



Perfect competition

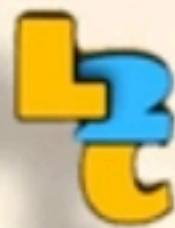
Short-run Equilibrium



Microeconomics



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Forms of Market

Perfect Competition ✓

✓ Imperfect Competition

Monopolistic
competition

Oligopoly

Monopoly ✓



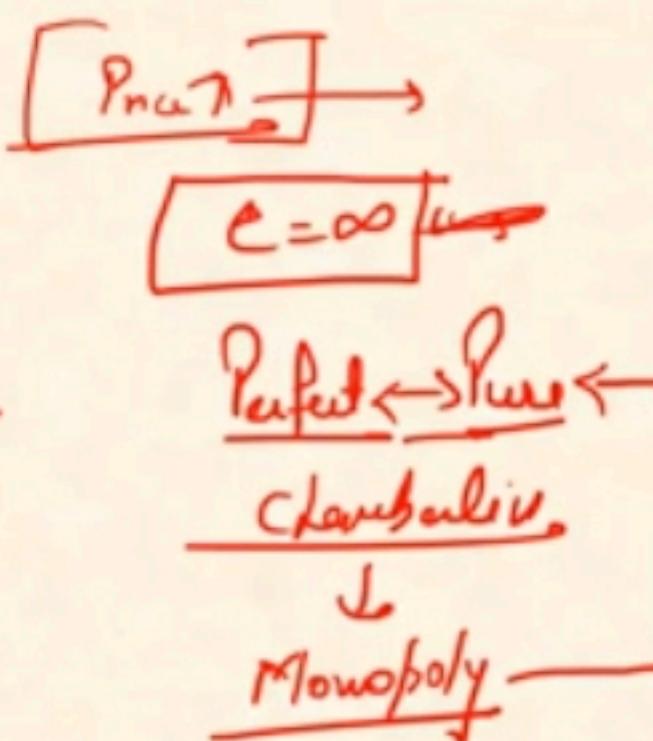
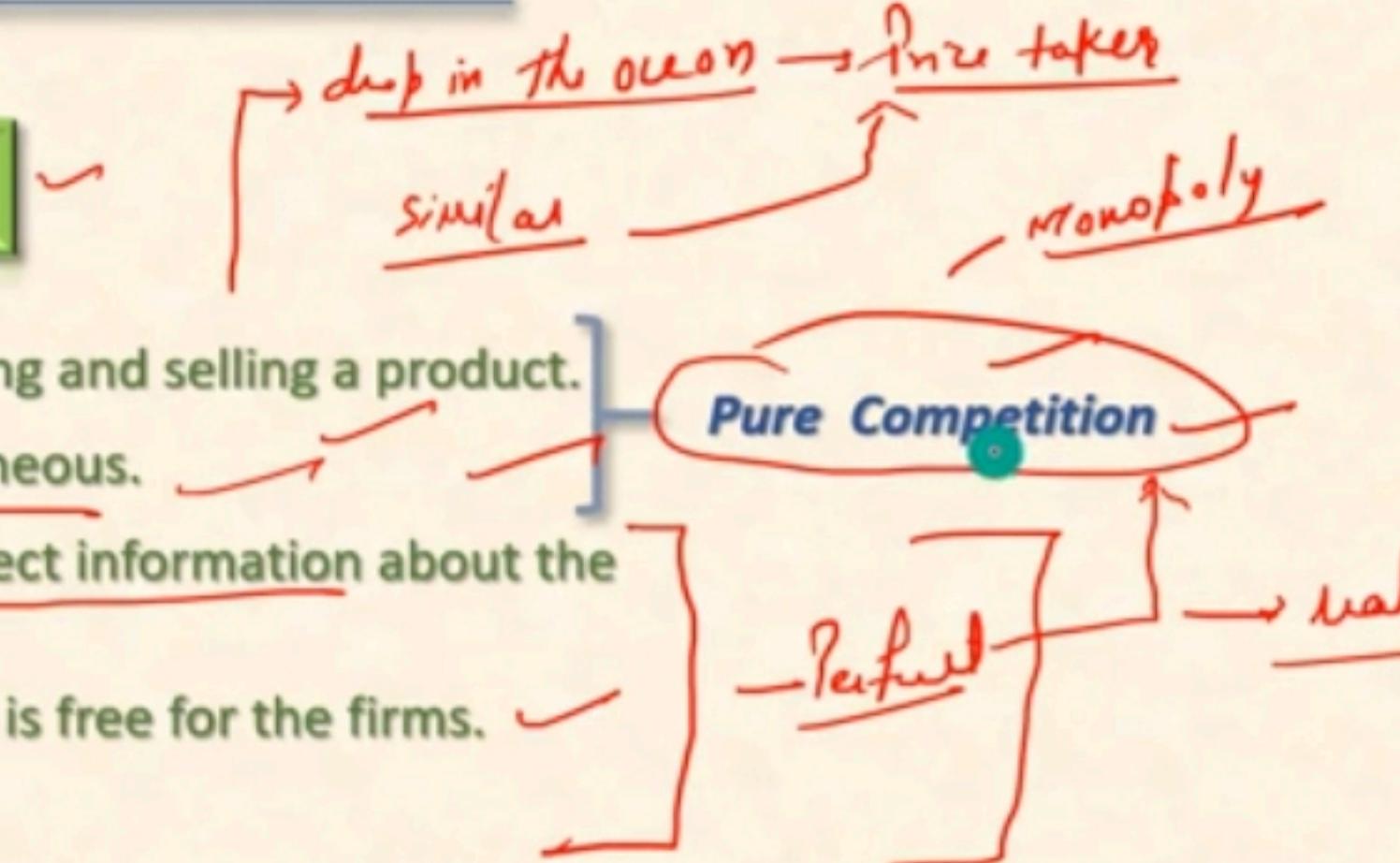


Forms of Market

Perfect Competition

- ✓ There are Large No. of firms producing and selling a product.
- ✓ The product of all firms are homogeneous.
- ✓ Both the seller and buyers have perfect information about the market.
- ✓ Entry into and Exit from the industry is free for the firms.

Perfect mobility of factor.



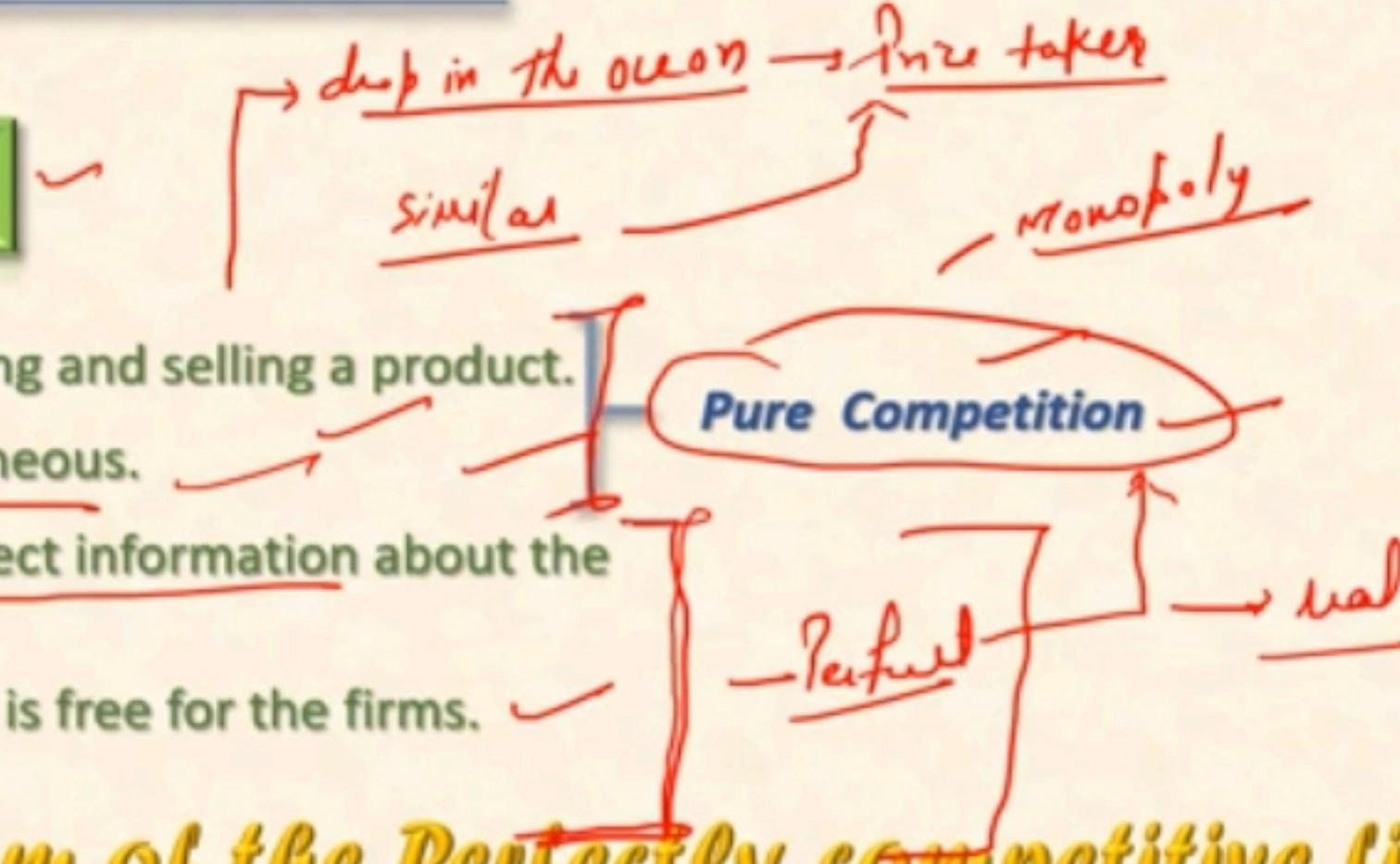


Forms of Market

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Equilibrium of the Perfectly competitive firm

Short Run Equilibrium

Long Run Equilibrium

[Profit]

C = 0

Perfect

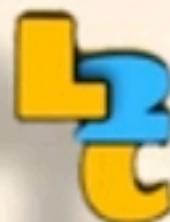
Pure

Chamberlin

↓

Monopoly



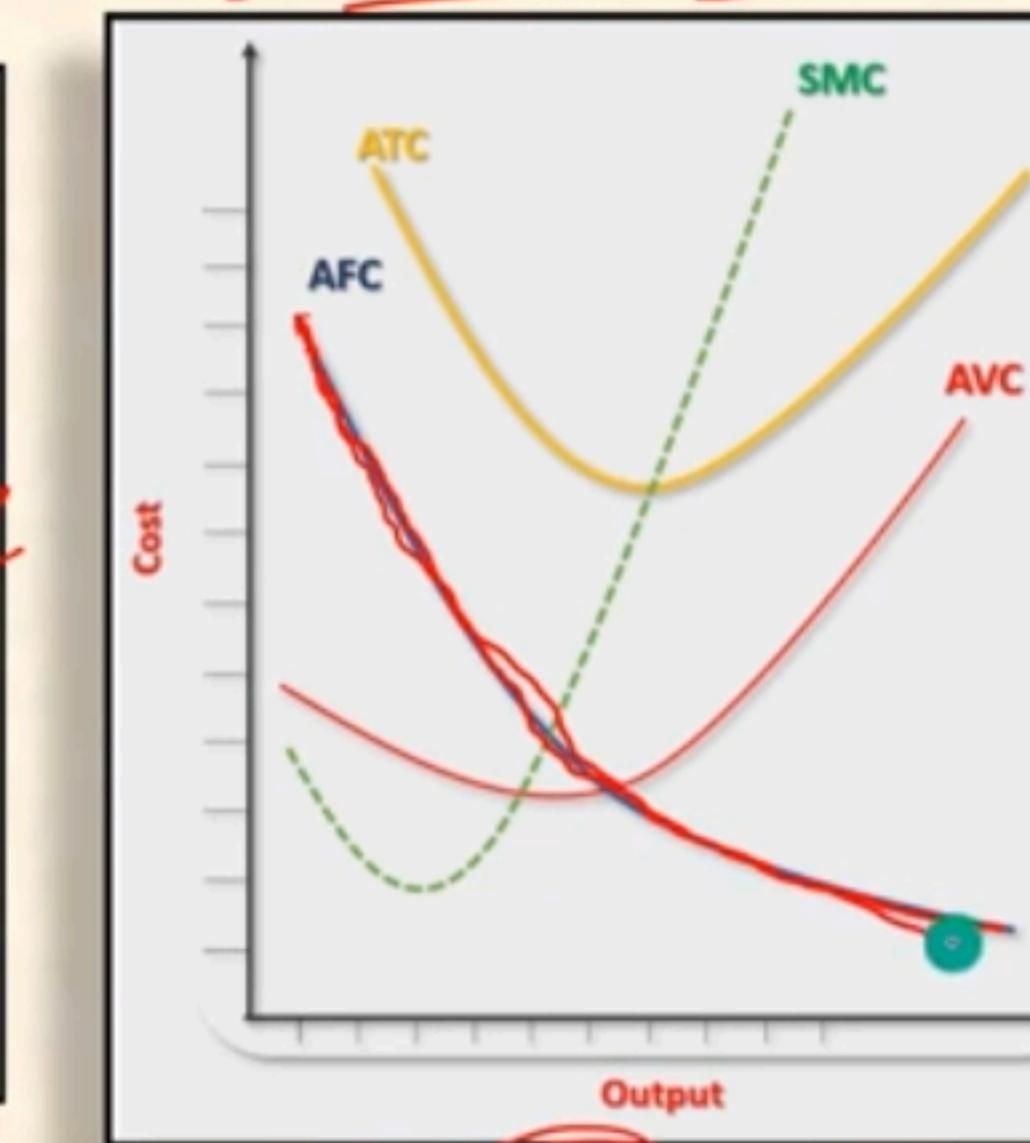
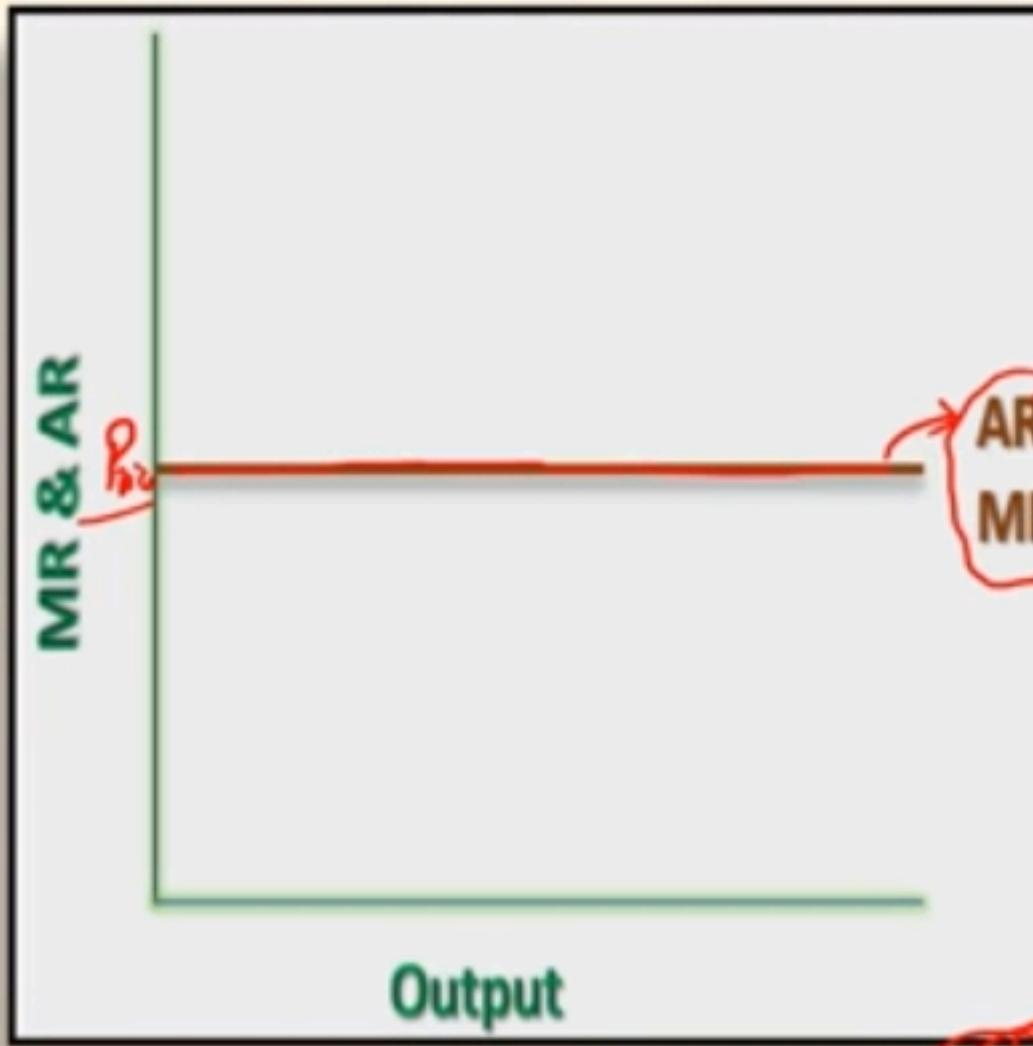


Revenue Curves
Cost Curves

Perfect Competition

Short Run Equilibrium

Short Run Revenue Curves



Capital
Entrepreneur
Labour

$$\frac{TC}{Q} = \frac{TFC}{Q} + \frac{TVC}{Q}$$

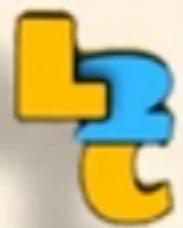
$$AFC + TFC$$

$$AC = AVC + AFC$$

$$ATC = AFC + AVC$$



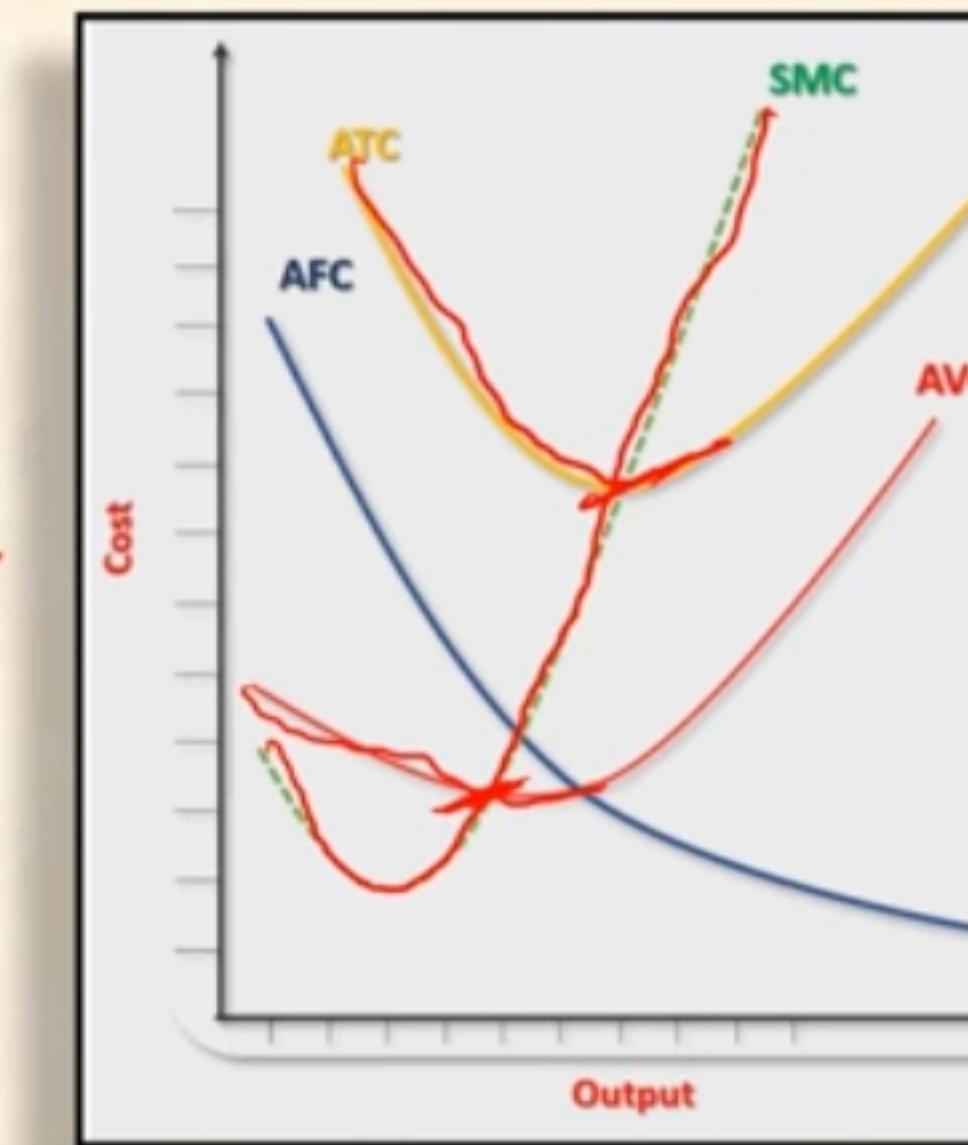
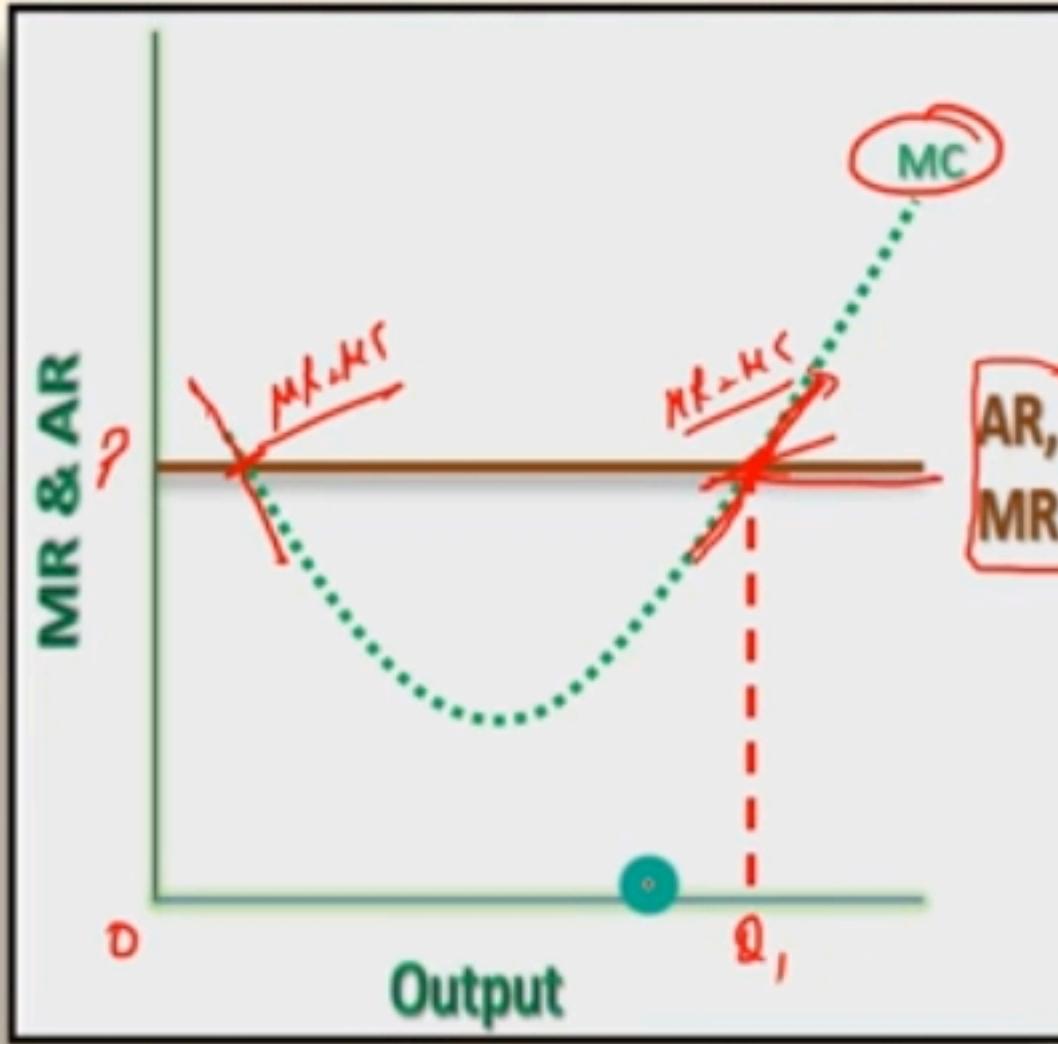
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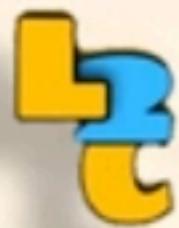


$$\frac{MR = MC}{MC - MR}$$

Perfect Competition

Short Run Equilibrium

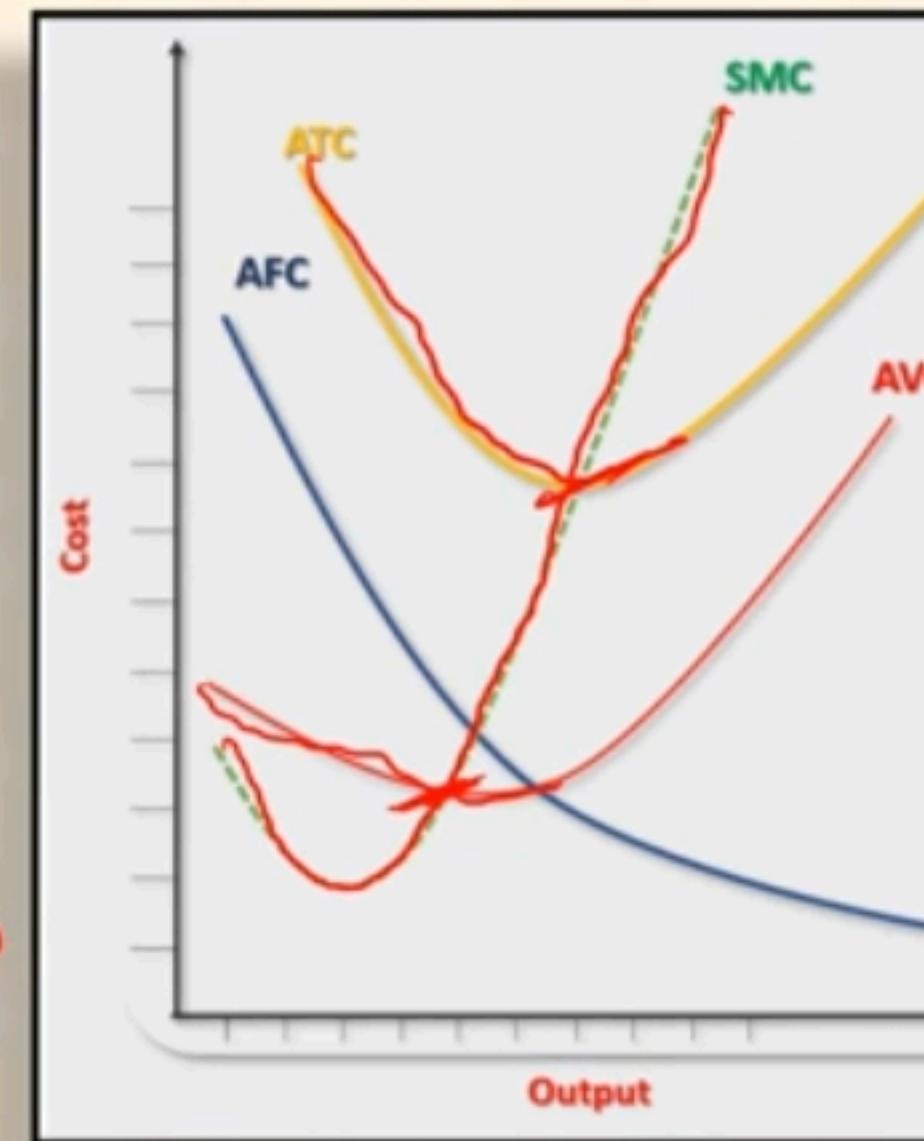
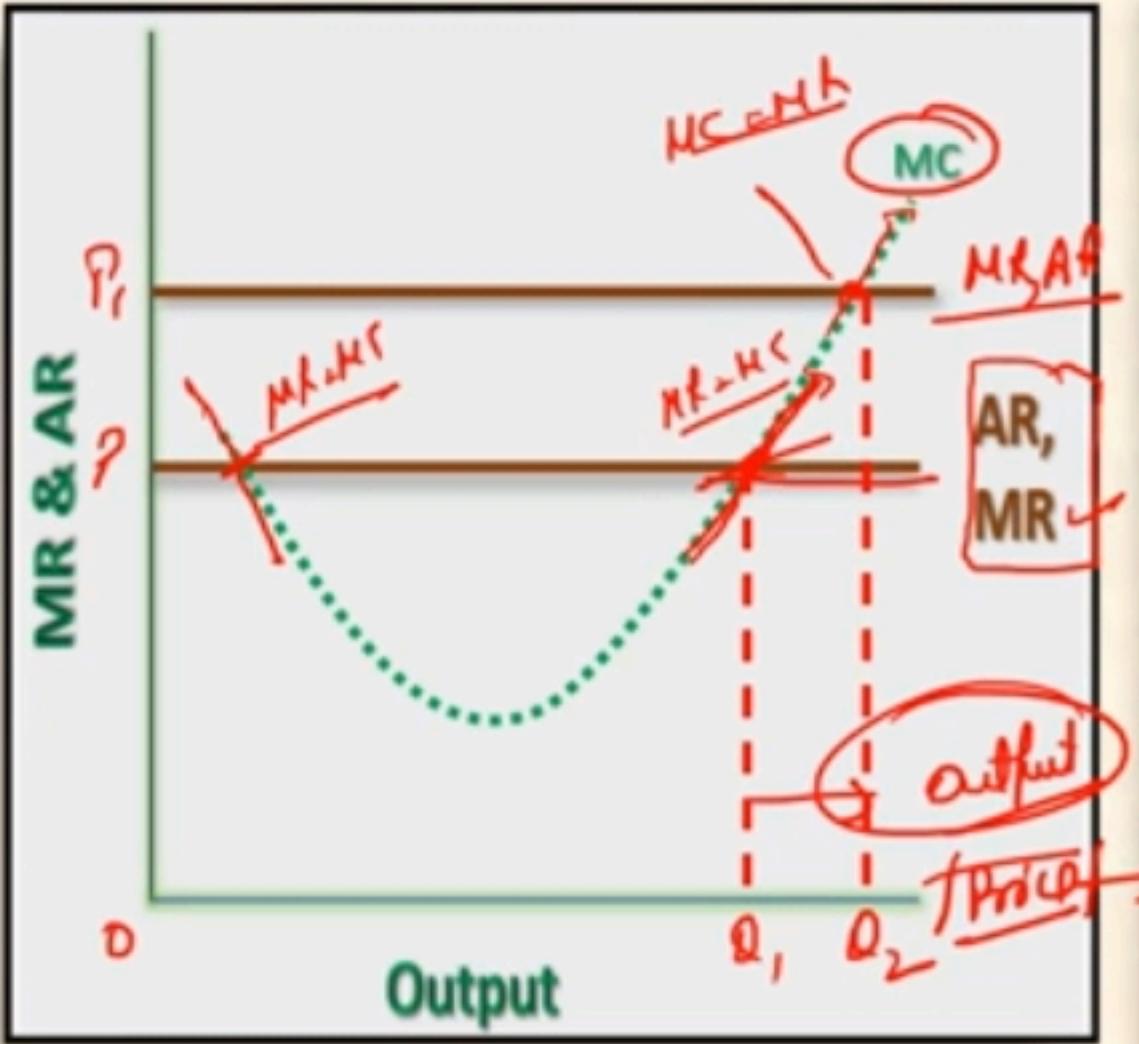




$$\frac{\rightarrow MR = MC}{MC - MR}$$

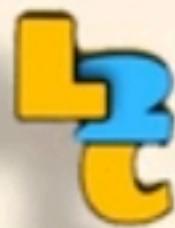
Perfect Competition

Short Run Equilibrium



- Equilibrium condition:
 - ✓ $MC = MR$
 - ✓ MC curve cuts the MR curve from below

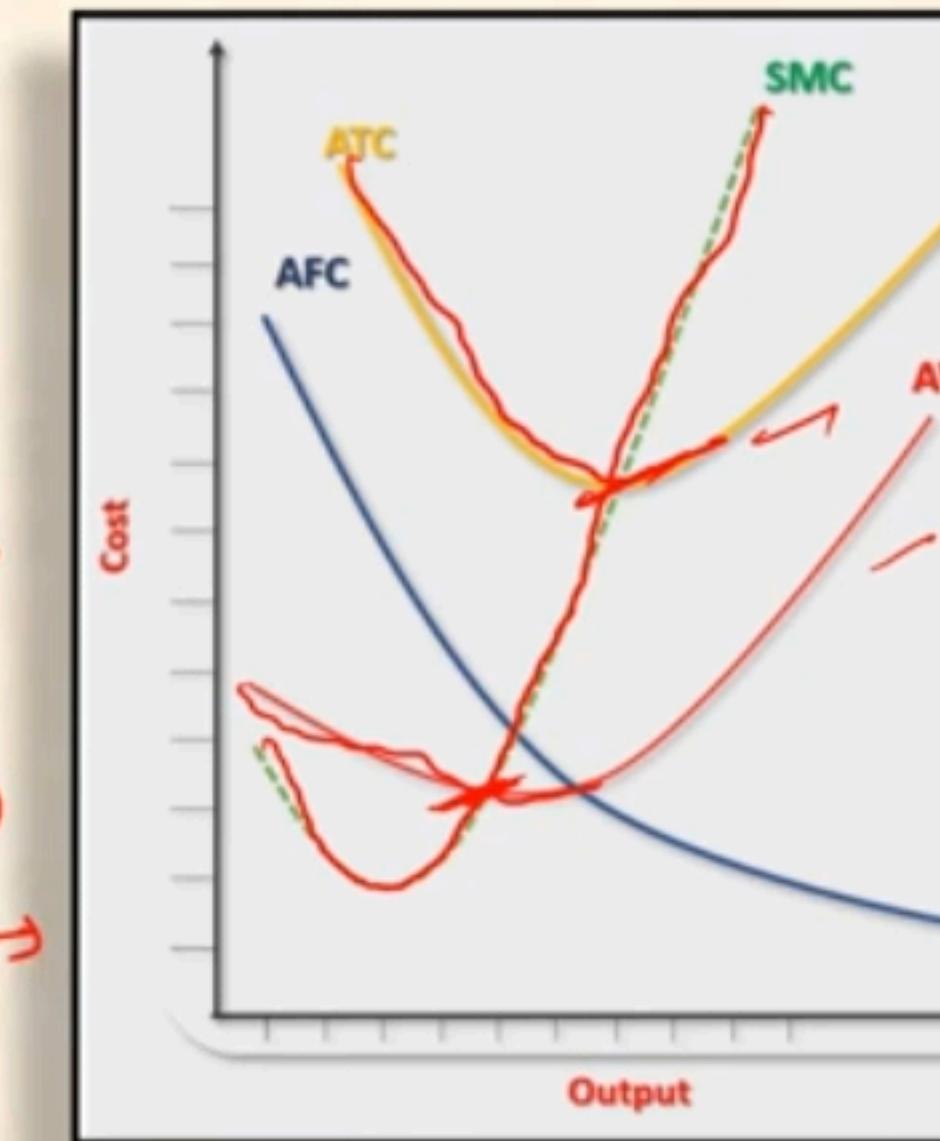
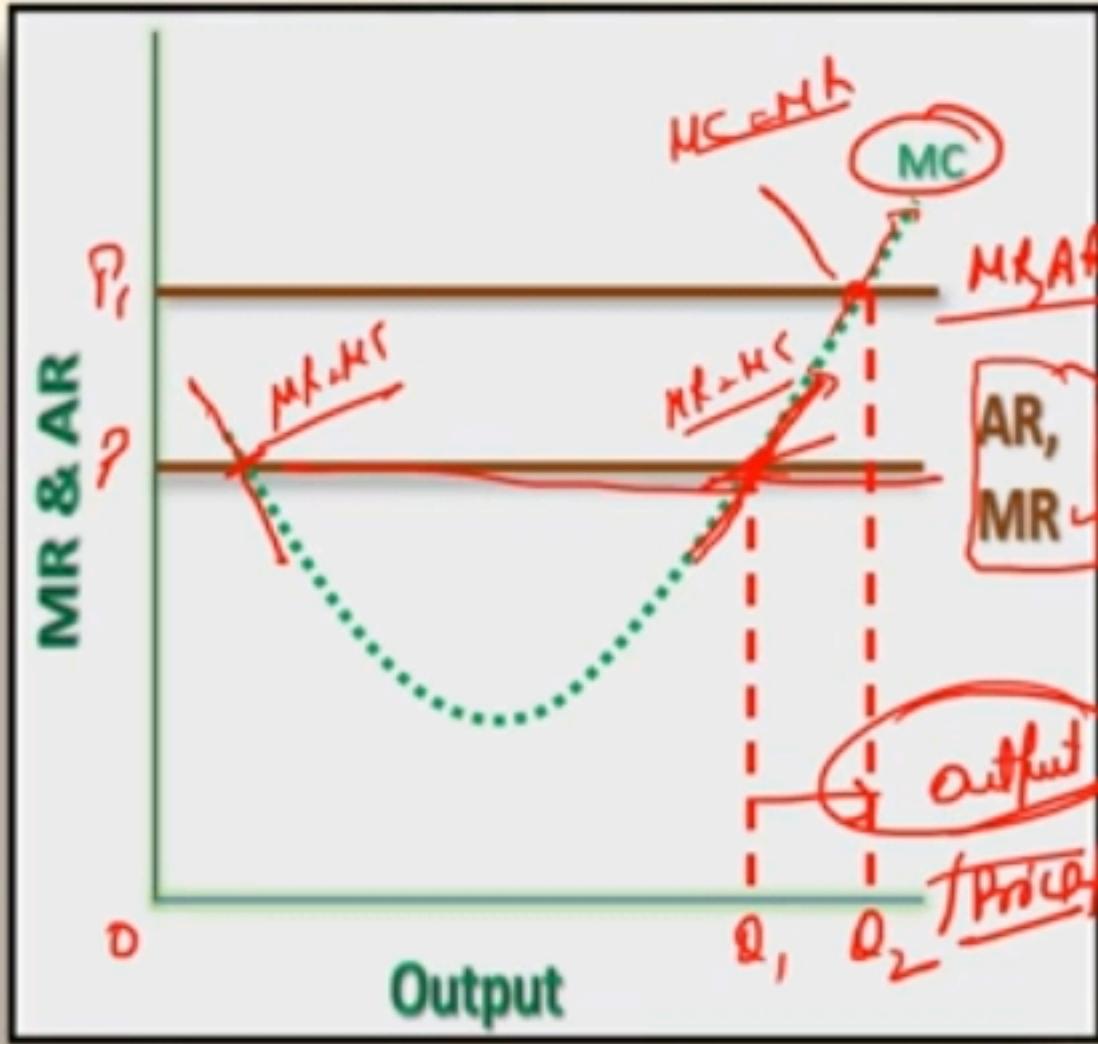




$$\frac{\rightarrow MR = MC}{MC = MR}$$

Perfect Competition

Short Run Equilibrium



❑ Equilibrium condition:

- ✓ $MC = MR$
- ✓ MC curve cuts the MR curve from below

❑ $AR = P$

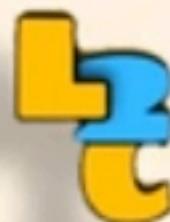
❑ AR curve is demand curve

❑ MC curve cut the AC and AVC curve at their minimum point

❑ $ATC = AVC + AFC$

❑ Distance between ATC and AVC is AFC.



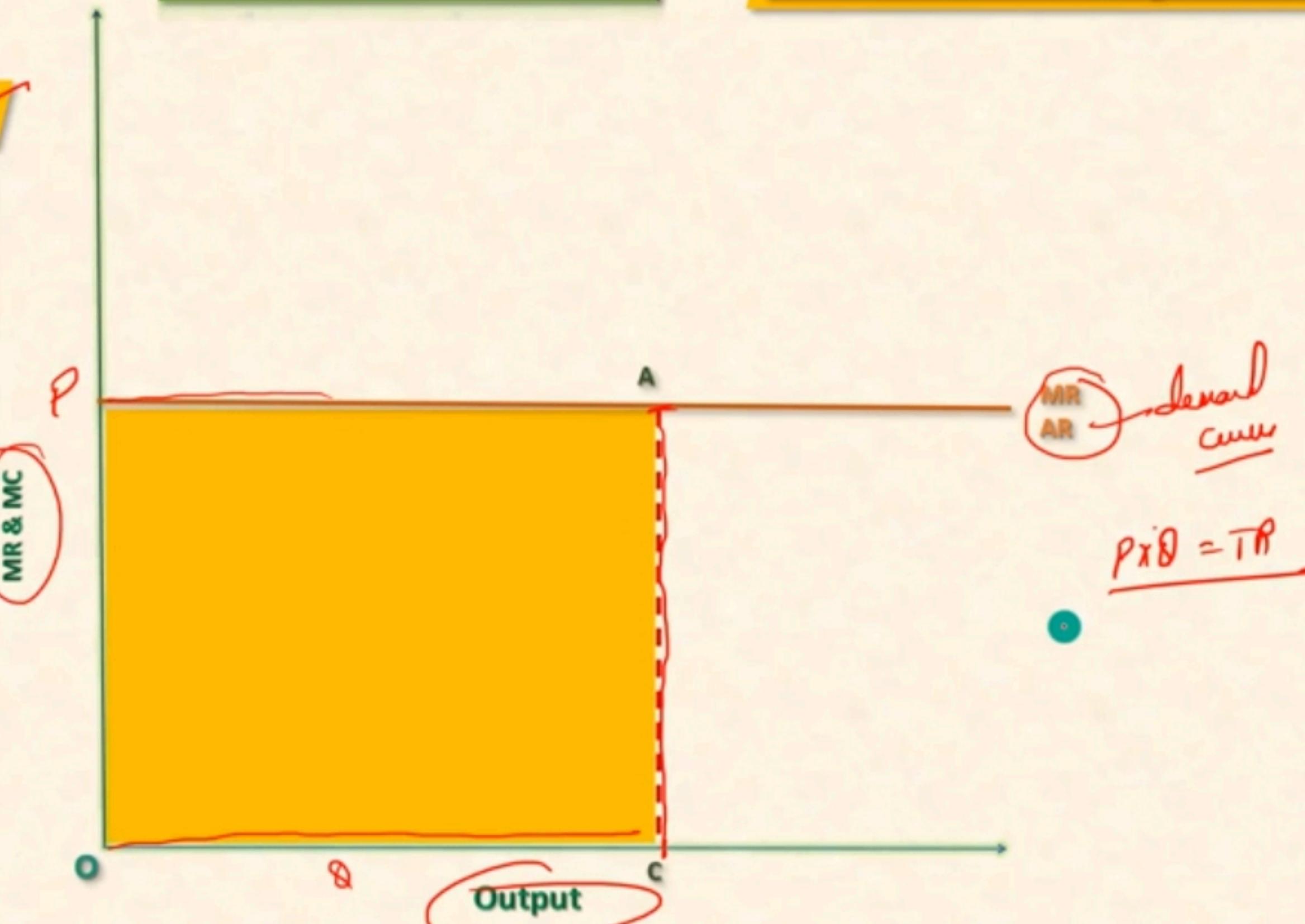


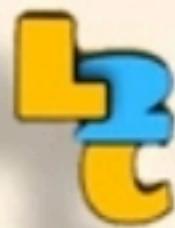
Perfect Competition

Short Run Equilibrium

Supernormal Profit ✓

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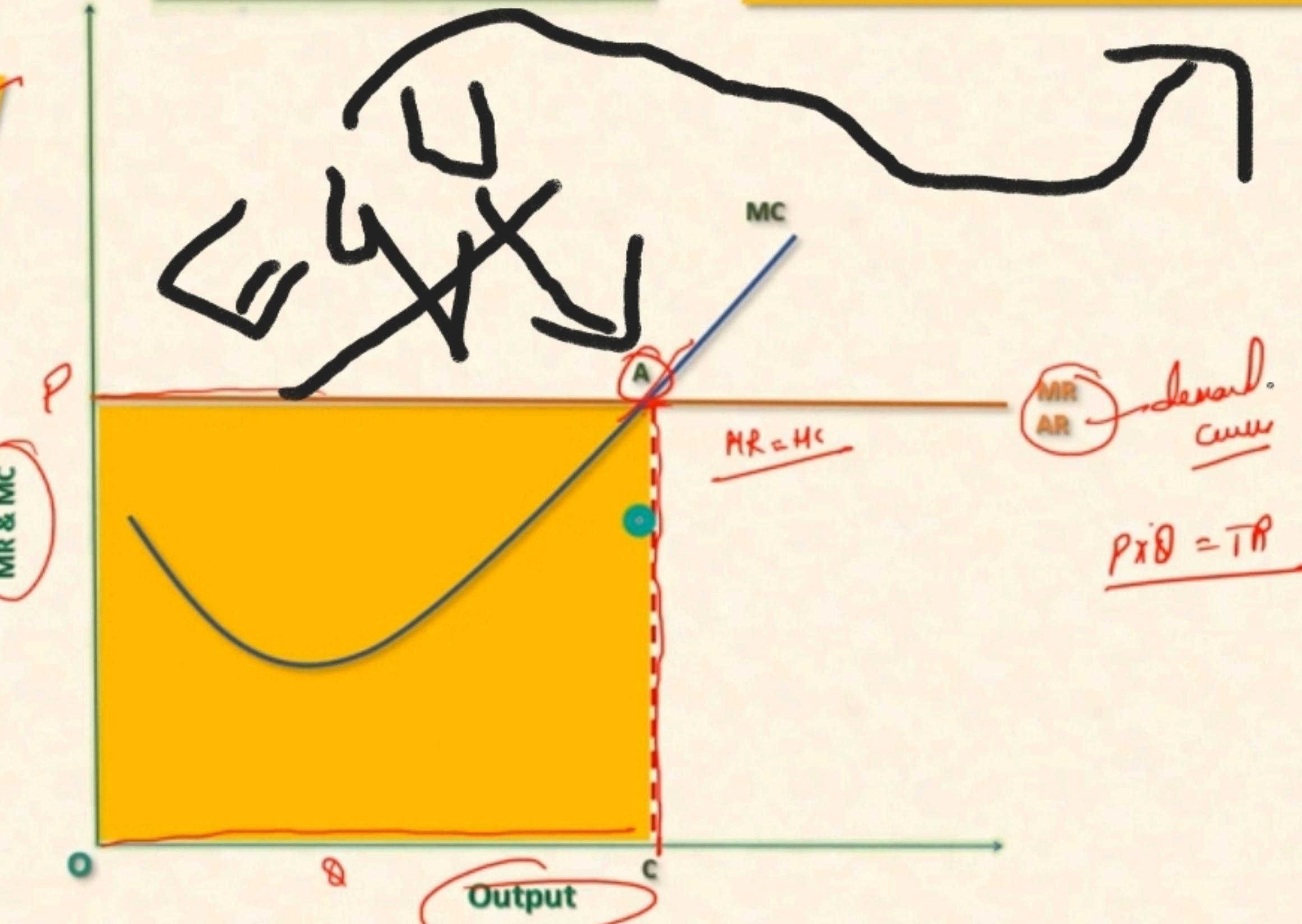


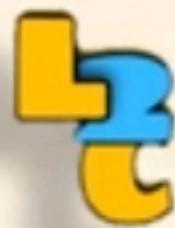
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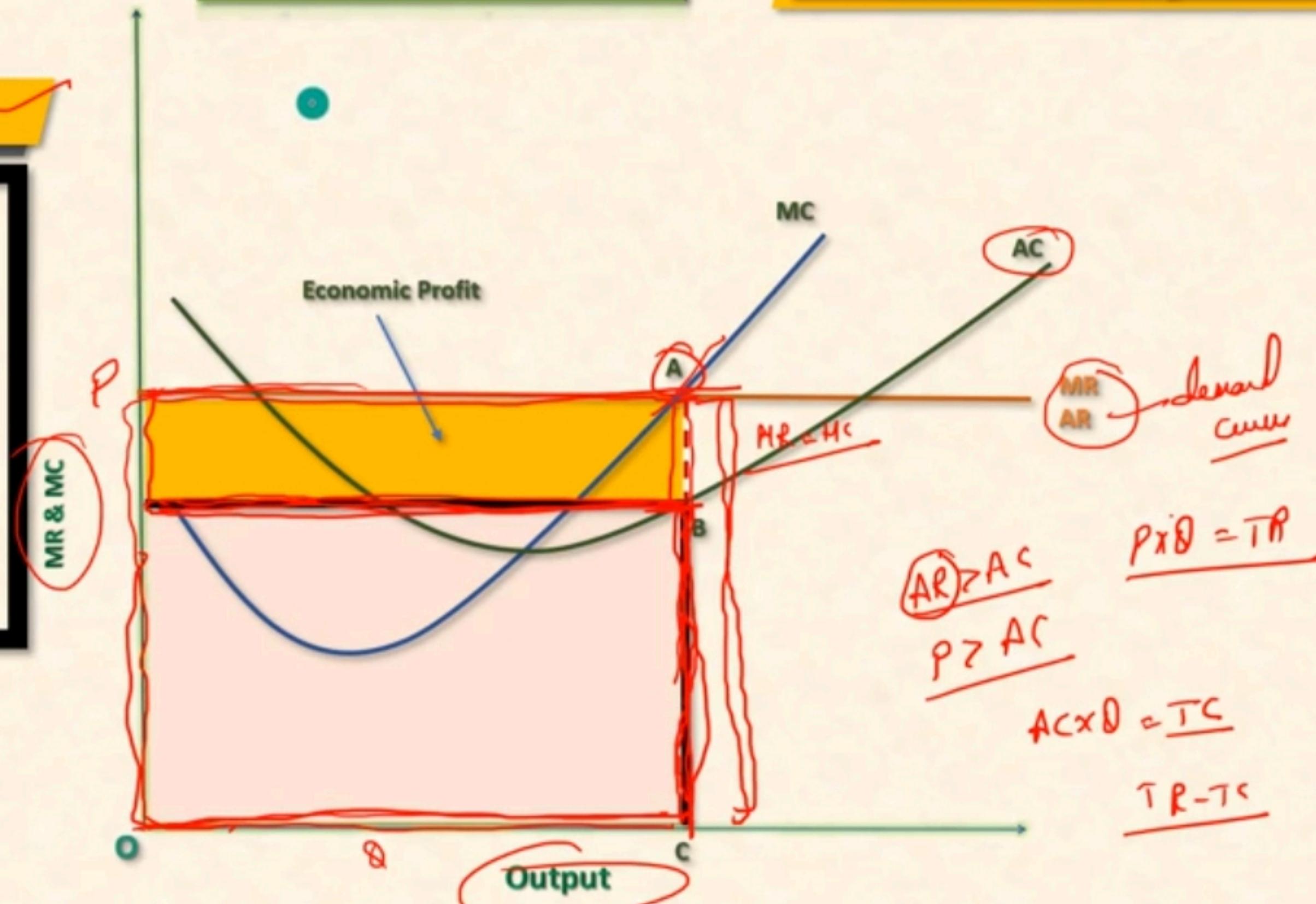


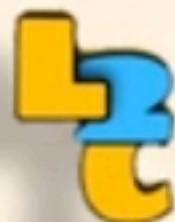
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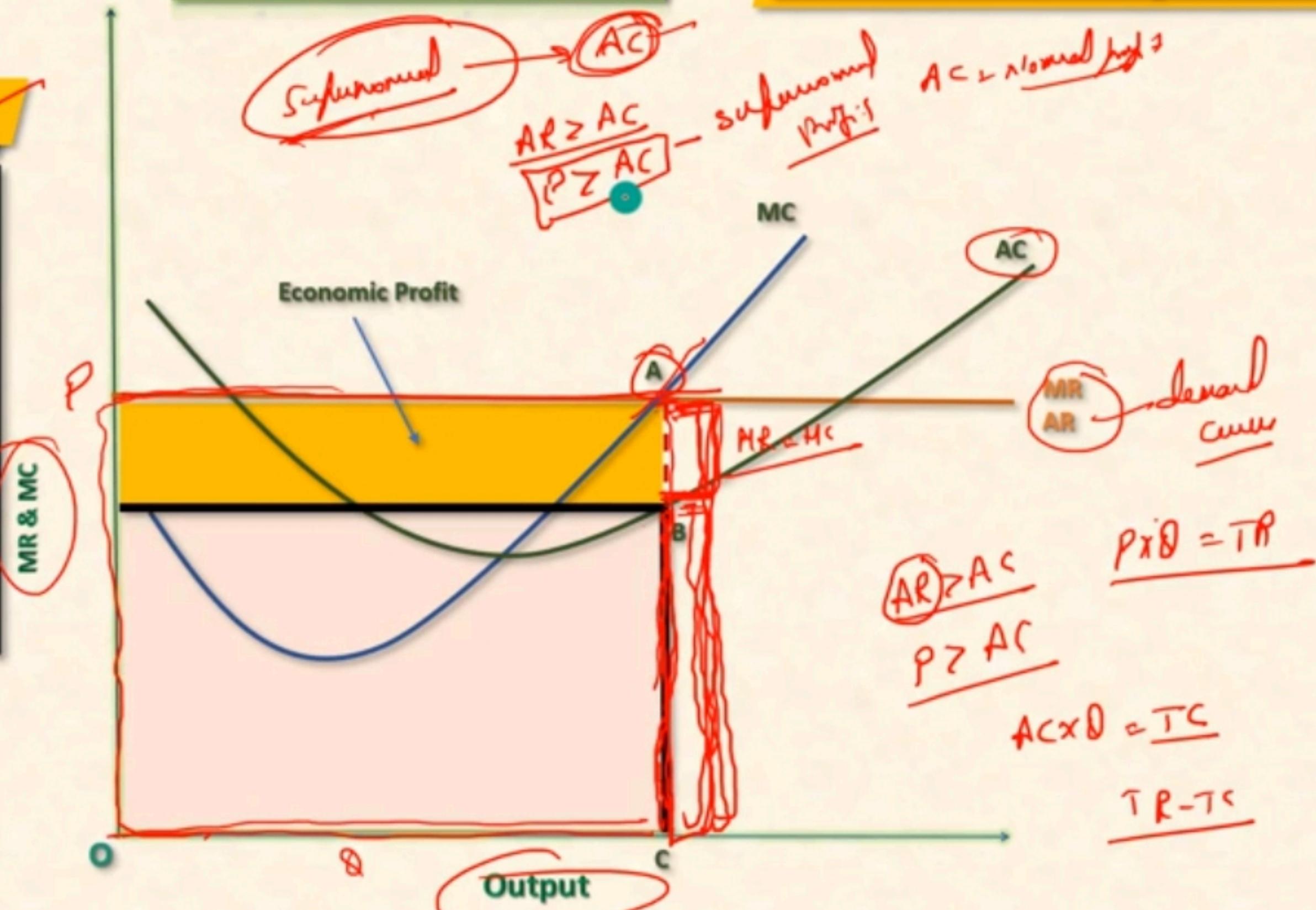


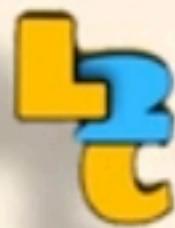
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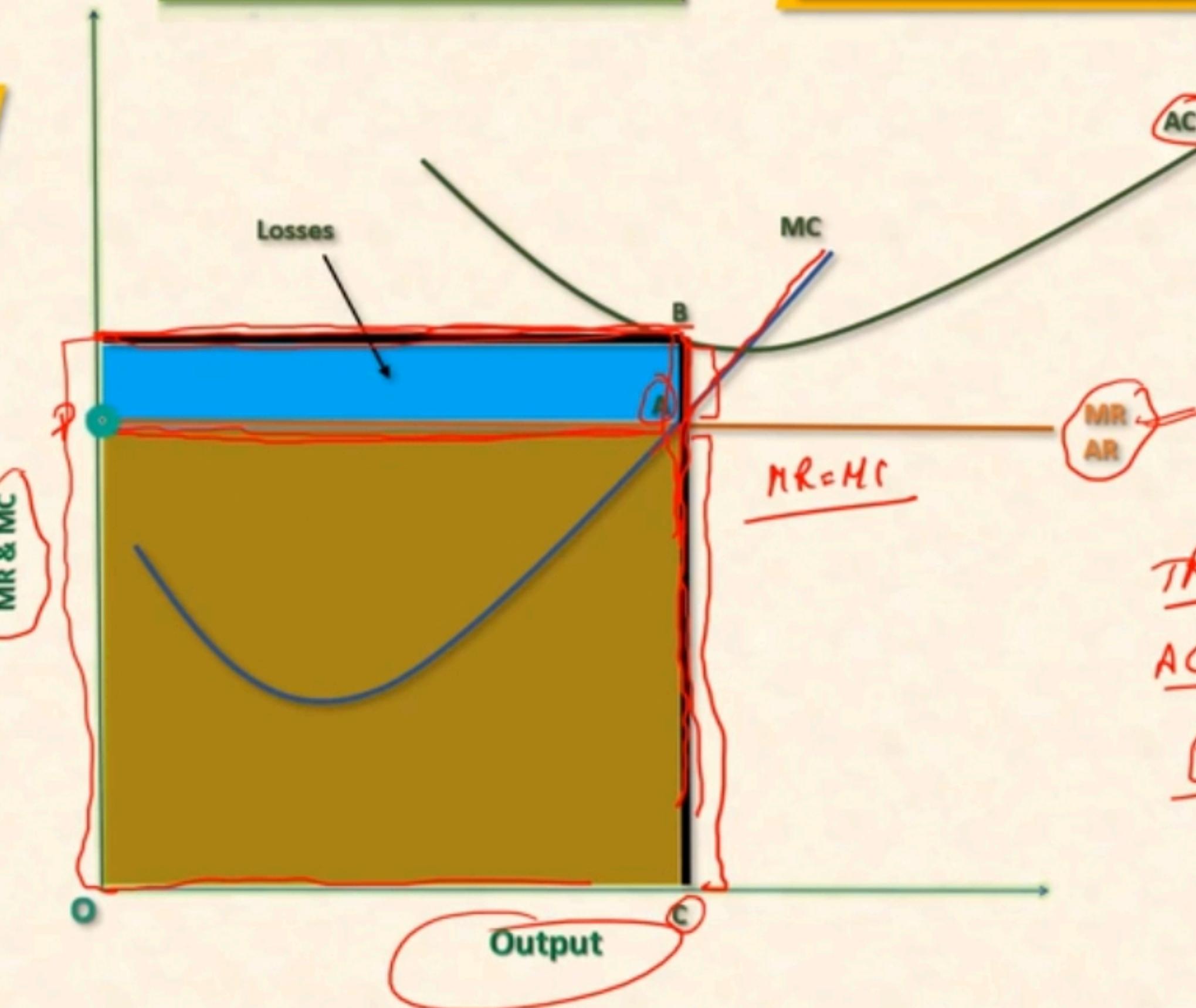


Perfect Competition

Short Run Equilibrium

Losses

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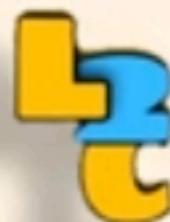


$$TR = P \times Q$$

$$\underline{AC} \times Q = \underline{TC}$$

$$\underline{TR} - \underline{TC} = \underline{P}$$



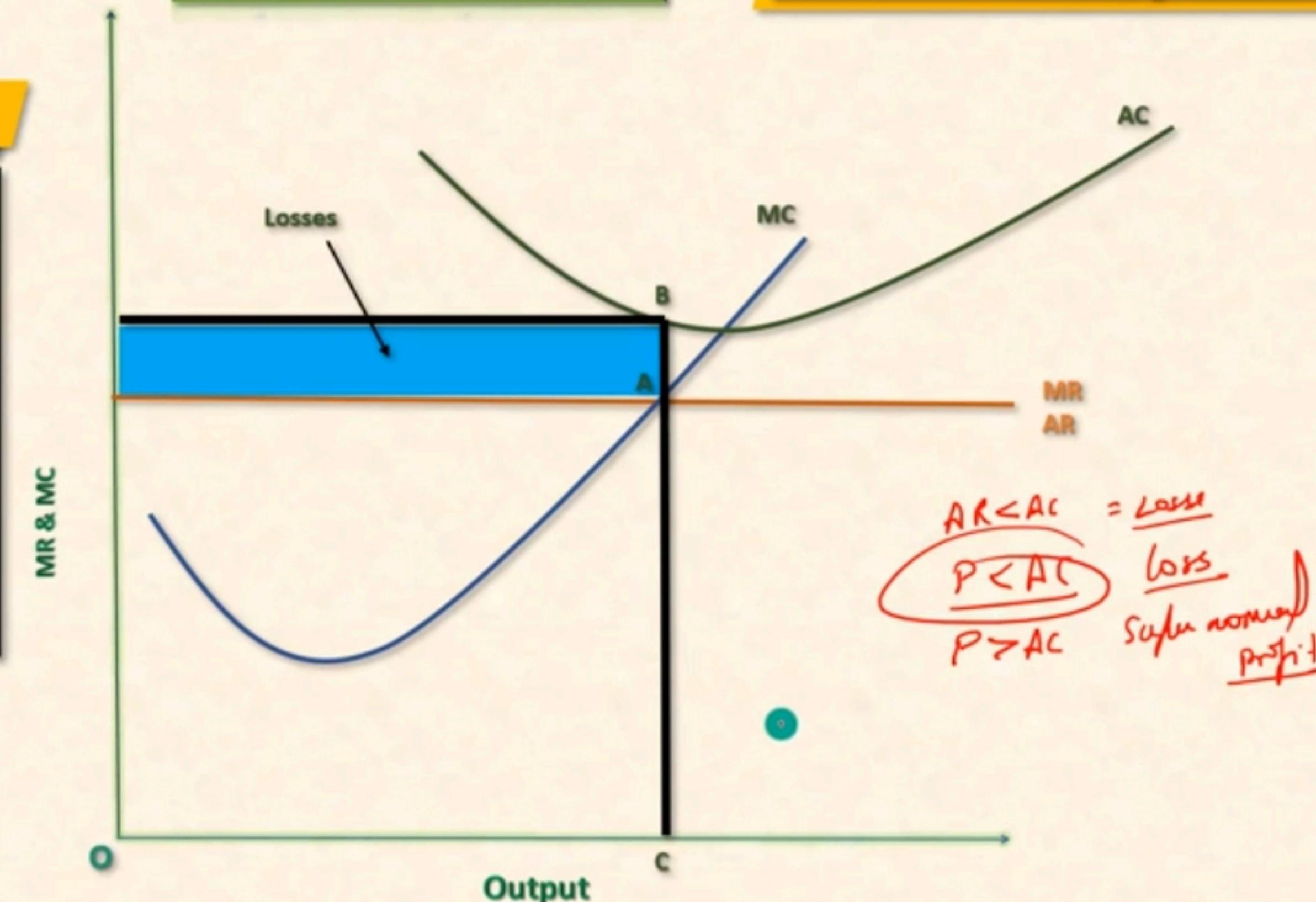


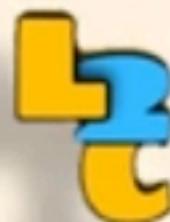
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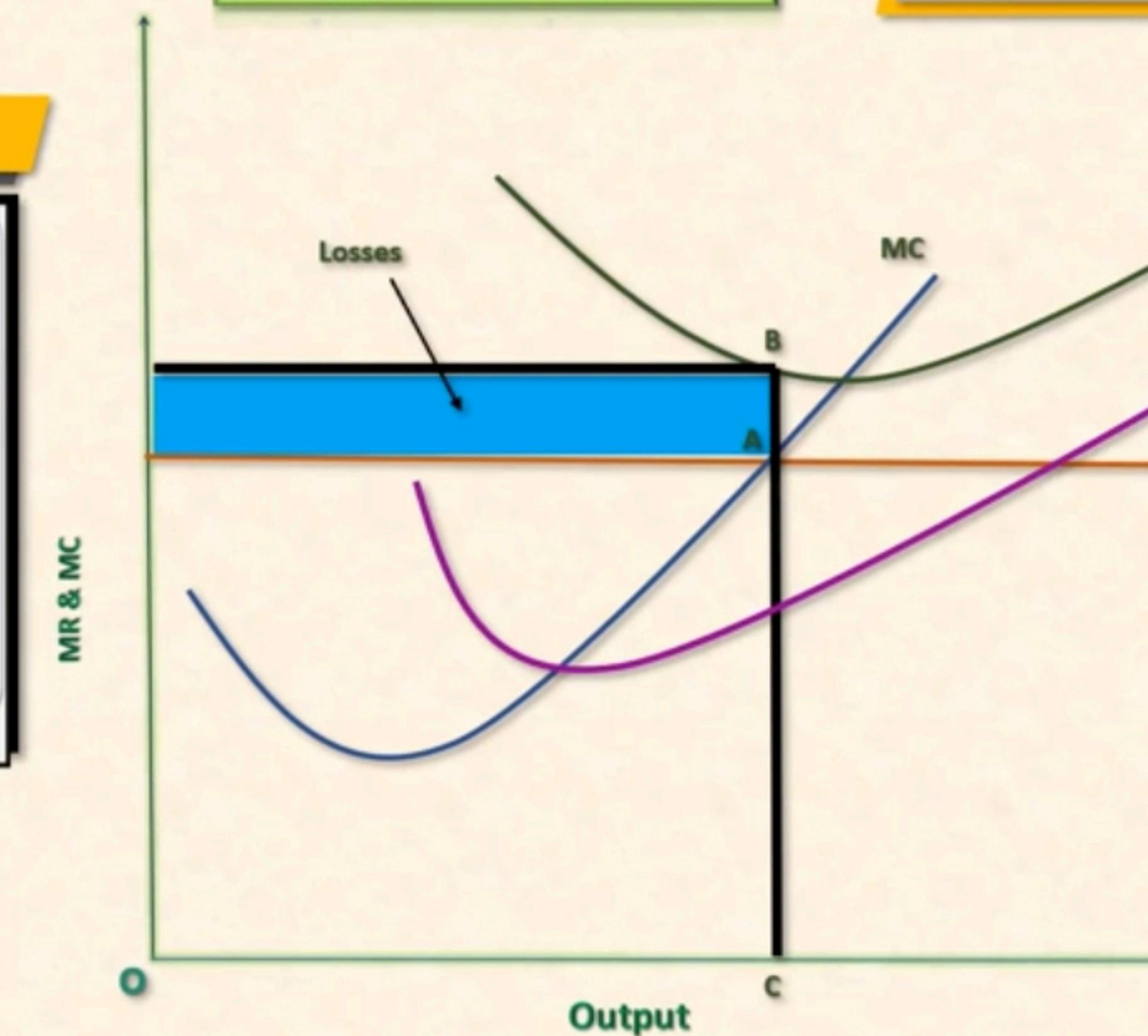
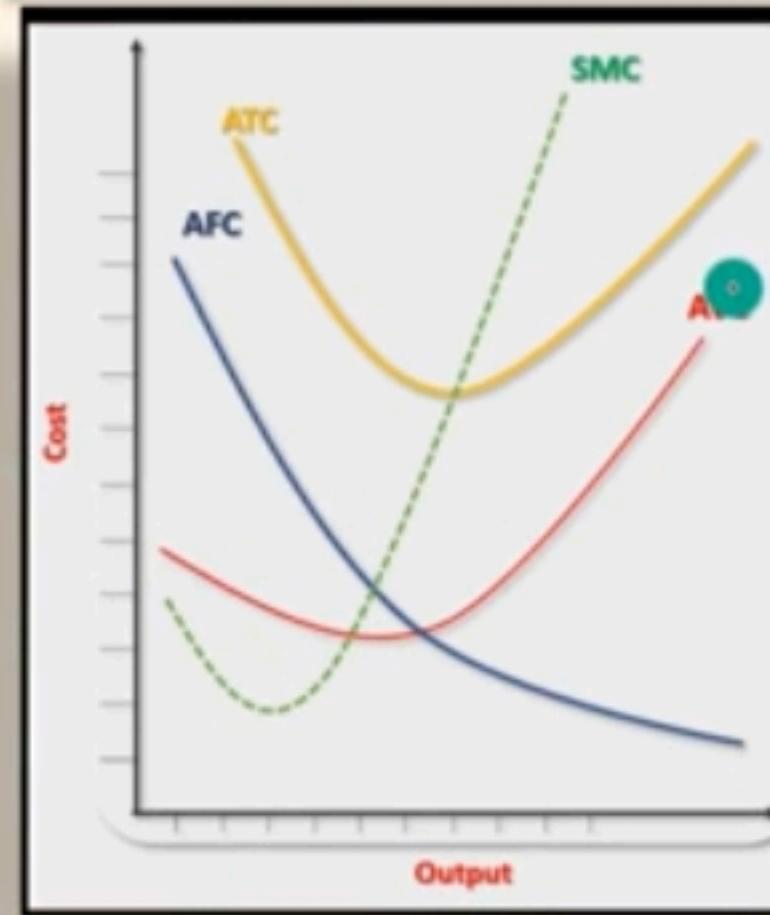


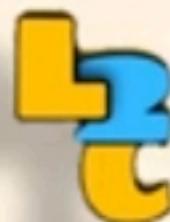


Perfect Competition

Short Run Equilibrium

Losses



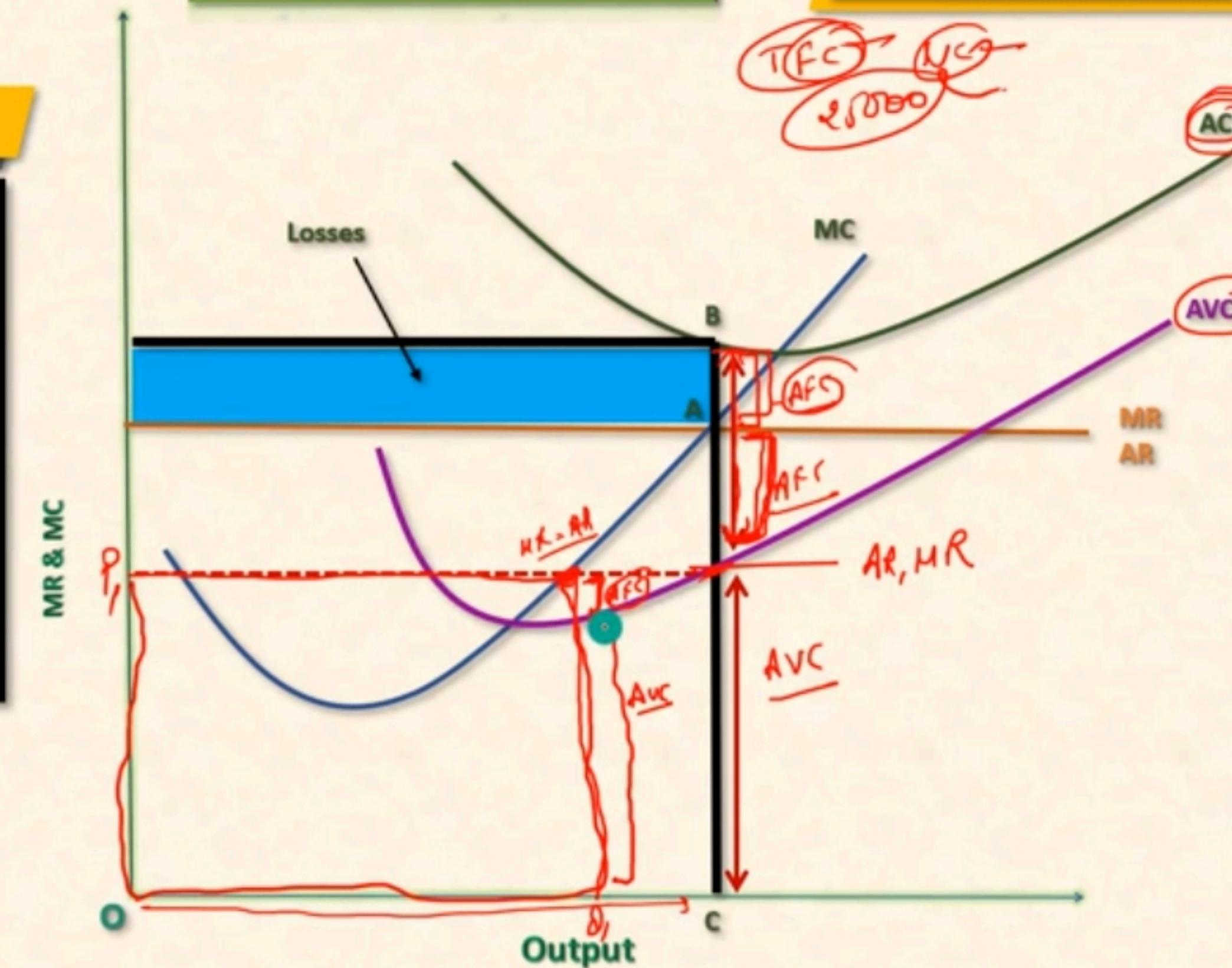


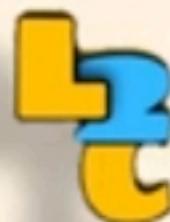
Perfect Competition

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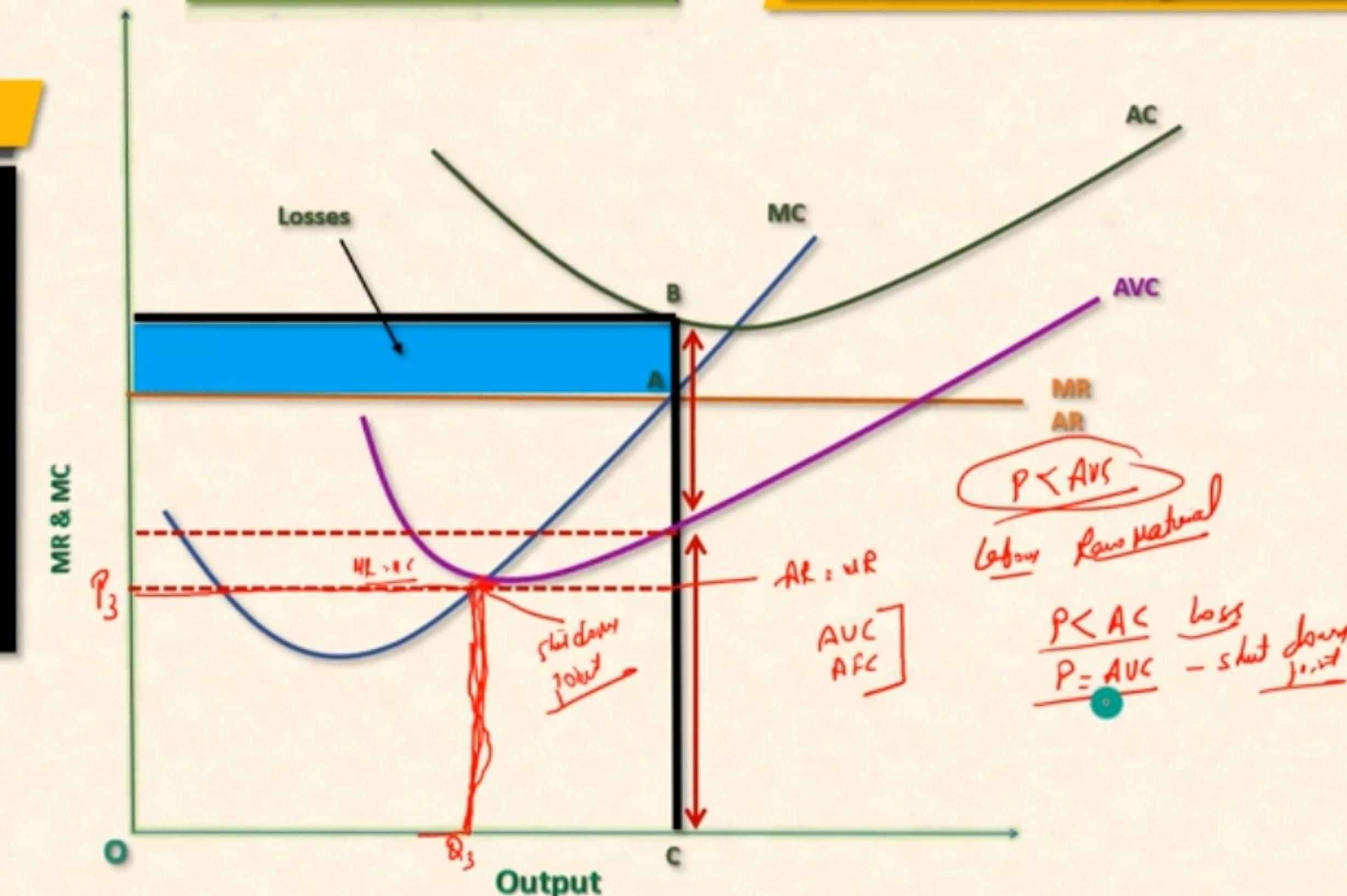


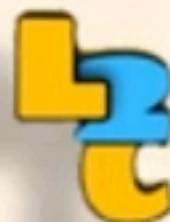
Perfect Competition

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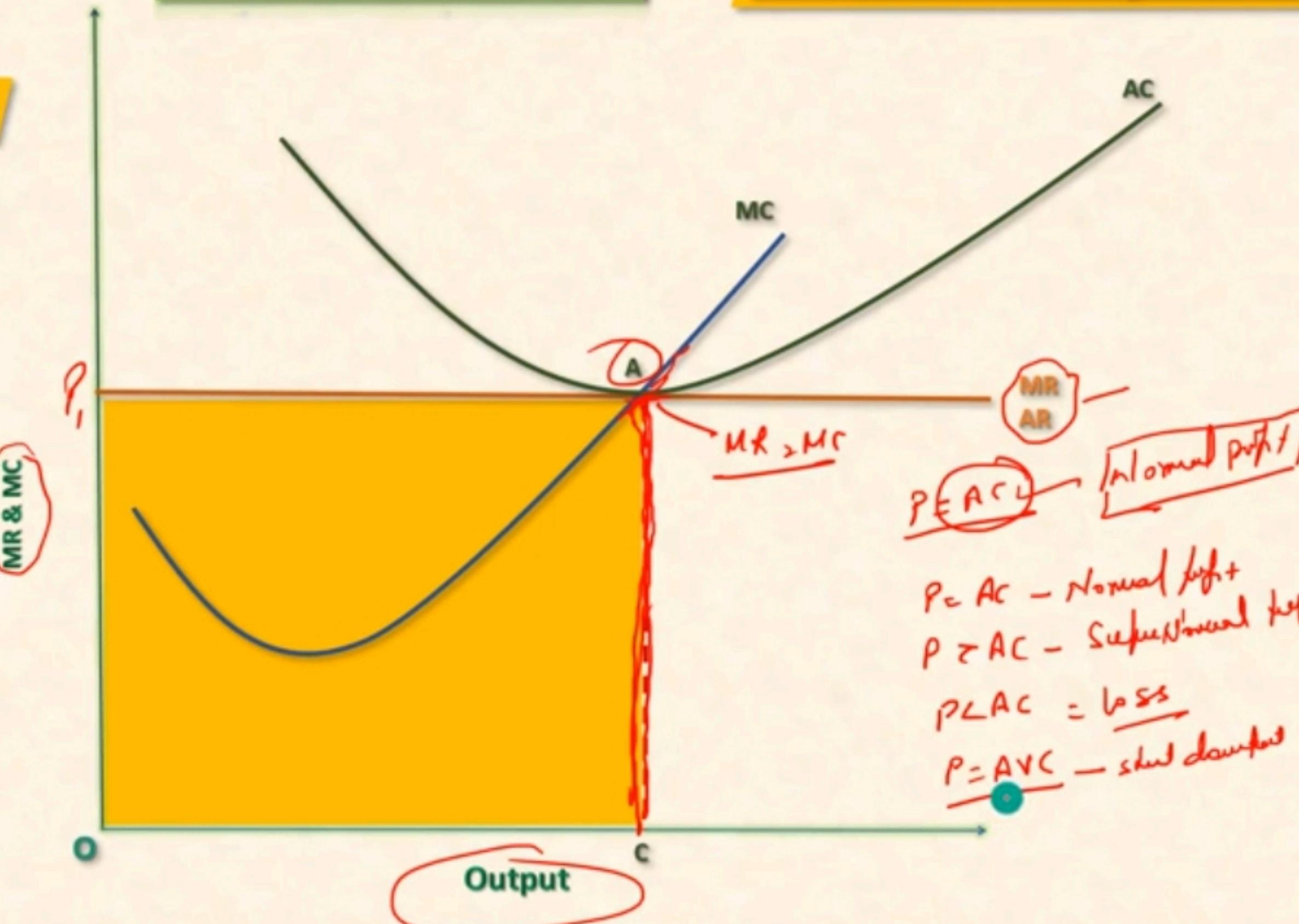


Perfect Competition

Short Run Equilibrium

Normal Profit

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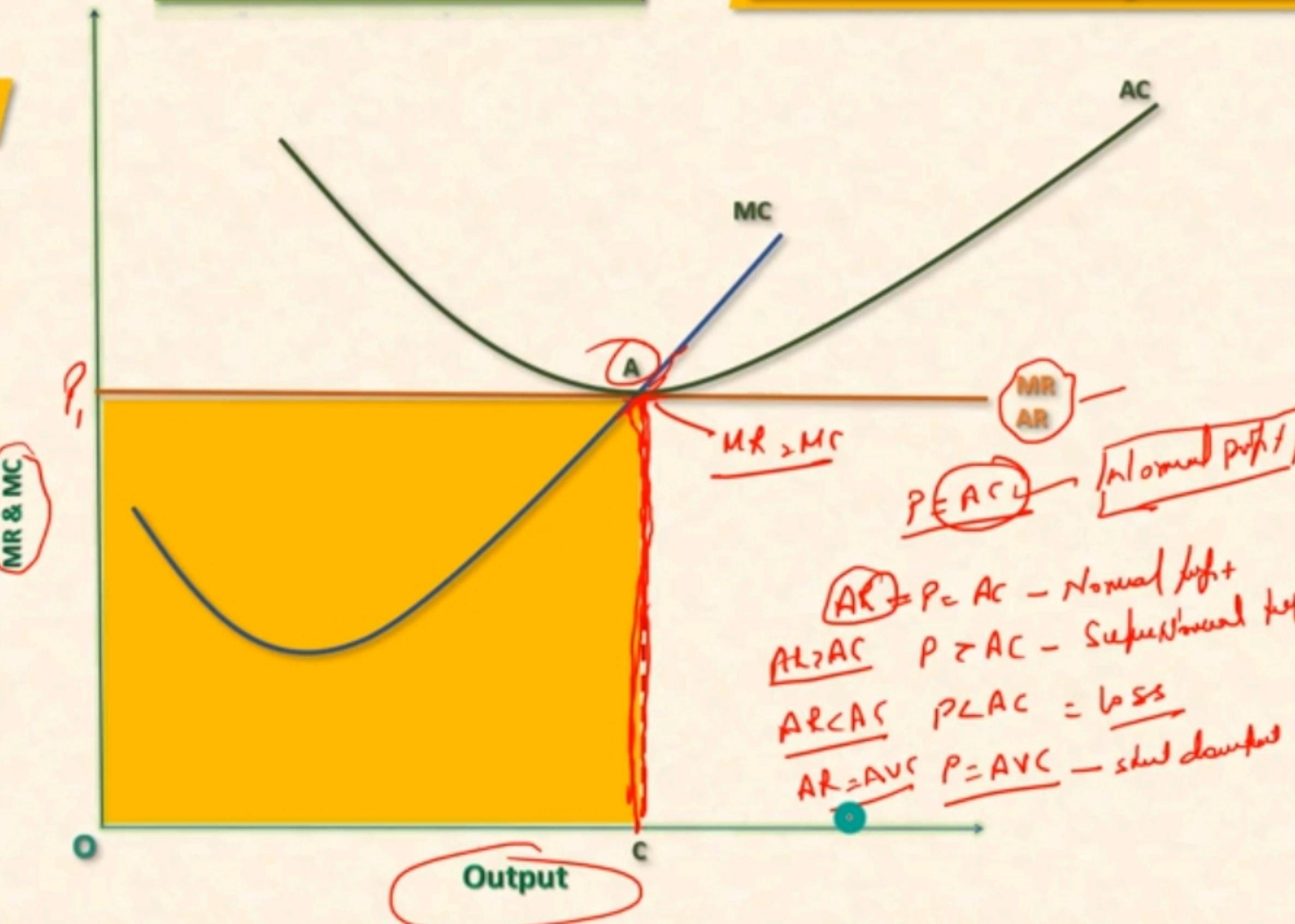


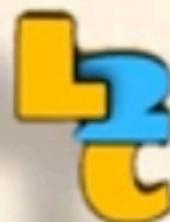
Perfect Competition

Short Run Equilibrium

Normal Profit

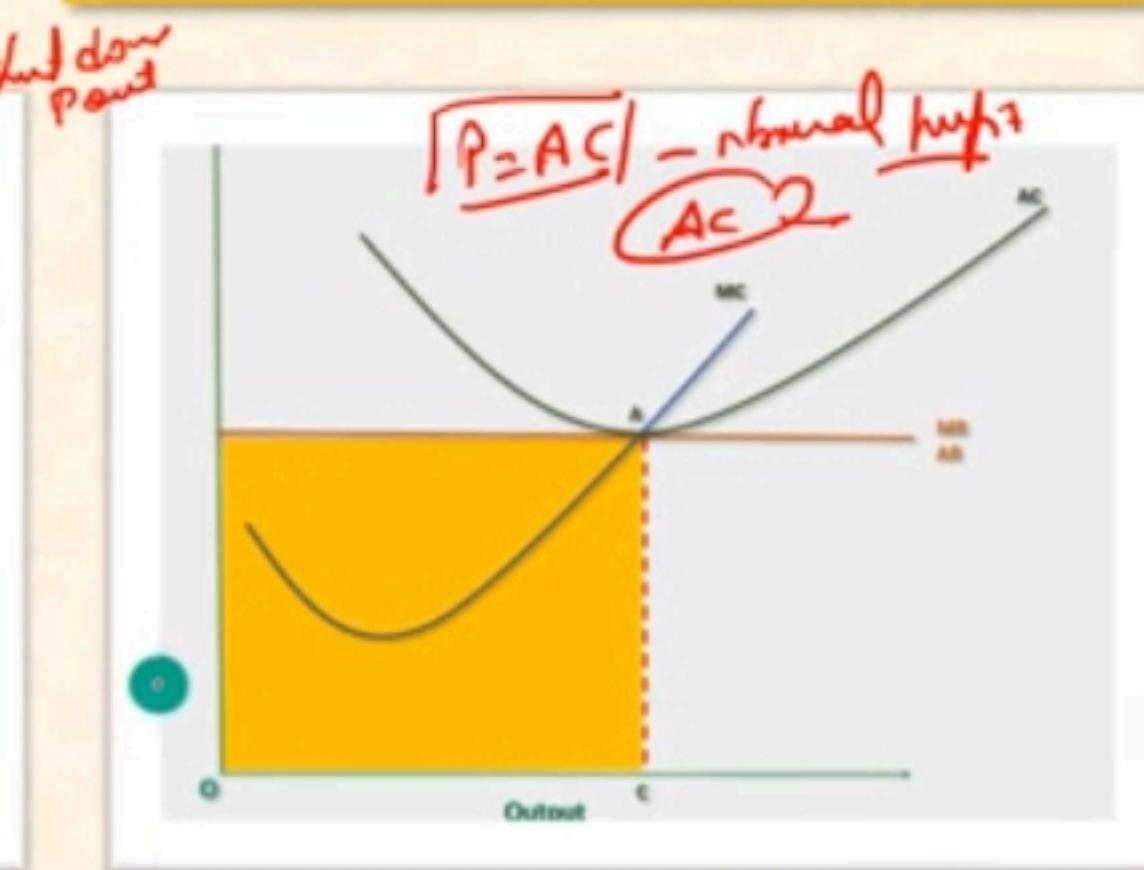
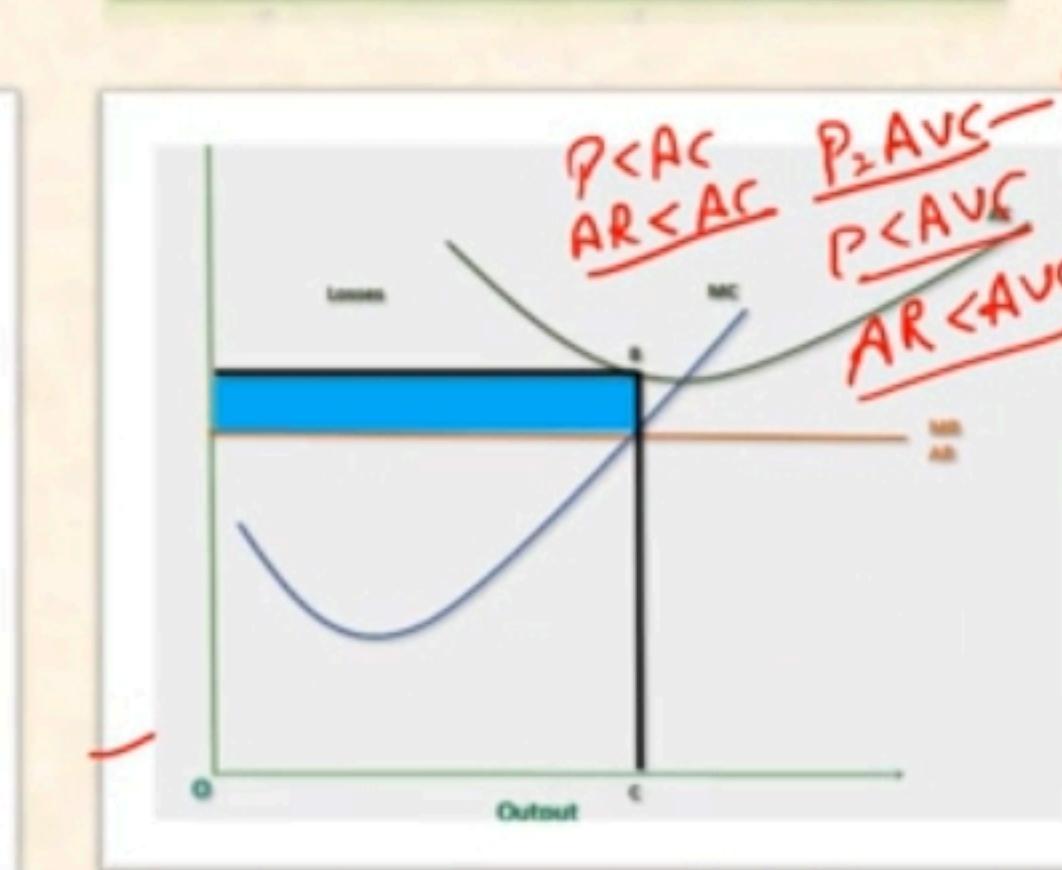
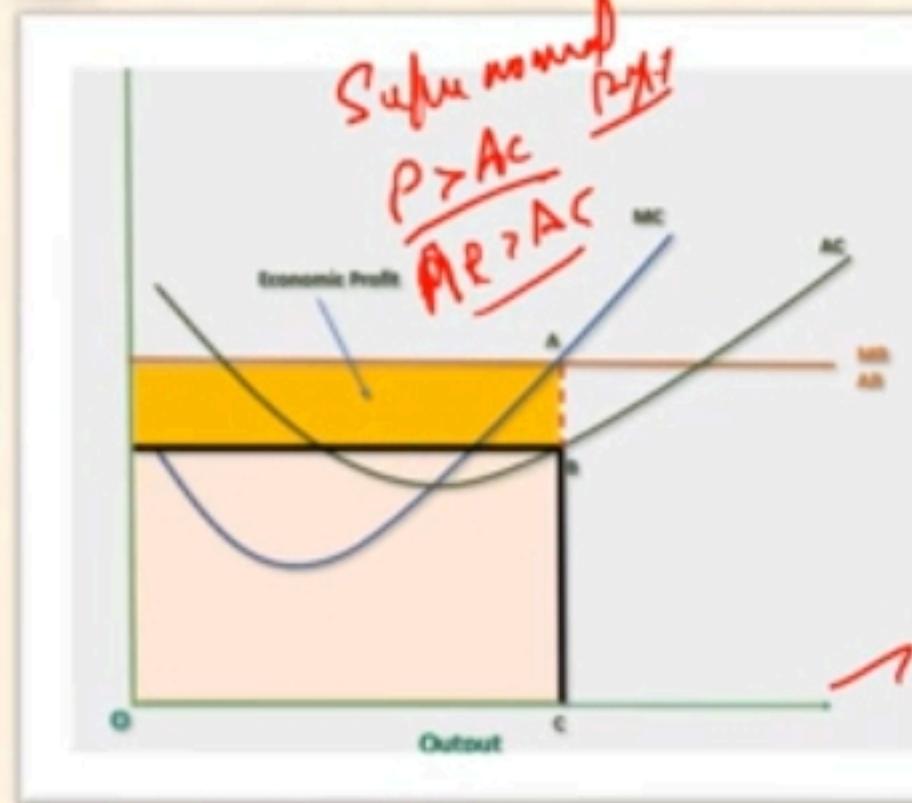
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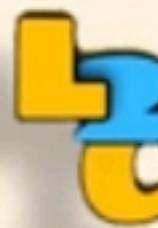




Perfect Competition

Short Run Equilibrium

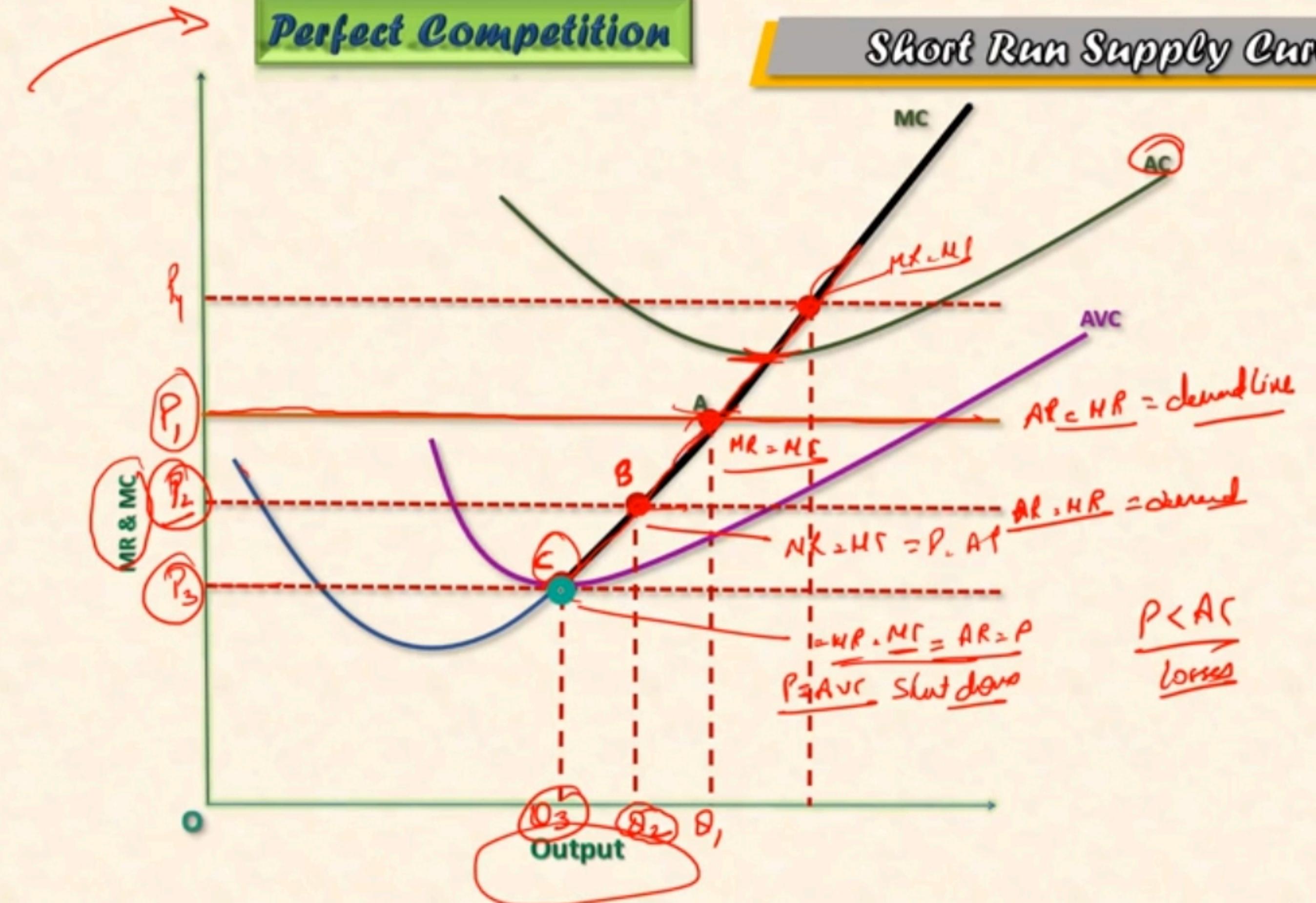




Perfect Competition

Short Run Supply Curve

MC = Supply



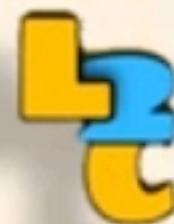
Let's clear all doubts about

perfect Competition

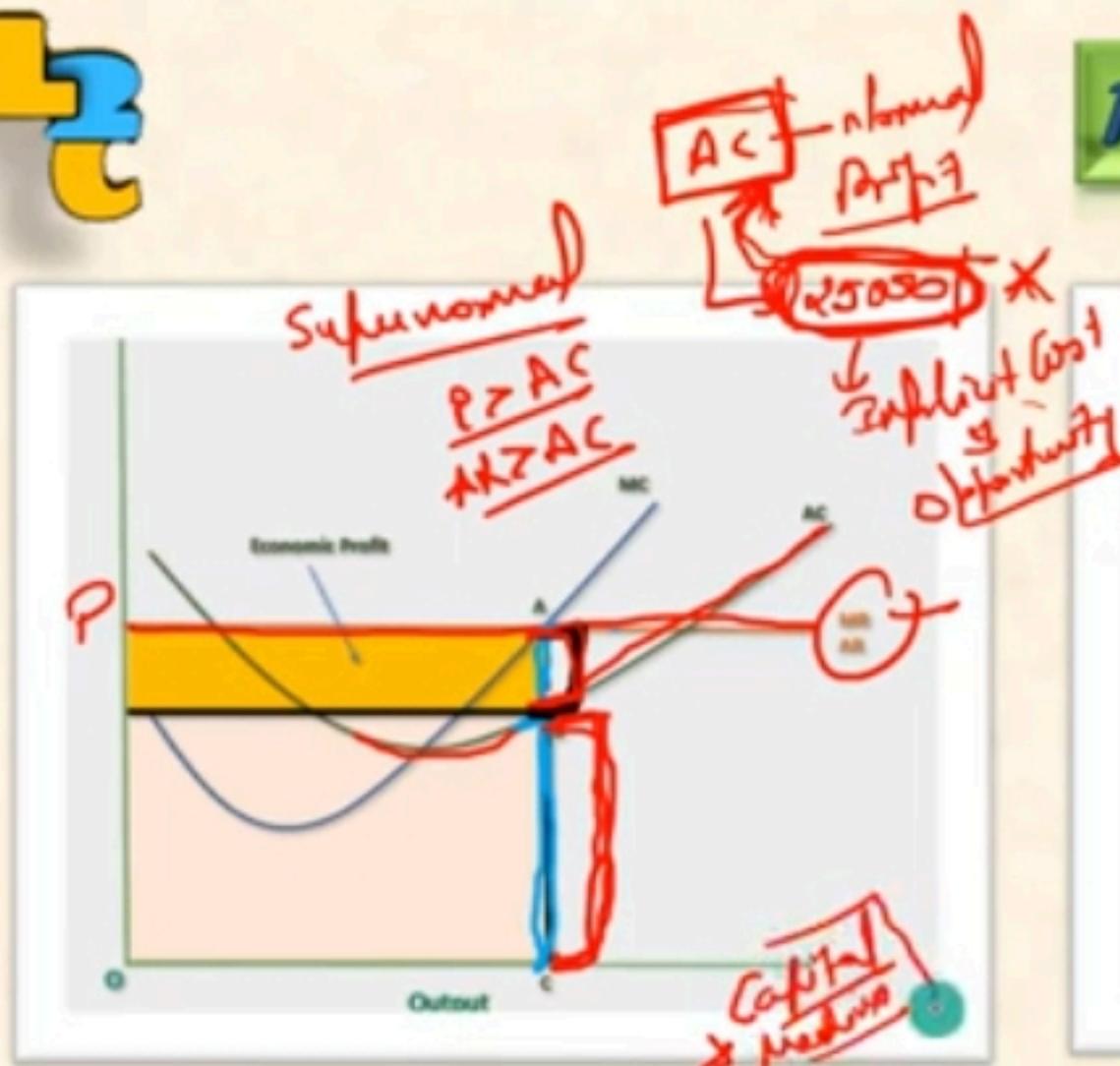
Part
2/3

Long Run Equilibrium



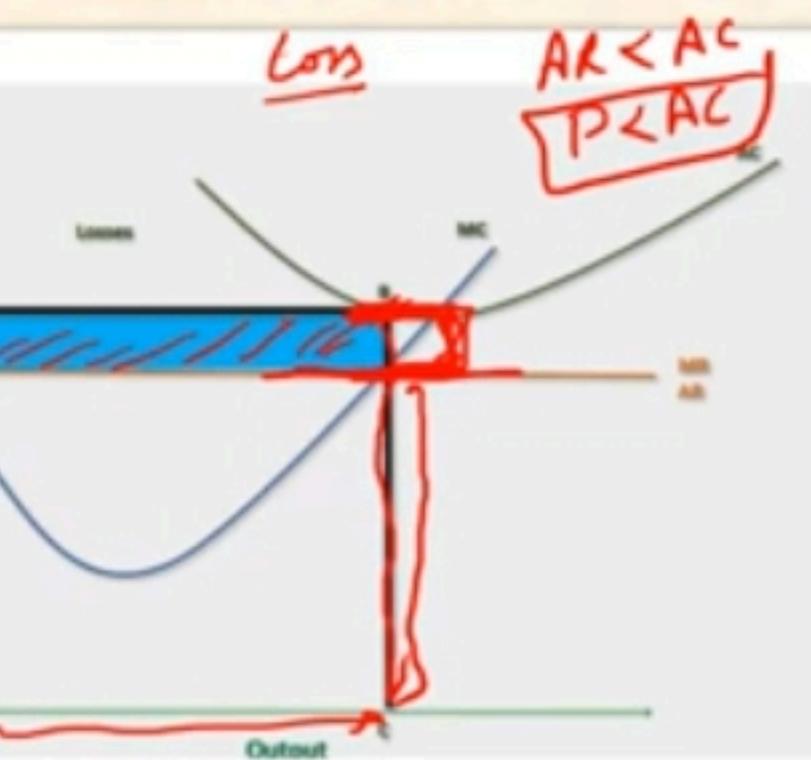


Perfect Competition



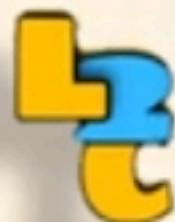
$$TC = TFC + TNVC$$

$$AC = AFC + AVC$$



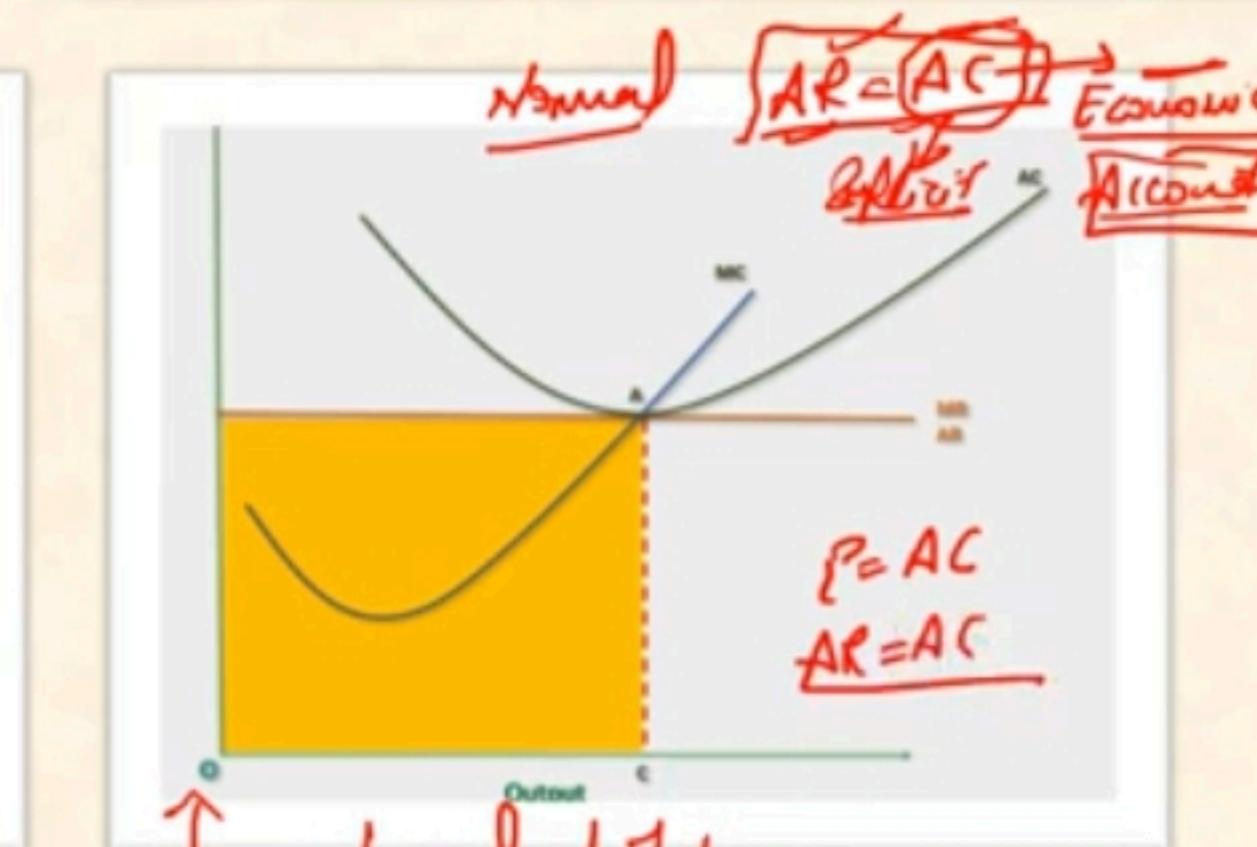
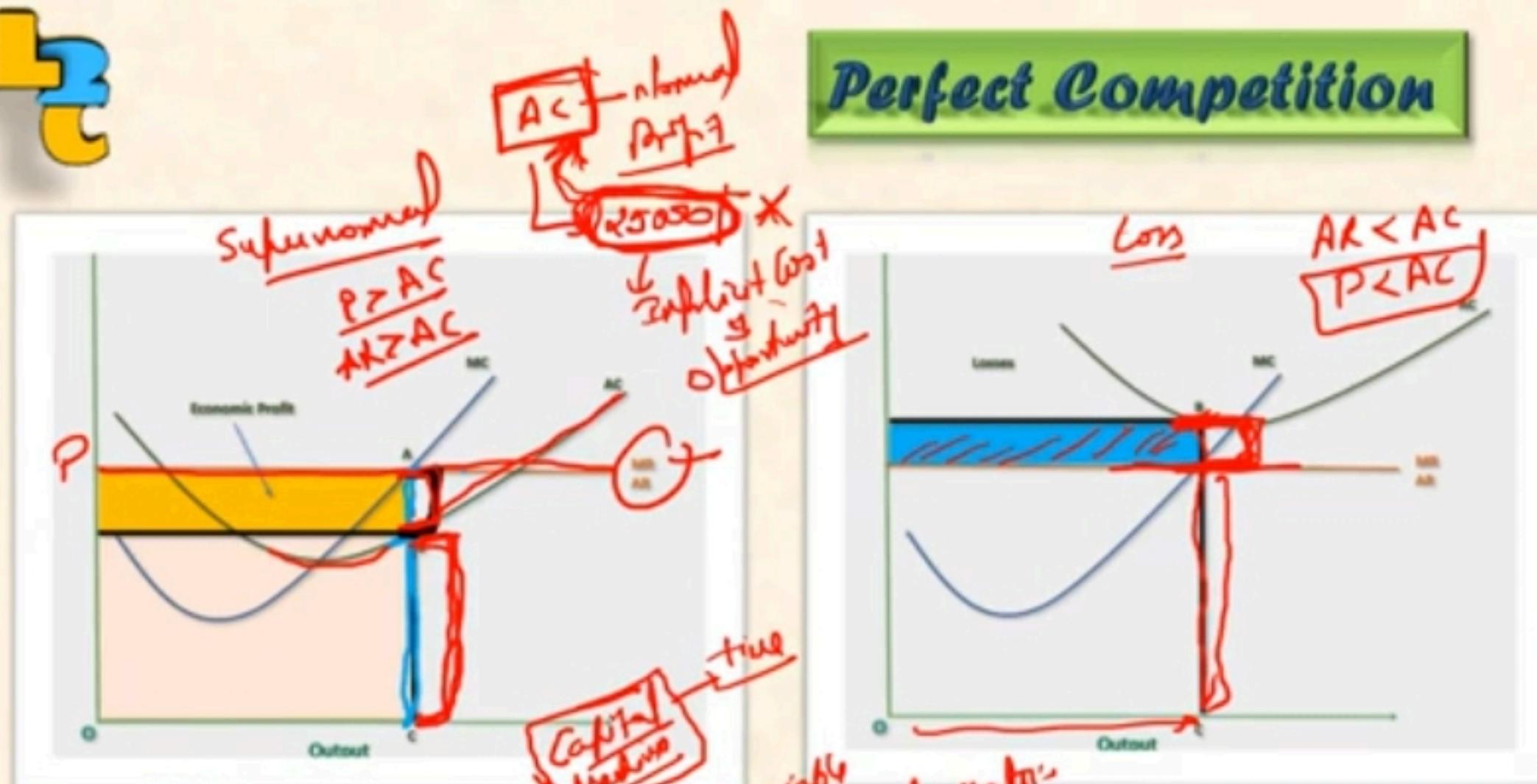
Short Run Equilibrium

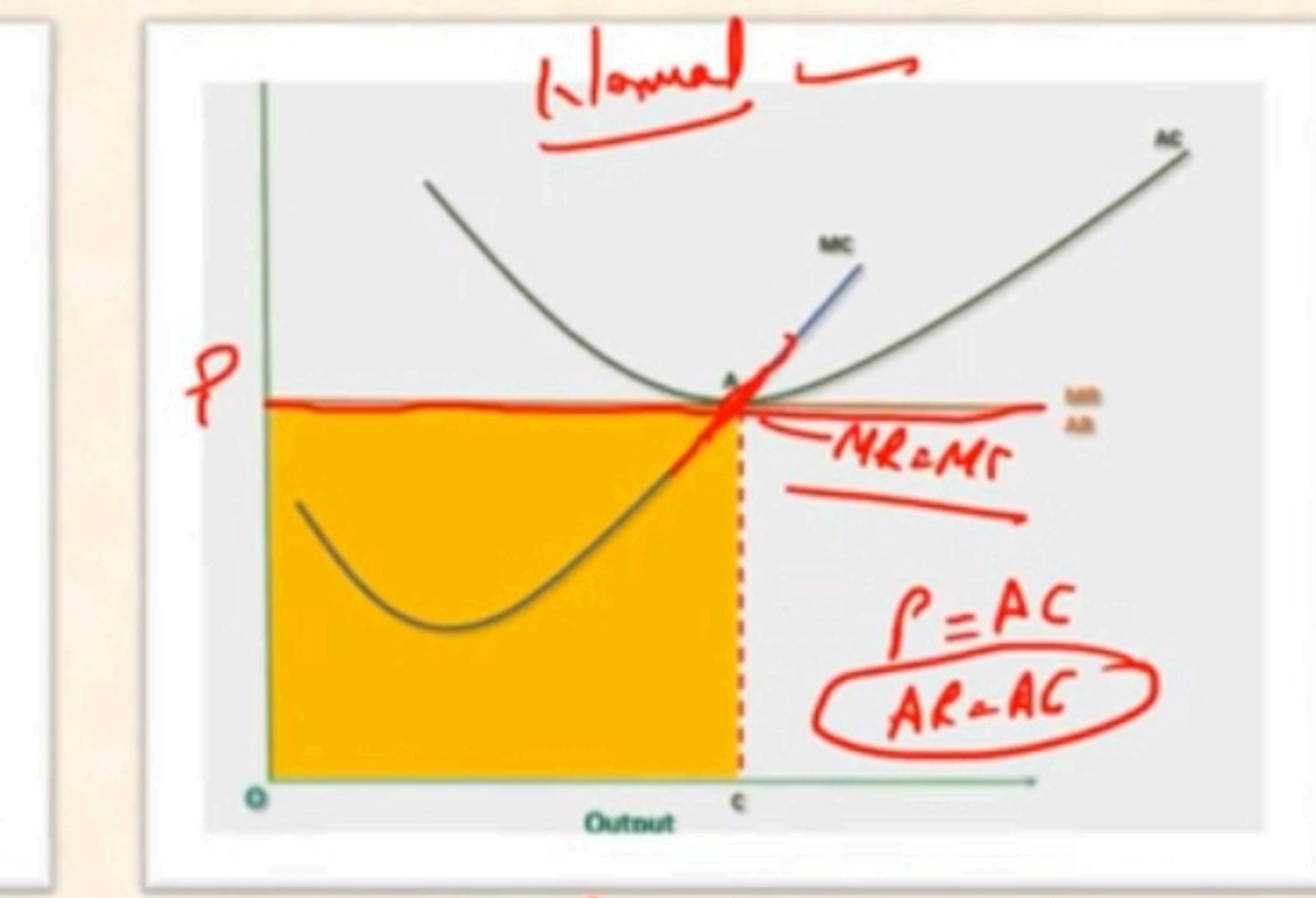
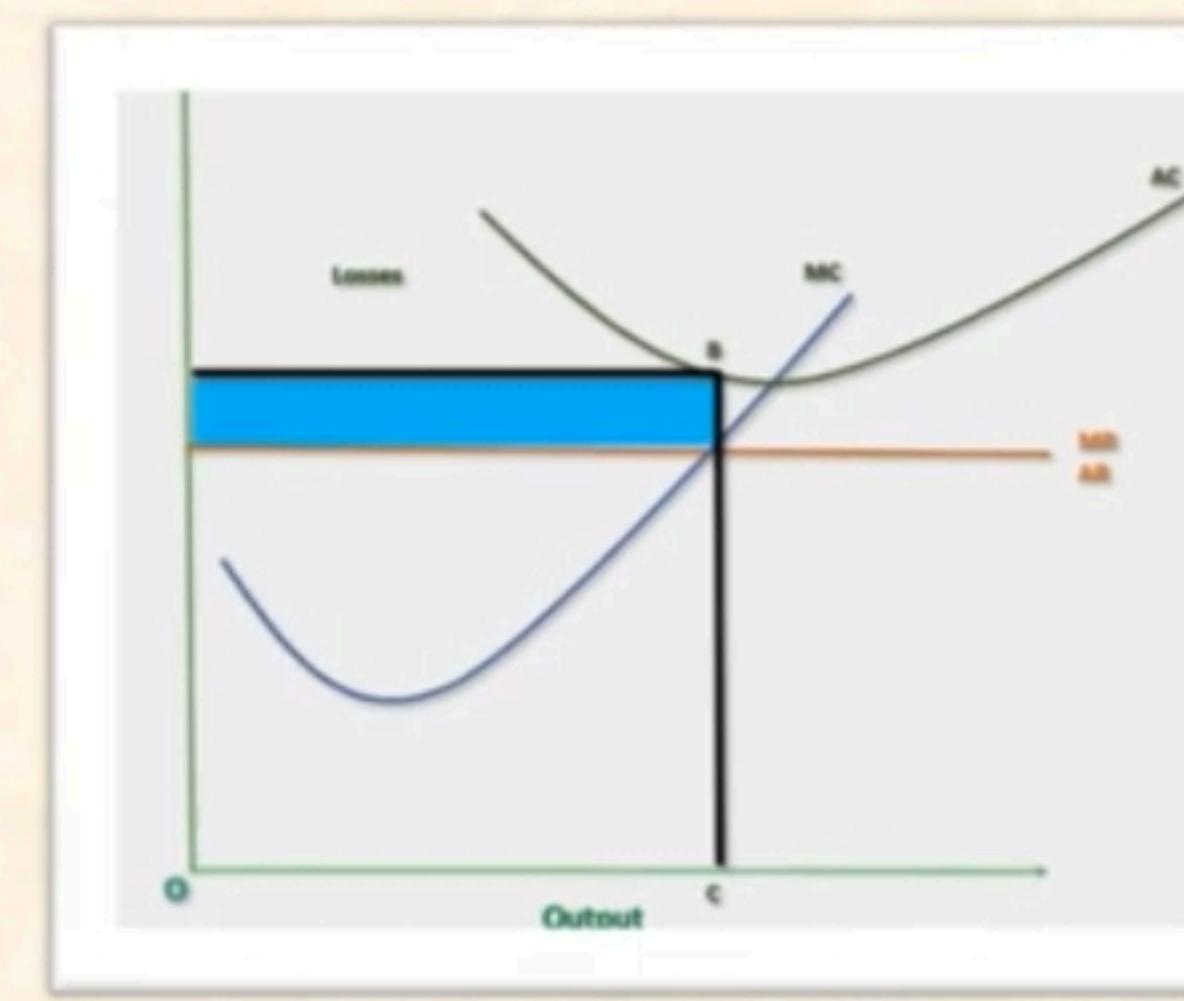
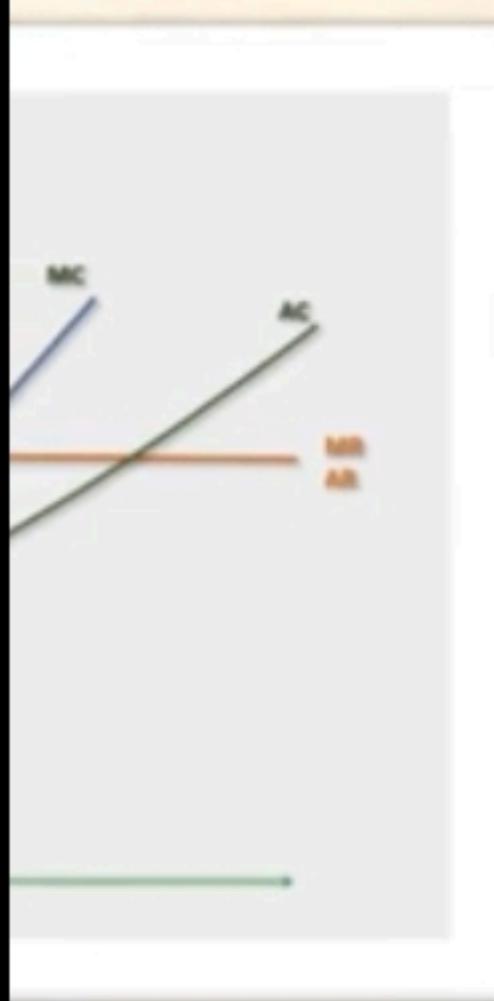




Perfect Competition

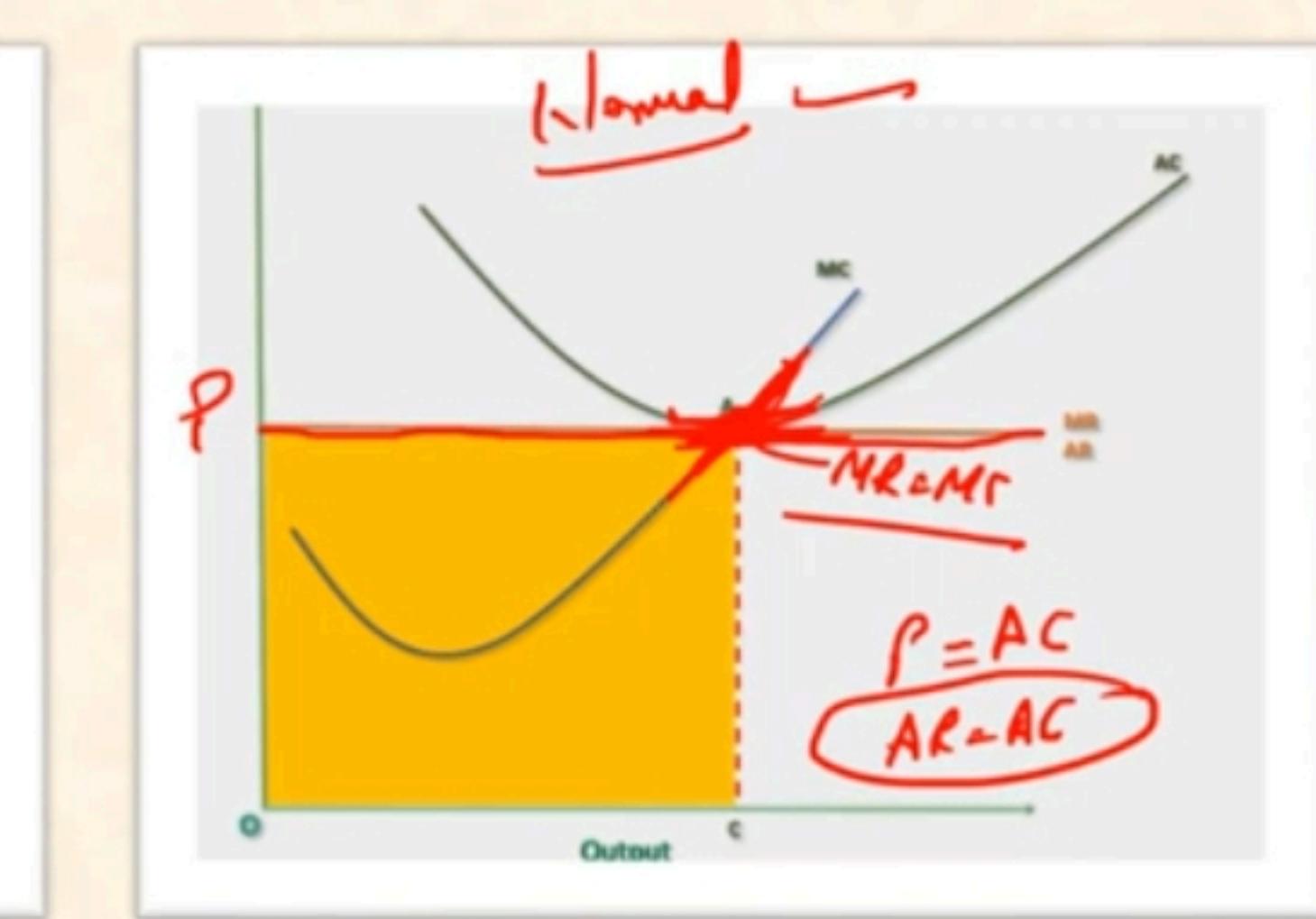
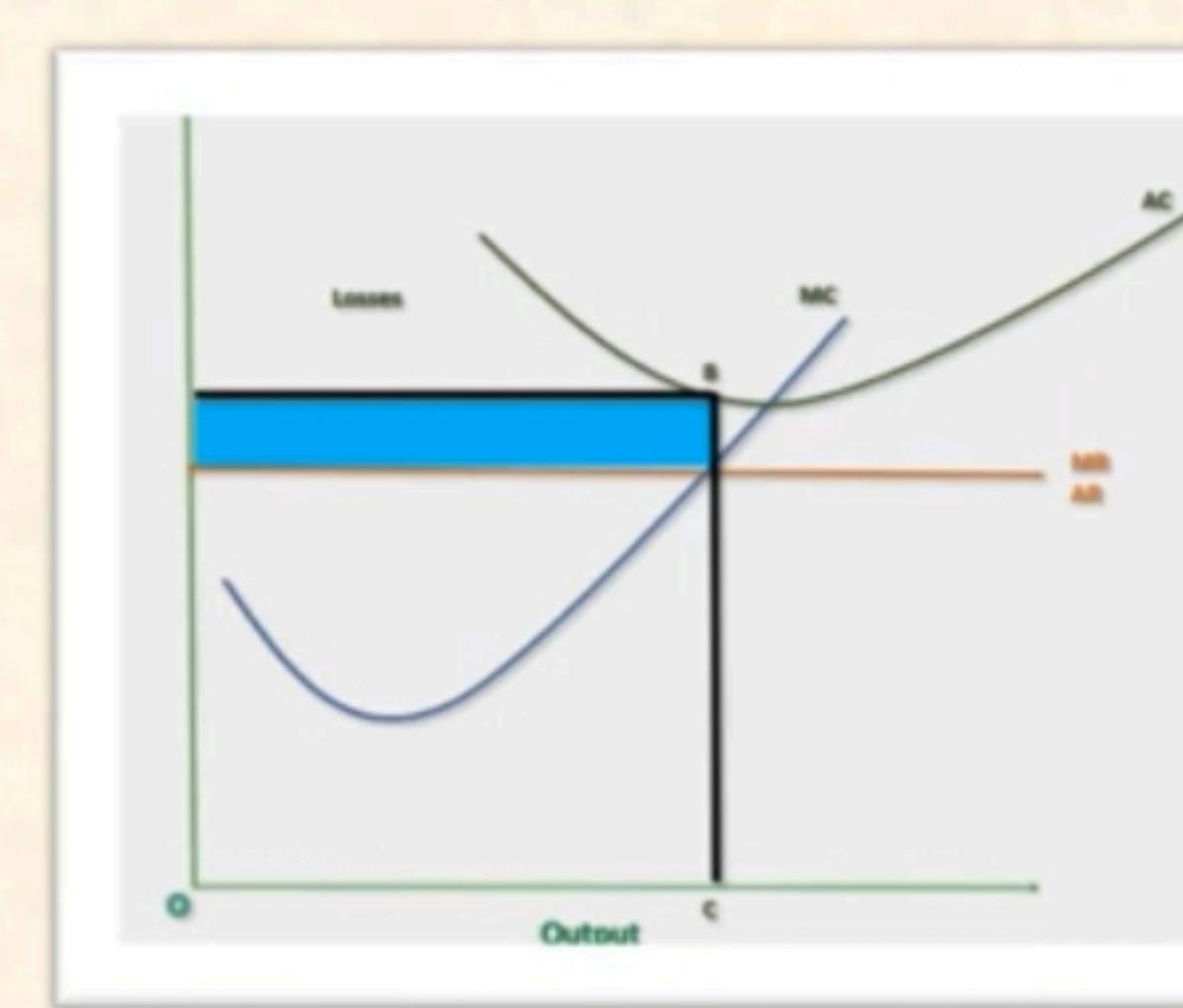
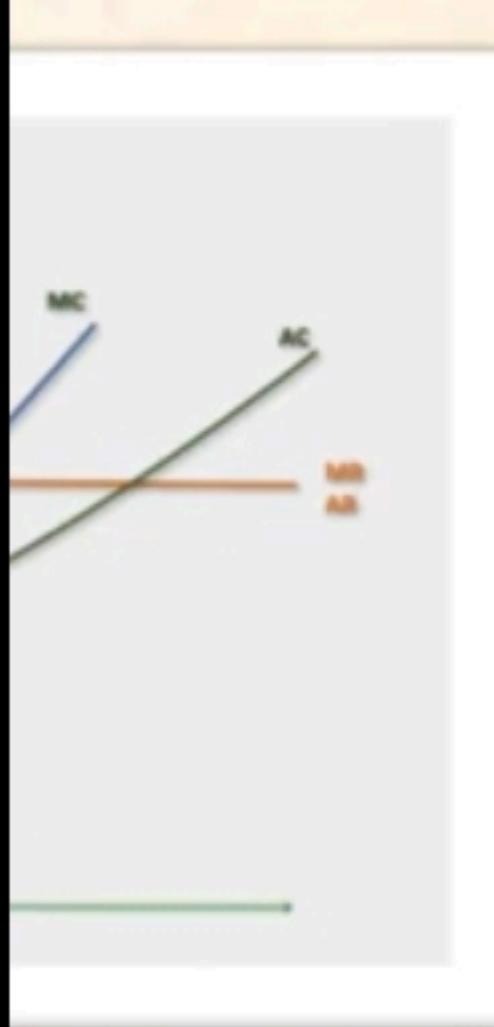
Short Run Equilibrium





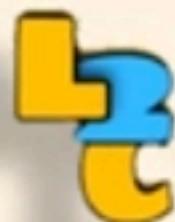
- AR = MR = Price
 - MR = MC — equilibrium
 - MC = AR
 - AR = AC
- MC = AC = MR = AR = Price





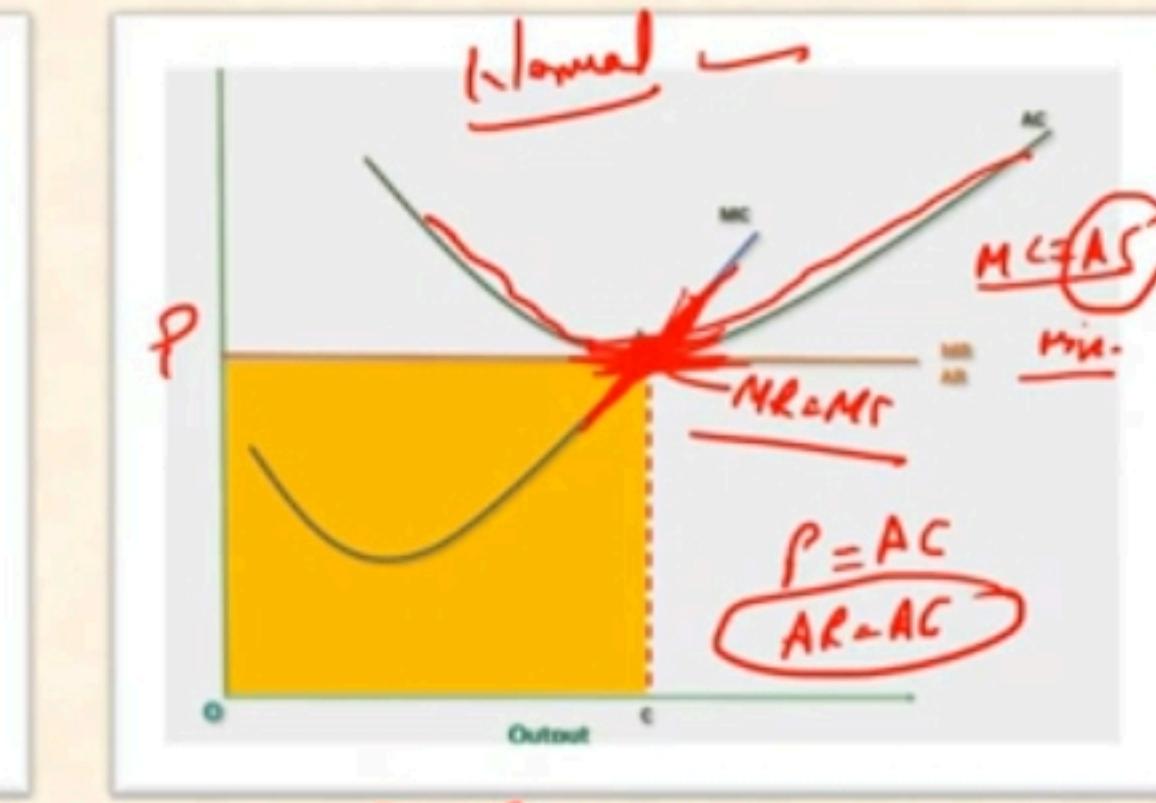
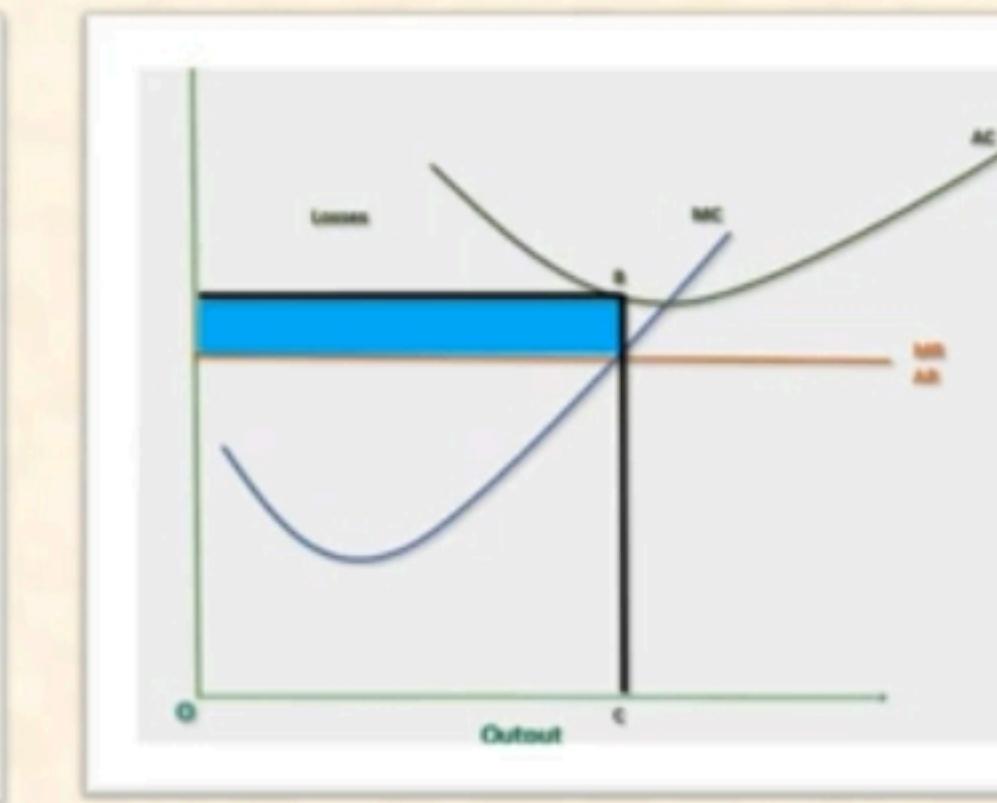
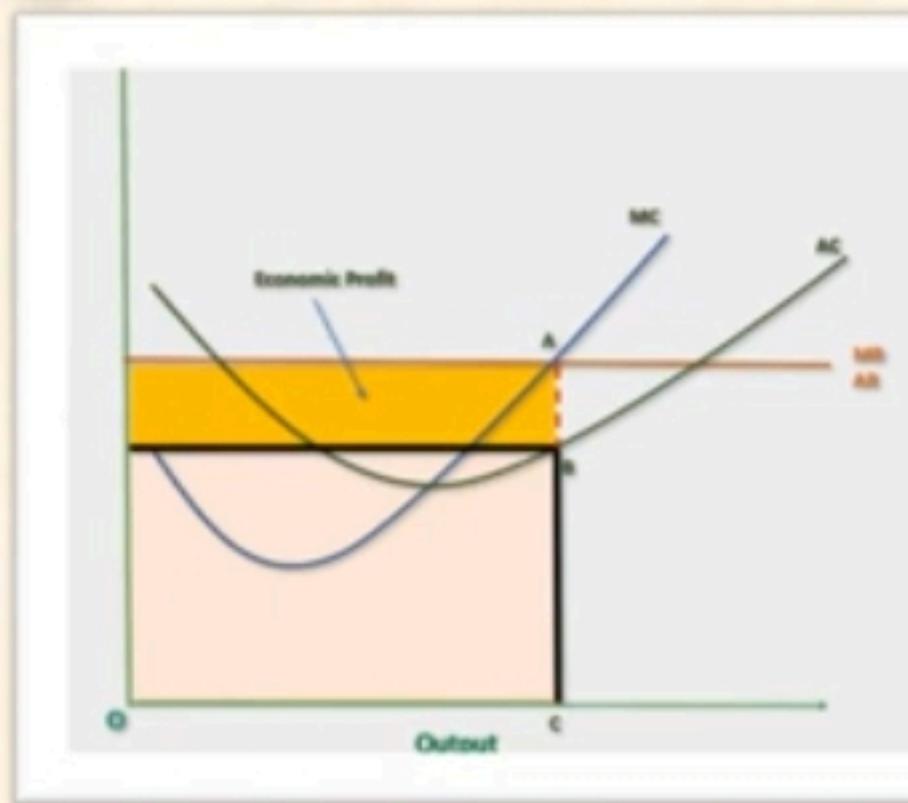
- $AR = MR = \text{Price}$
 - $MR = MC$ equilibrium
 - $MC = AR$
 - $AR = AC$
- $MC = AC = MR = AR = \text{Price}$





Perfect Competition

Short Run Equilibrium



- Firms Operating under perfect Competition Will be of optimum Size in Long Run.
- It is beneficial in social point of view.
 - ✓ Resources of society are utilized in most efficient ways.
 - ✓ Consumers will get the Goods at the lowest possible price.

- $AR = MR = \text{Price}$
- $MR = MC$
- $MC = AR$
- $AR = AC$

$MC = AC = MR = AR = \text{Price}$ *Normal Profit*

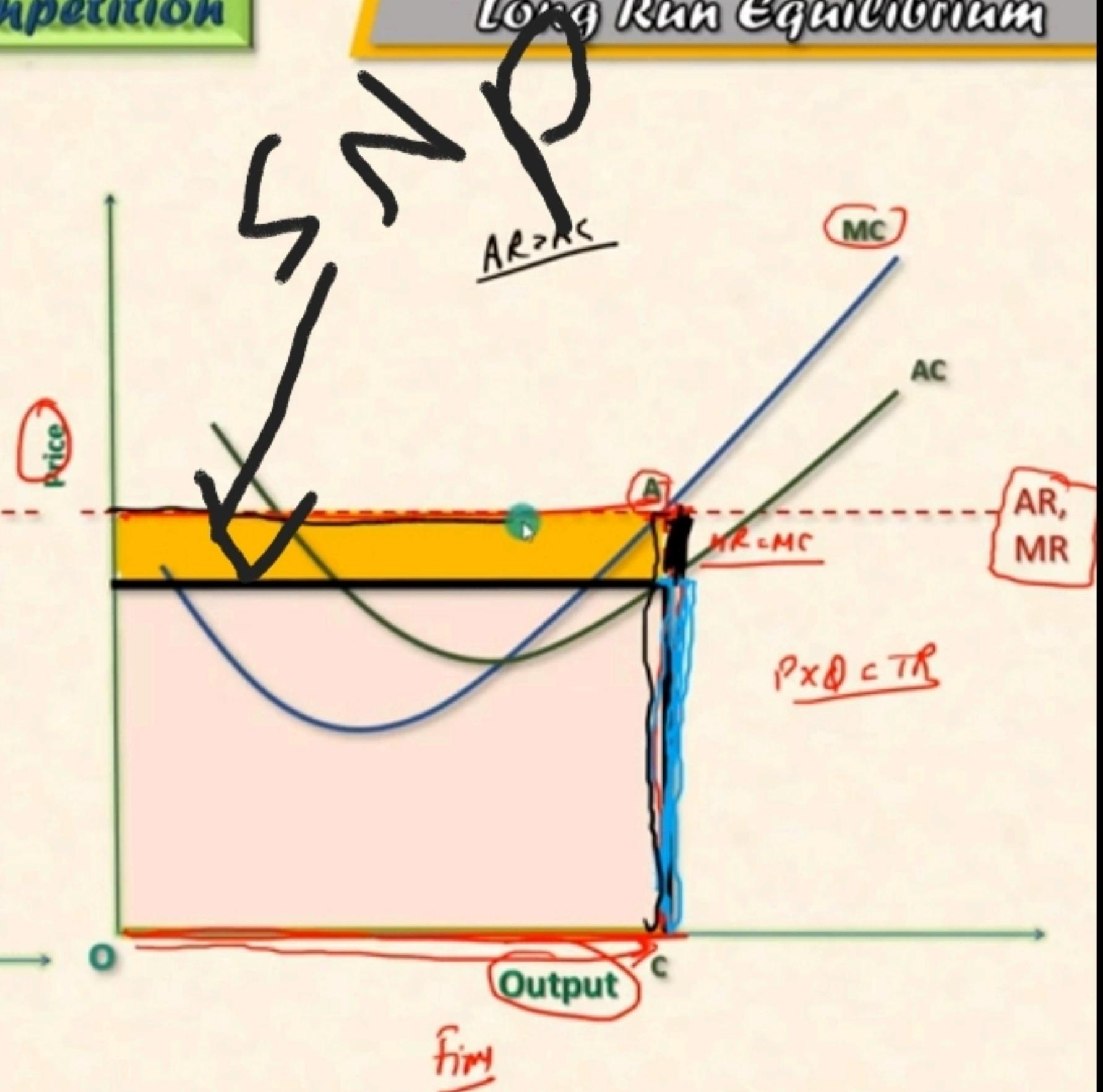
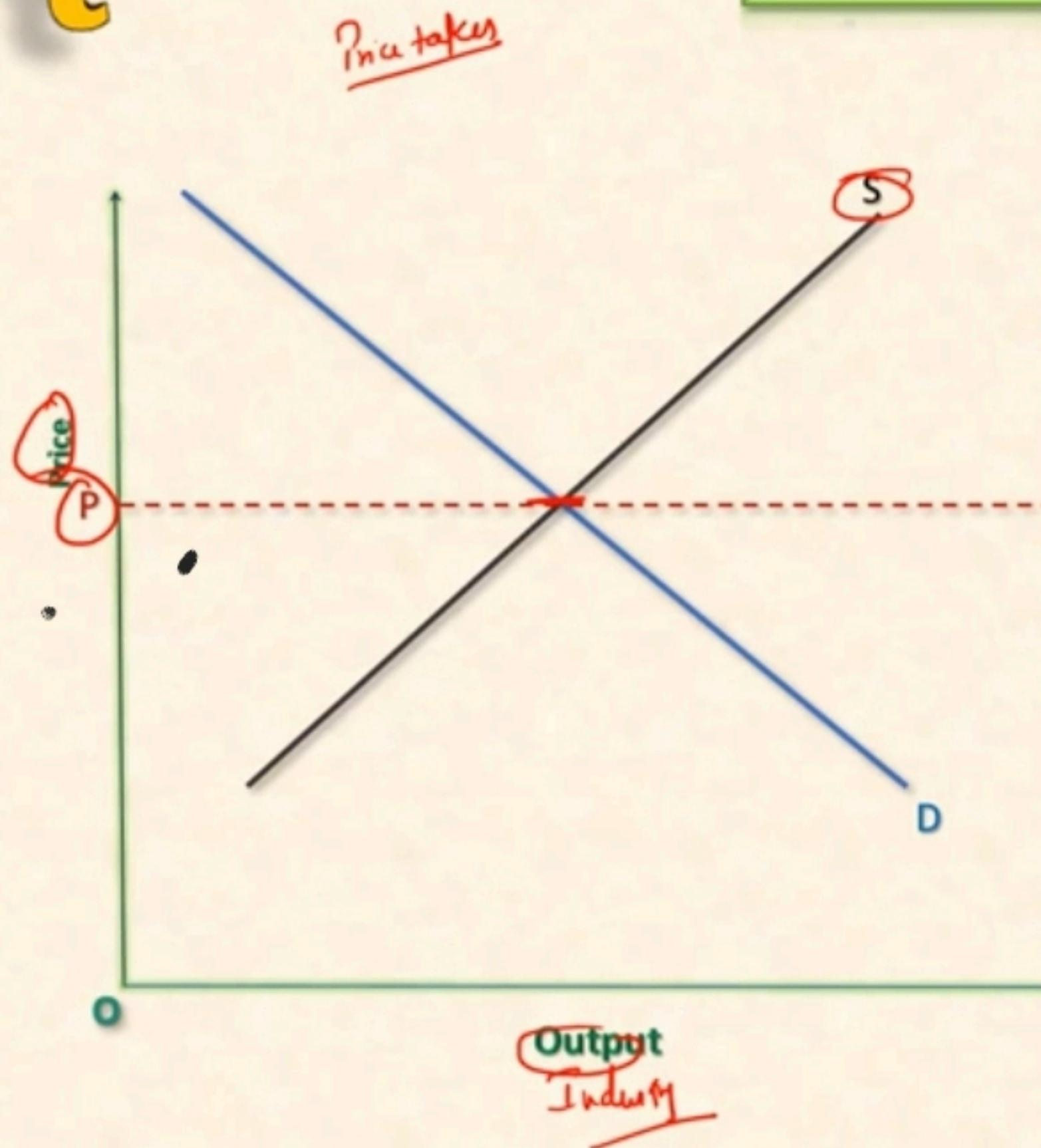
minimum AC





Perfect Competition

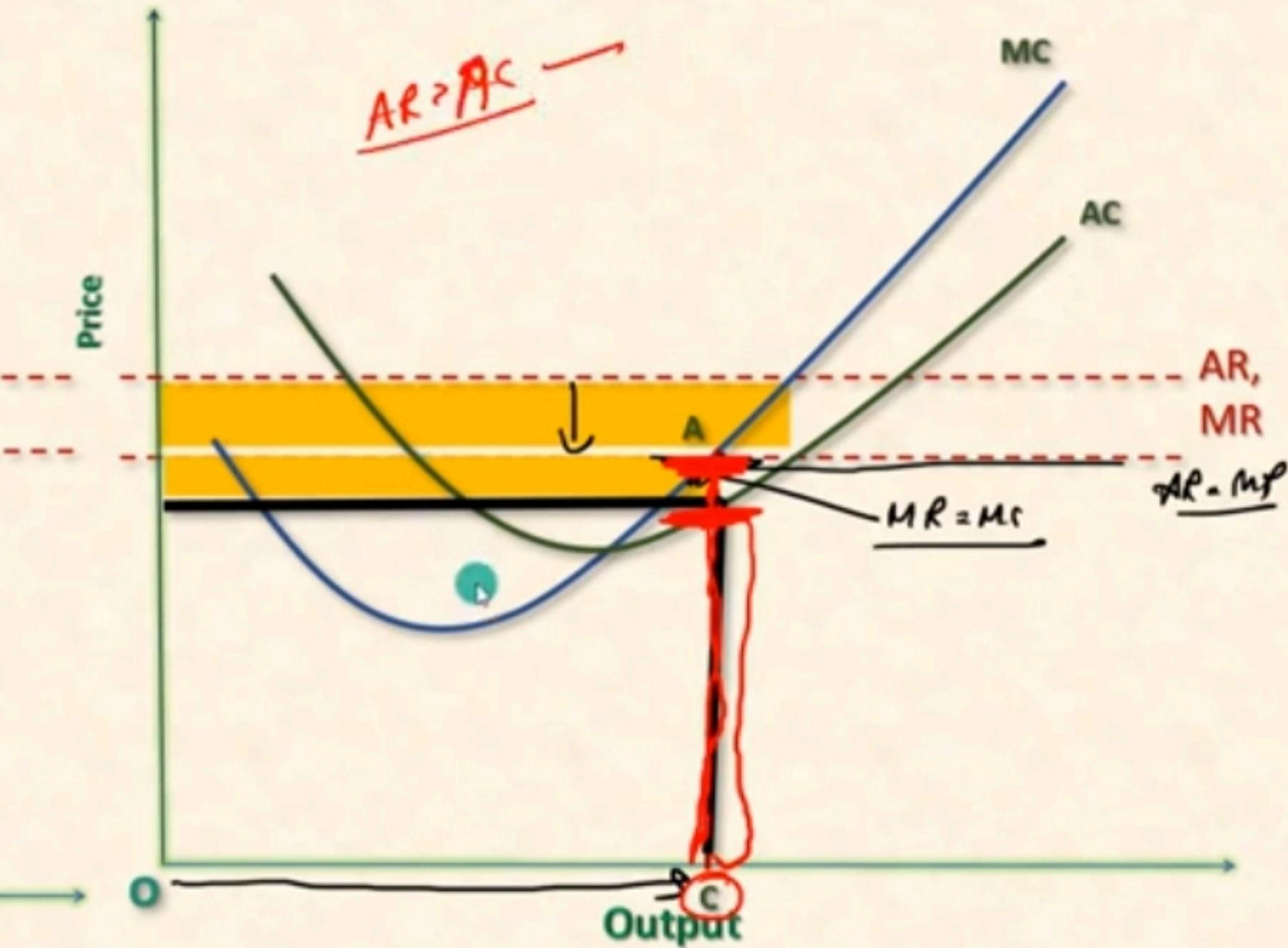
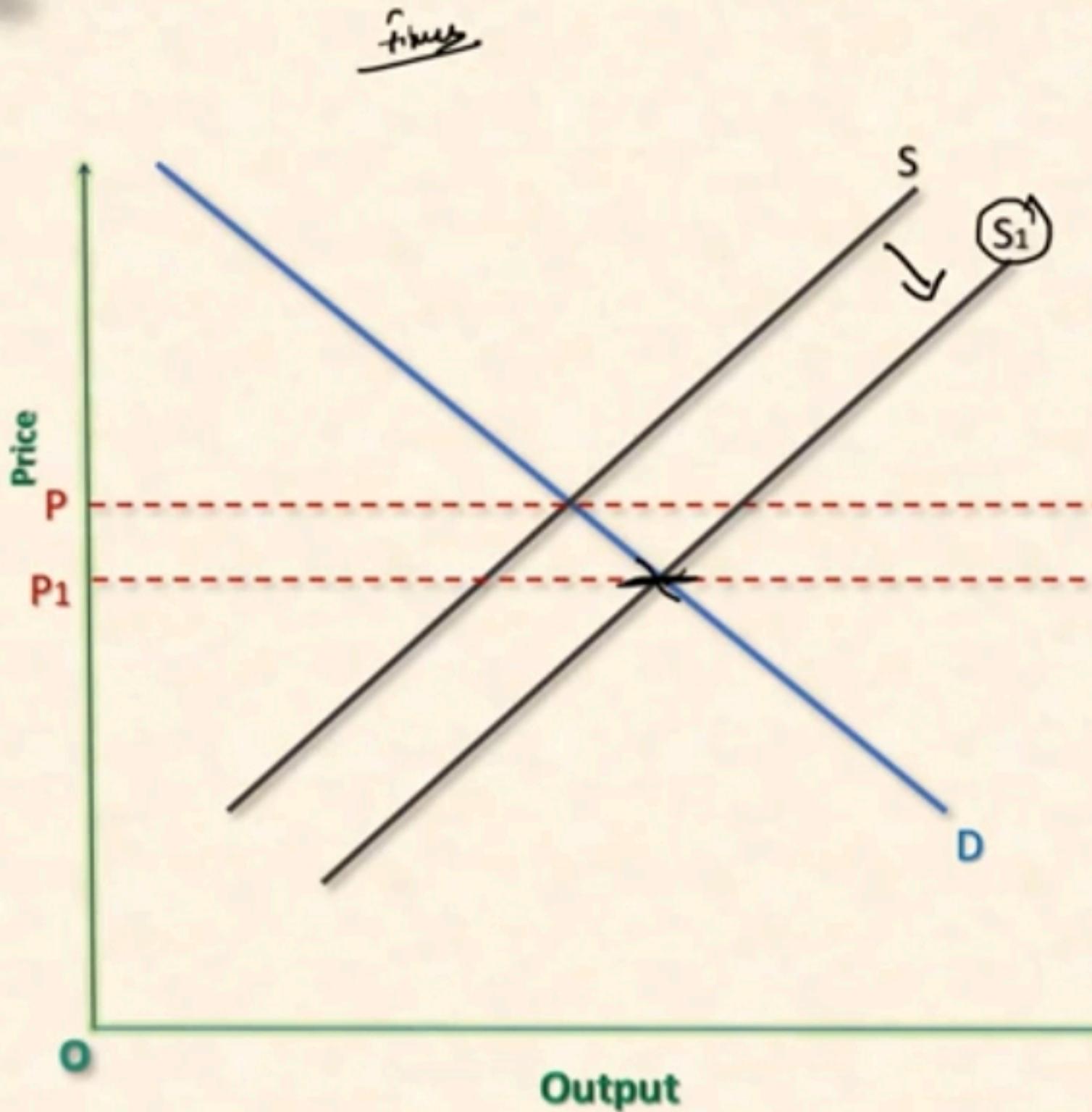
Long Run Equilibrium

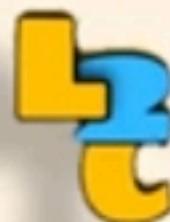




Perfect Competition

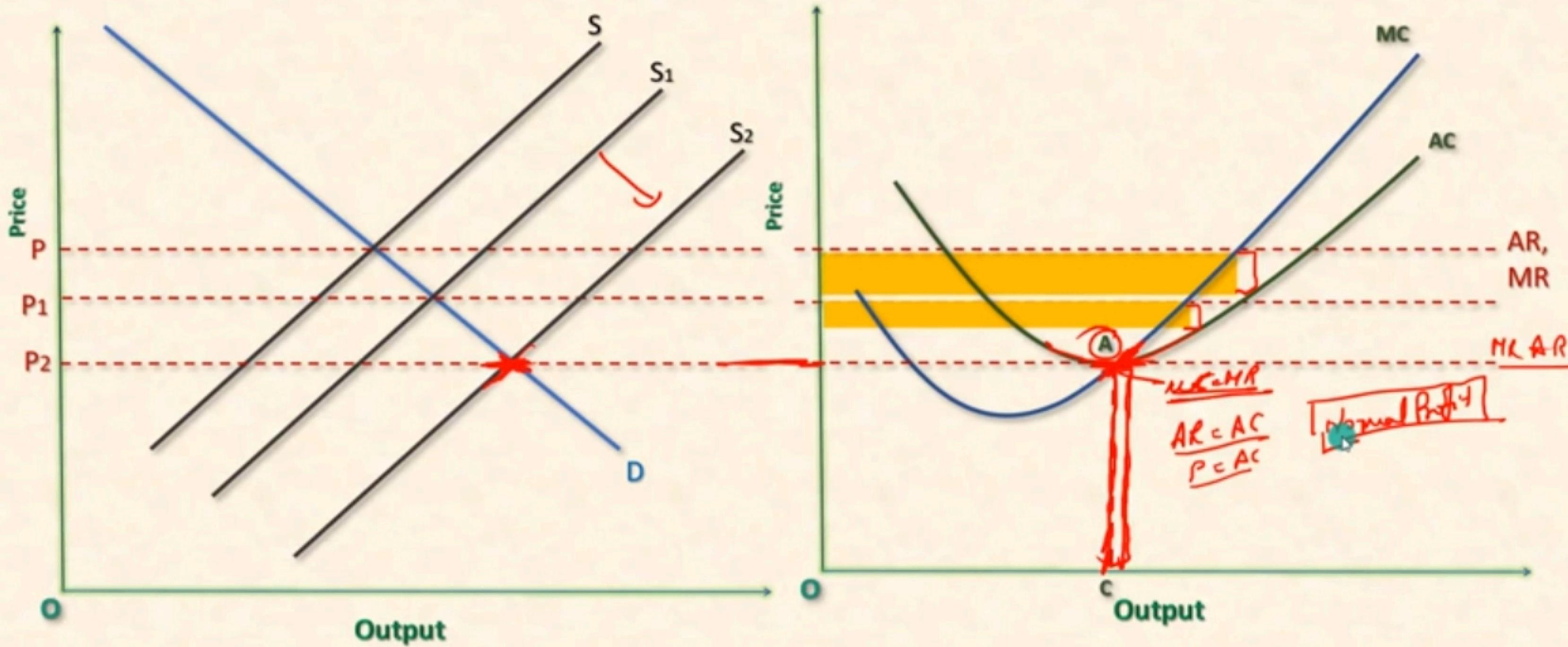
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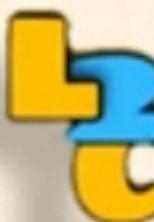




Perfect Competition

Long Run Equilibrium





Perfect Competition

Long Run Equilibrium

- MR = AR = Price**
- MC = MR** → equilibrium
- MC = MR = AR = Min. Average cost = Price**
- Firms Operating under perfect Competition
Will be of optimum Size in Long Run.
- It is beneficial in social point of view.
 - ✓ Resources of society are utilized in most efficient ways.

