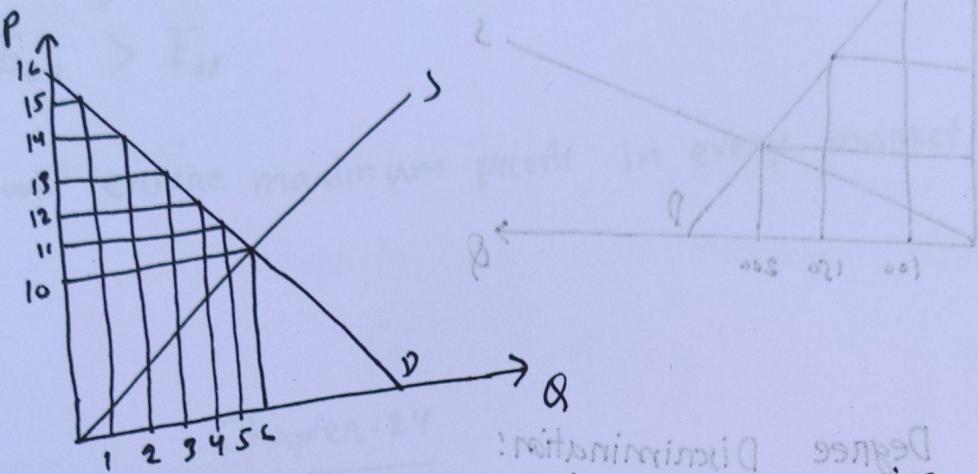
④ Three Types of Discrimination:

- i. Can be sold multiple price ~~to~~ multiple consumer
- ii. Multiple price to multiple market
- iii. certain amount in particular price

refers to selling to different groups of people
and different markets

i) Perfect Price / First Degree Discrimination:

- need to have clear idea about Demand Curve
using utility & i



⇒ each unit will be sold in maximum price

- In Perfect Competition \Rightarrow Only one price

- Hence no consumer surplus. Producer surplus full. No Deadweight Loss.

Perfect Competition Vs Perfect Price Discrimination

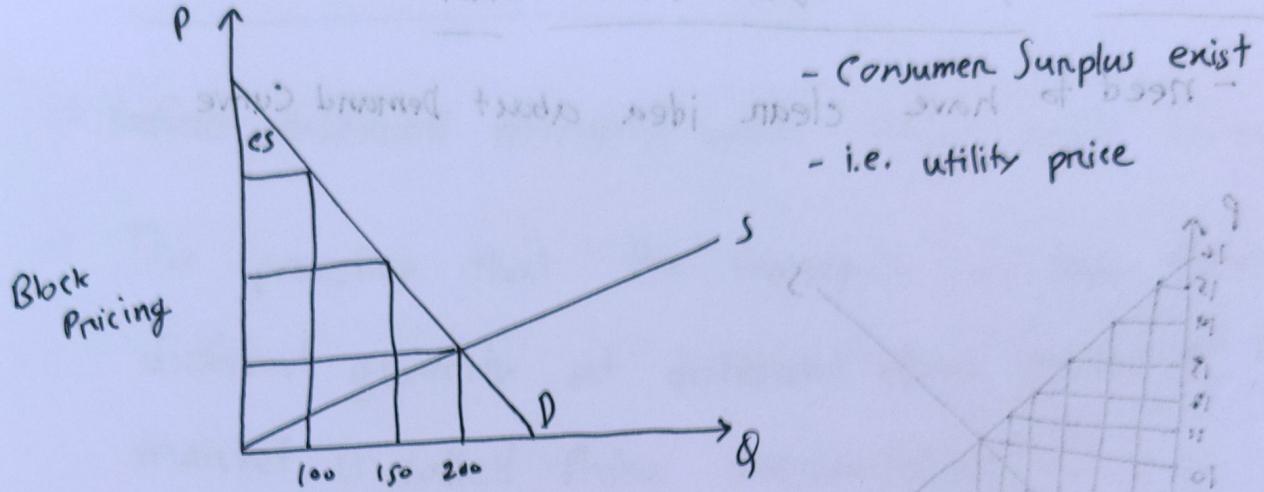
- Q is same

- Total Surplus same

ii) Second Degree Discrimination:

- charges same price upto a certain level, then change changes.

- Also called as Block Pricing

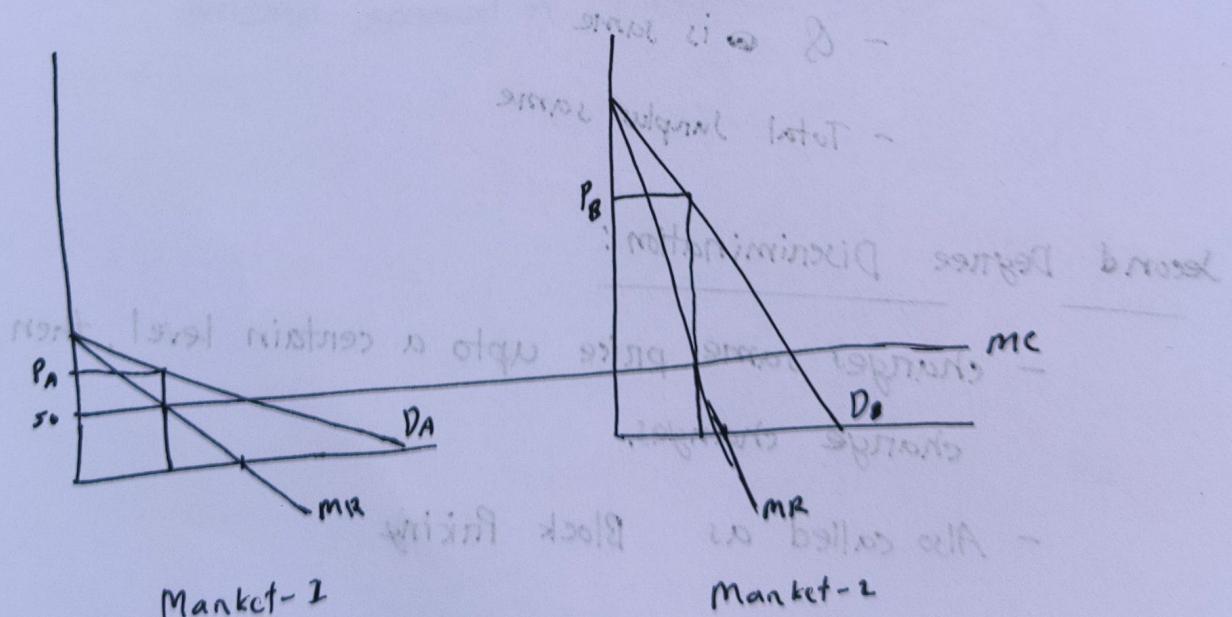


- Consumer Surplus exist
- i.e. utility price

(iii) Third Degree Discrimination!

- Price depends on elasticity, consumers on market categories.
- Demand less elasticity, High Price

High elasticity, Low Price



$$\Rightarrow Q_T = Q_A + Q_B$$

$$P_A < P_B$$



$$E_{dA} > E_{dB}$$

- will ensure maximum profit in every market.

Diagram

maximum profit



Chapter-24

Monopolistic Competition

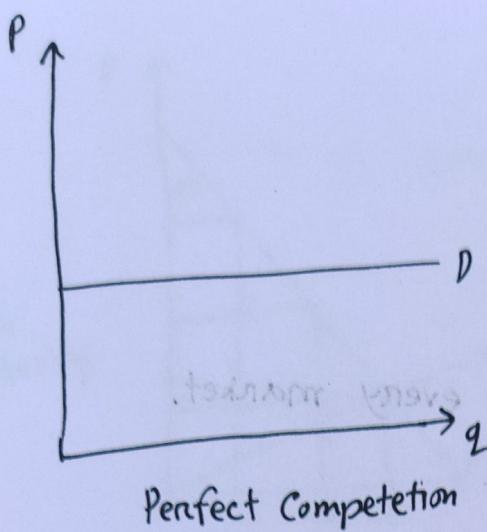
Extra Question on Final, Maybe or not

Monopolistic Competition:

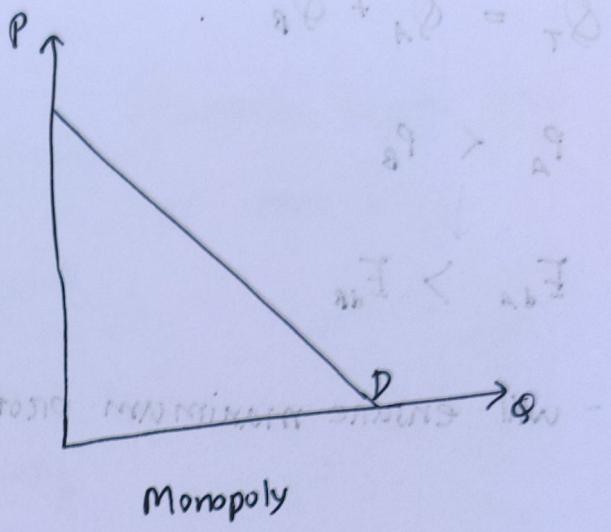
- many buyer, many seller
- products are not identical, slightly difference, maybe phycological or real.
- easy entry, easy exit.

 - need to adverties on make difference
- need to spend additional cost

- Demand curve downward sloping with more elasticity.



Perfect Competition

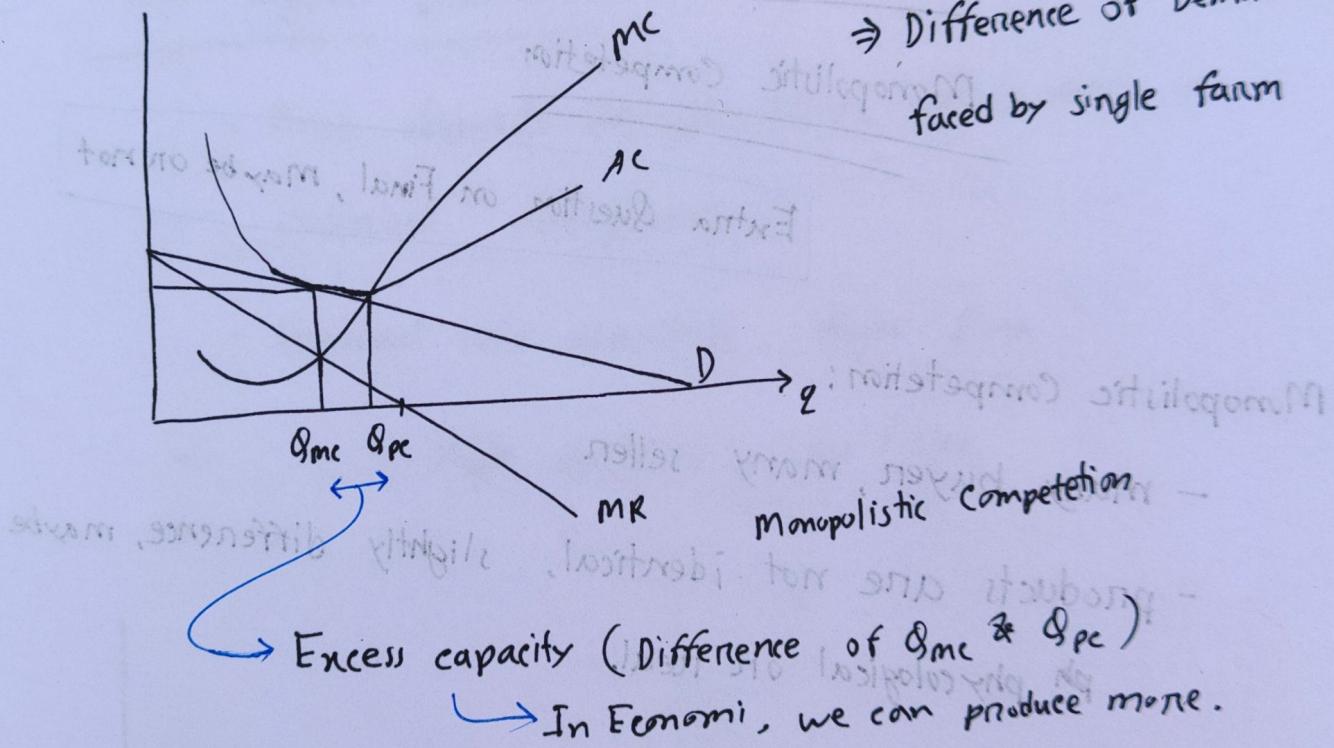


Monopoly

Price-discriminating

$P = P_D - P_C$

⇒ Difference of Demand Curve
faced by single firm



⇒ Inefficient

- Not in the lowest point

- Excess capacity exist in the market.

(*) Monopolistic compete, monopoly vs Perfect competition.

why monopolistic inefficient. Explain Excess capacity, good or bad.

(X) Characteristic & difference between 3 curve.

(X) Why AC is not at lowest point?

⇒ for additional cost, for making product different than others.

Final Syllabus

Consumer choice - 20

- MU
- Equi Marginal Principle
- Budget analysis
- IC and budget line maximization

Production and Cost - 21

- Draw Curve

- LDR
- MP etc.

Perfect competition - 22

Monopoly - 23

Monopolistic competition - 24

4 out of 6
80 minutes