GAIN MORE KNOWLEDGE
REACH GREATER HEIGHTS

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Microeconomics

Producer's Equilibrium

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Producers equilibrium

A producer's equilibrium refers to the state where the combination of price and output gives maximum profit to the producer.

Referred to as profit maximization condition.

The following 2 things have to be achieved to reach this state of equilibrium;

* Costs are minimized for a given level of output.
* Outputs are maximized for a given amount of cost.

Approaches to PE

1. TR – TC Approach
2. MR - MC Approach

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TR-TC Approach

Profit = TR-TC

Total Revenue = Total Quantity * Selling Price

Total Cost = Fixed Cost +Variable Cost

Marginal Revenue = $TR_{n} - TR_{n-1}$

Marginal cost = $TC_{n} - TC_{n-1}$

Average Cost= Total Cost/Q

Average Revenue= Total revenue /Q

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Calculate TC, AC, AFC, AVC and MC.

No. of pens in units (1 unit = 100 pens)	Total fixed cost (₹)	Total variable cost (₹)
0	60	0
1	60	60
2	60	100
3	60	150
4	60	260
5	60	390

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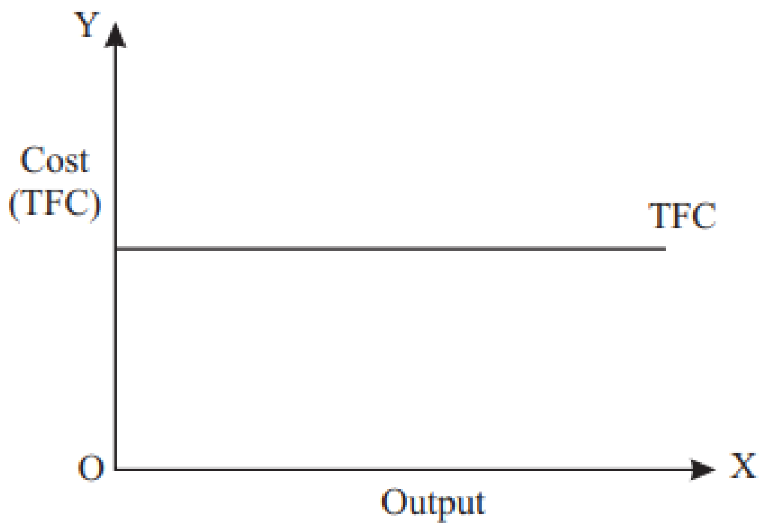
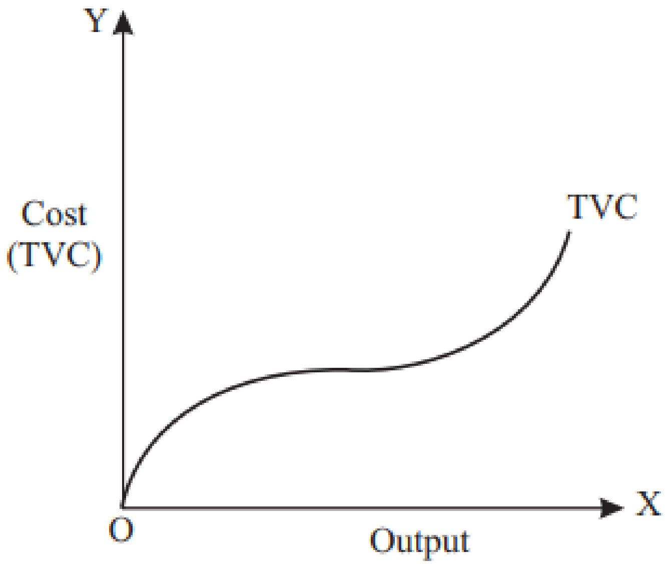
TFC & TVC





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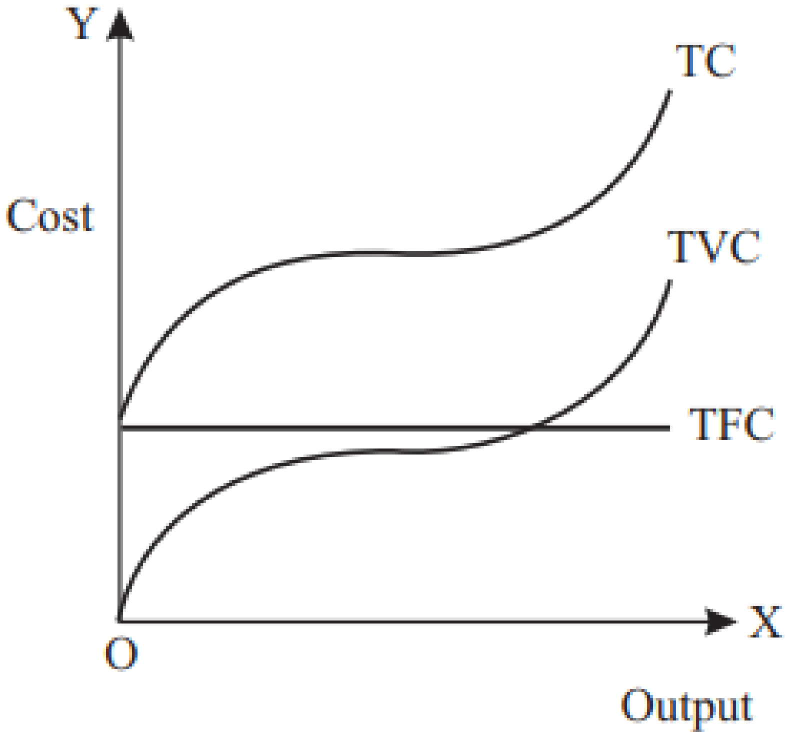
Total Cost



Quiz:

(i) Changes in total cost when output varies are due to changes in .... (fixed cost, variable cost).

(ii) To find total cost we have to .... total fixed cost and total variable cost (add, multiply)

(iii) Total cost .... zero at zero output (is, is not).

(iv) When output is zero total cost equals .... (fixed cost, variable cost).

Average Cost

Output of pens(l unit = 100 pens)	TFC (₹)	TVC (₹)	TC (TFC+TVC) (₹)	AFC ₹	AVC ₹	ATC (AFC+AVC) (₹)
0	60	0	60	-	-	-
1	60	60	120	60	60	120
2	60	100	160	30	50	80
3	60	150.	210	20	50	70
4	60	260	320	15	65	80
5	60	390	450	12	78	90

AFC = TFC/Q   AVC = TVC/Q   AC=TC/Q

Quiz:

(i) Average cost is ....(cost per unit, cost incurred on additional unit).

(ii) To find total cost we have to .... average cost by quantity of output (multiply, divide).

(iii) Average fixed cost .... with the increase in output (falls, rises).

(iv) Average total cost is the sum of .... and .... (average fixed cost, average variable cost, variable cost, fixed cost).