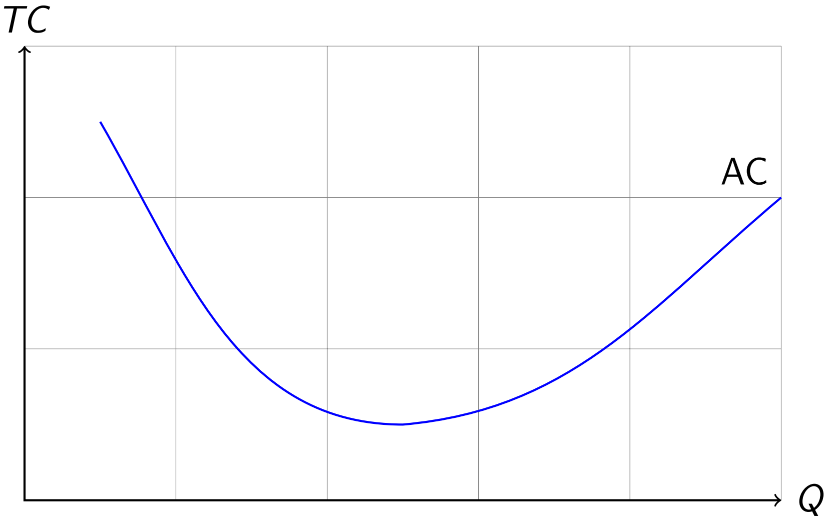
Monopoly-competition

Rob Hayward

December 9, 2014

Average Costs



Shape of average cost

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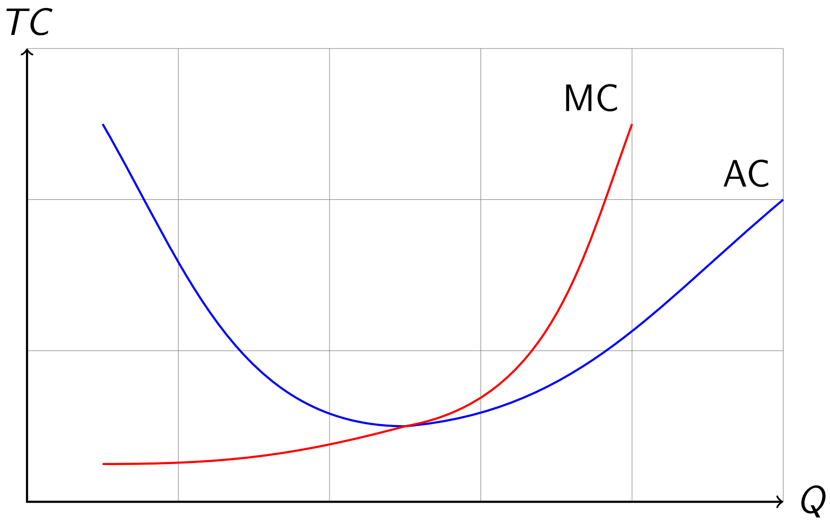
- Average costs eventually rise because of *diseconomies of scale* in the long-run

Marginal costs



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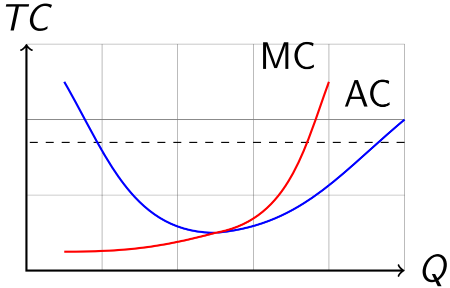
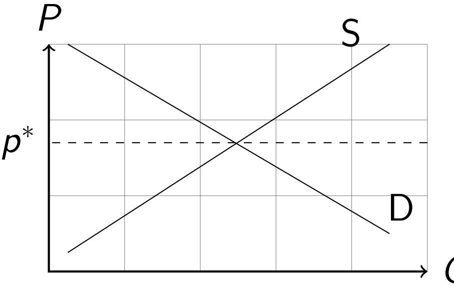
- The marginal cost cuts the average cost at the lowest point on the average cost

Perfect Competition

In a perfectly competitive market, the marginal cost curve is the firm supply curve

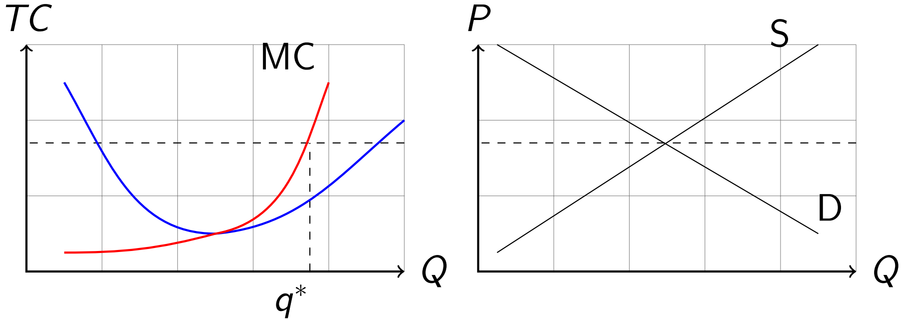




Equilibrium price $= p^* = AR = MR$

Profit maximisation

Profit maximised at MR = MC



Profit-maximising output moves along the MC curve

Profits and supply

Costs include *normal profits*

$$\pi = TR - TC$$

Profit per unit sold (average profit)

$$\frac{\pi}{Q} = AR - AC$$

Where there are *super-normal profits* new firms will enter the industry.

Supply increase

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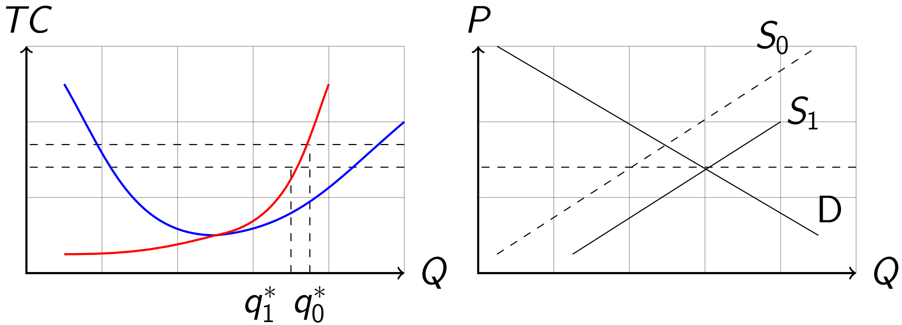

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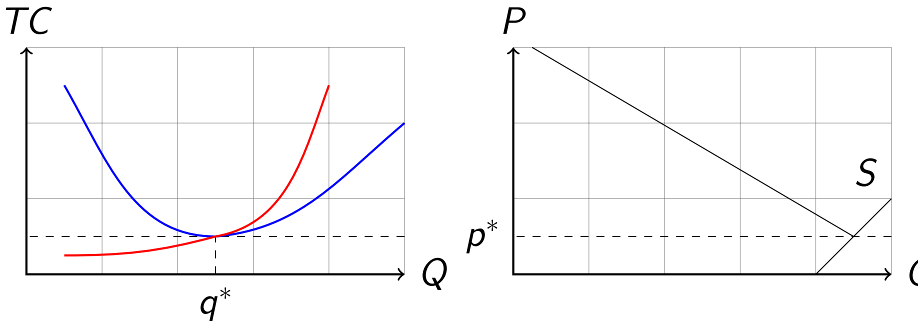
Long-run Equilibrium



Long-run equilibrium when price is equal to the minimum on the average cost curve.

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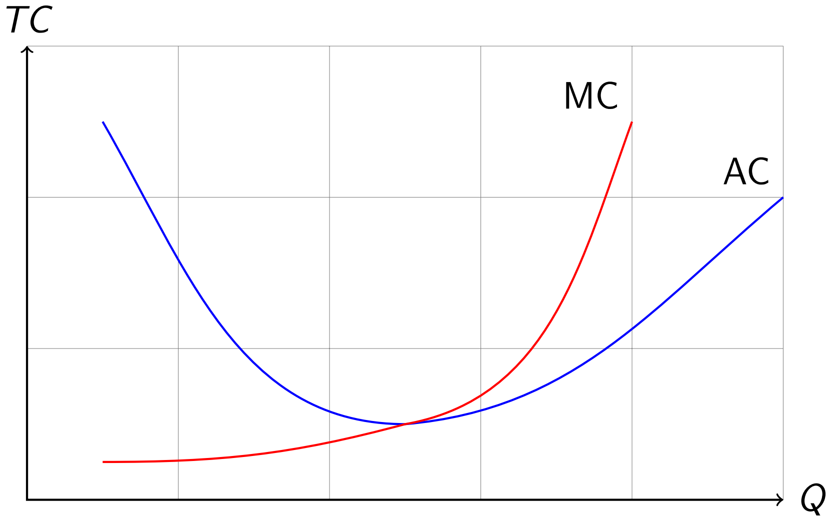
Monopoly firm



Monopoly vs perfect competition

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- The monopolist manages market stalls to maximise profits
- MR = MC
- Reduce output to the point where there is *unit elasticity*

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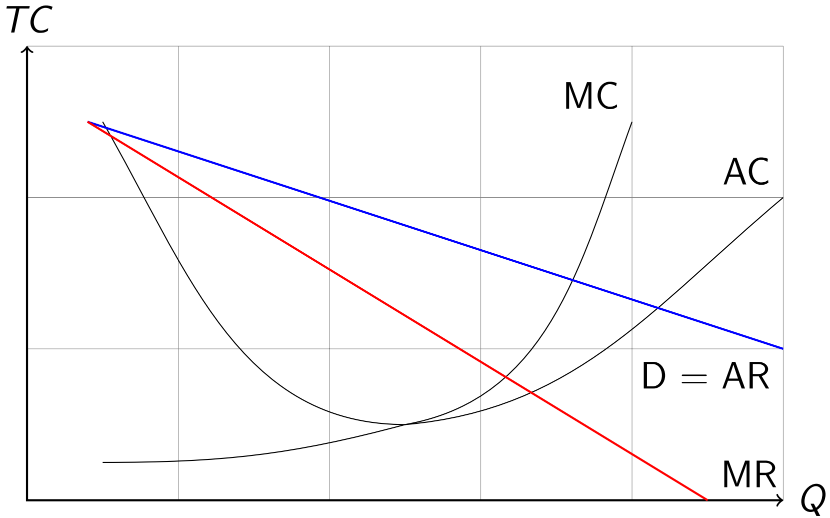
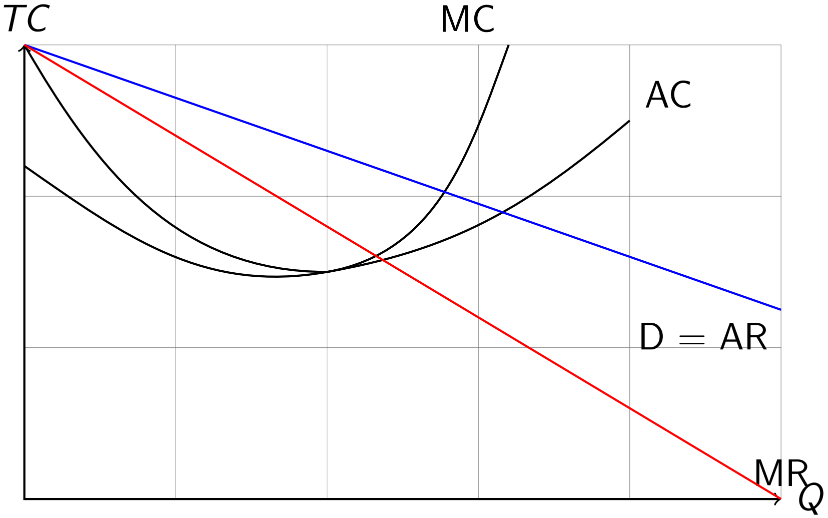


Average revenue and marginal revenue

The marginal revenue will be below the average revenue

P	Q	TR (P*Q)	AR (TR/Q)	MR ($\Delta TR/\Delta Q$)
5	1	5	5	5
4	2	8	4	3
3	3	9	3	1
2	4	8	2	-1

Competition vs monopoly 2



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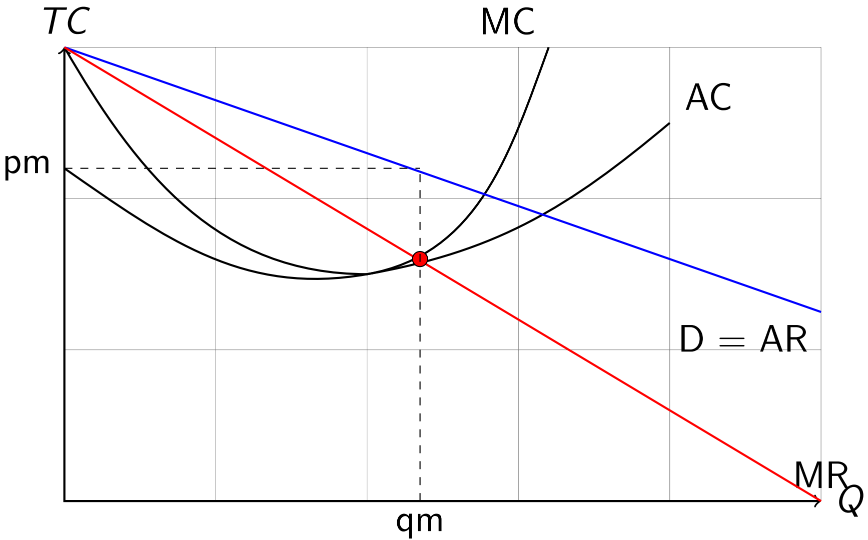

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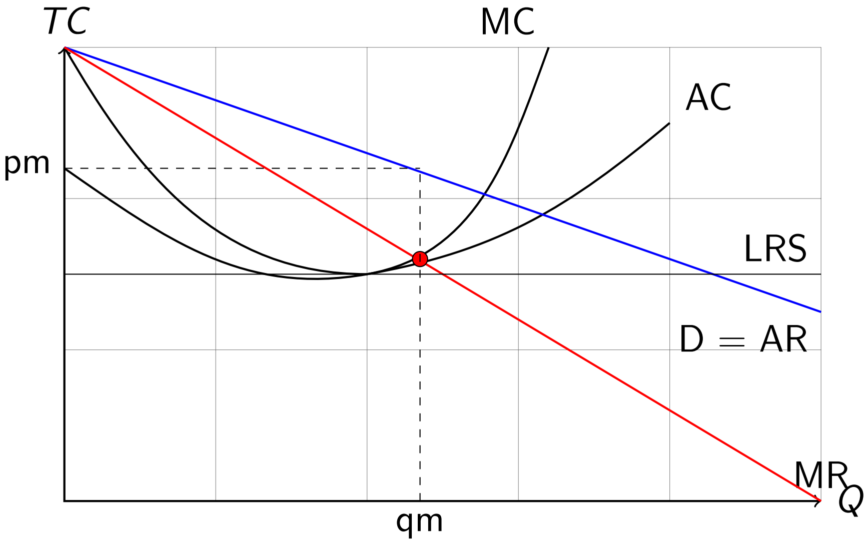

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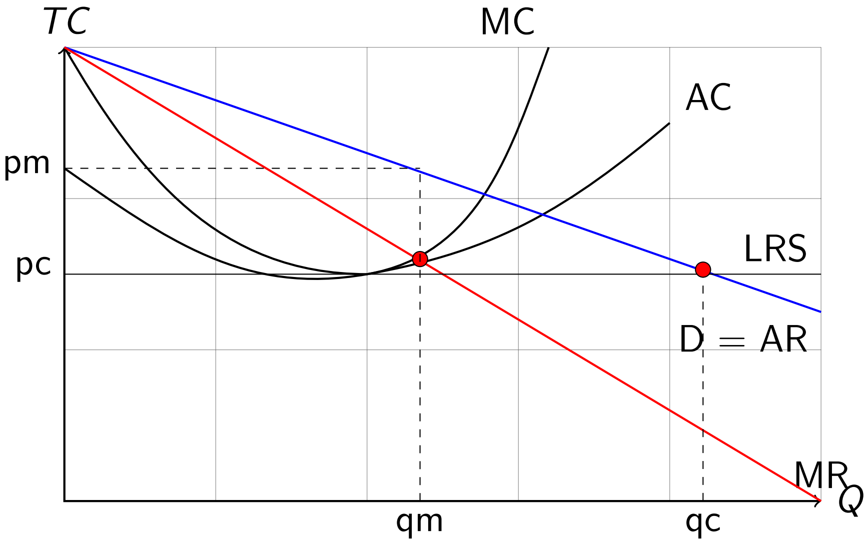

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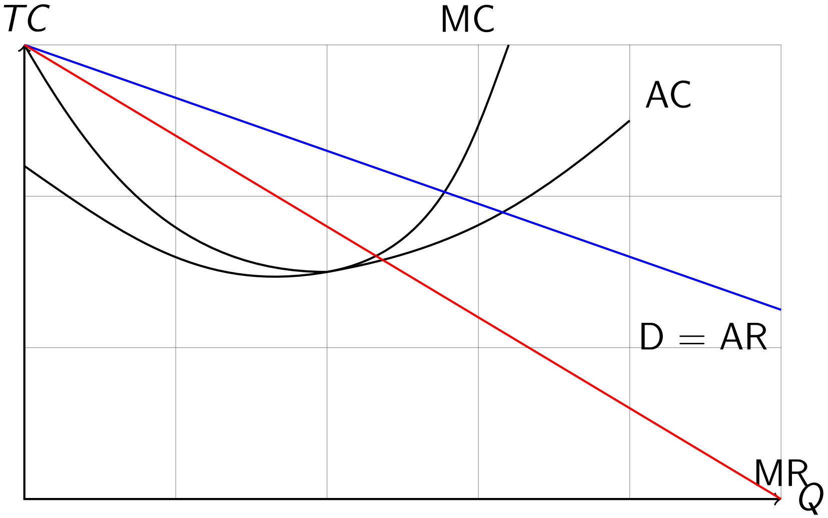

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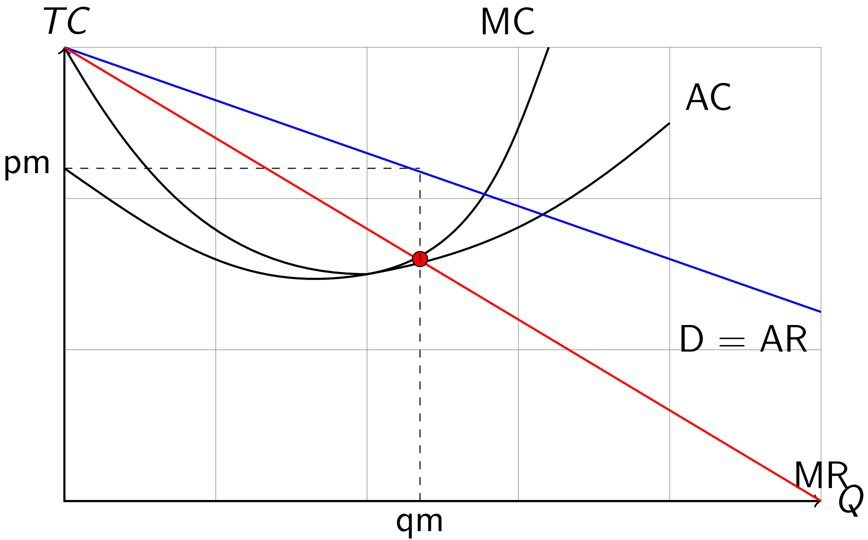

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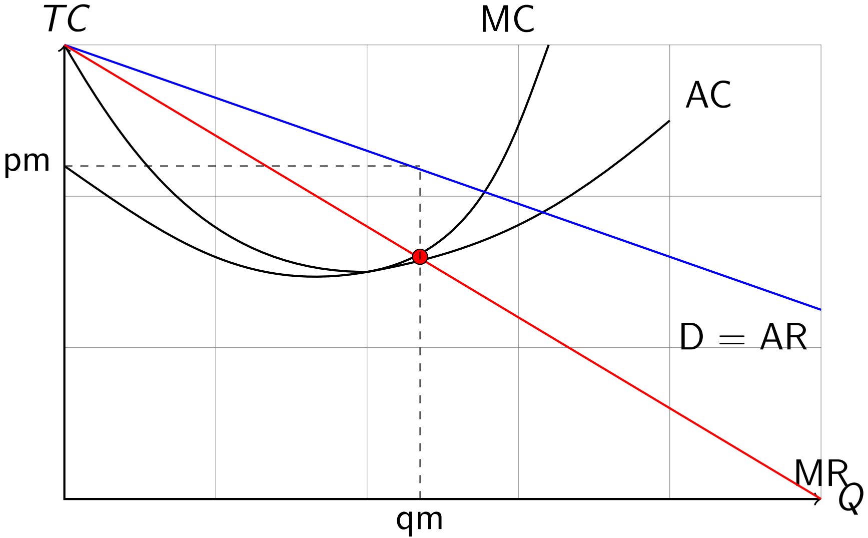

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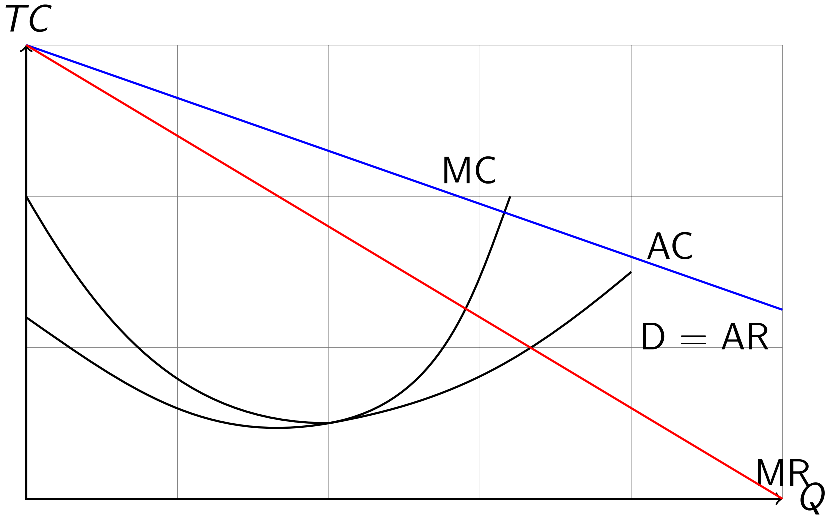

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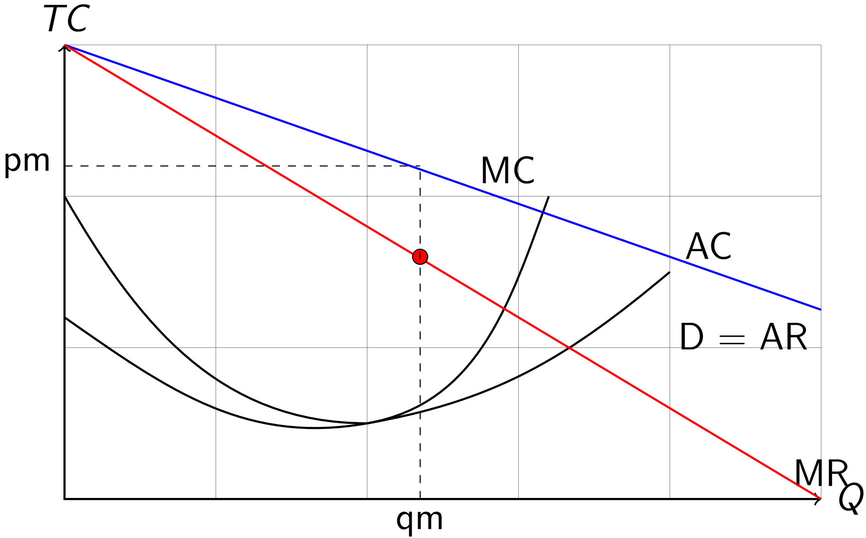

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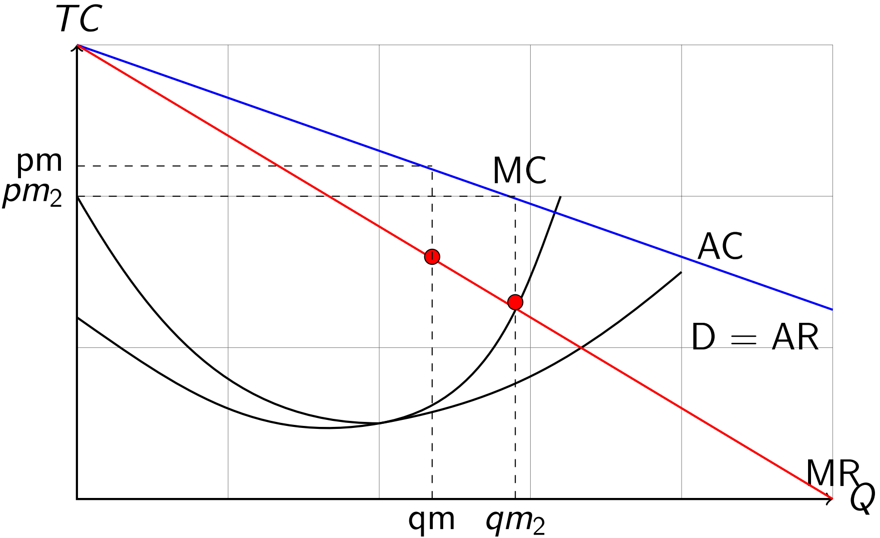

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- Public ownership (agency and political issues)

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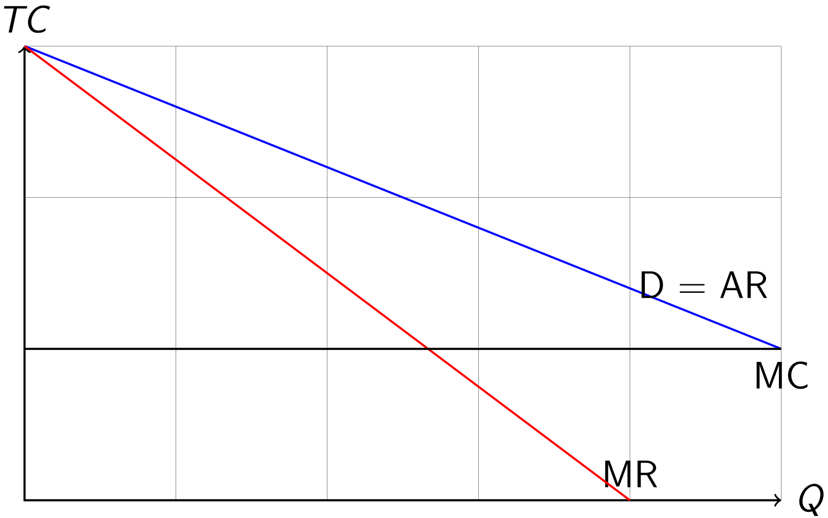

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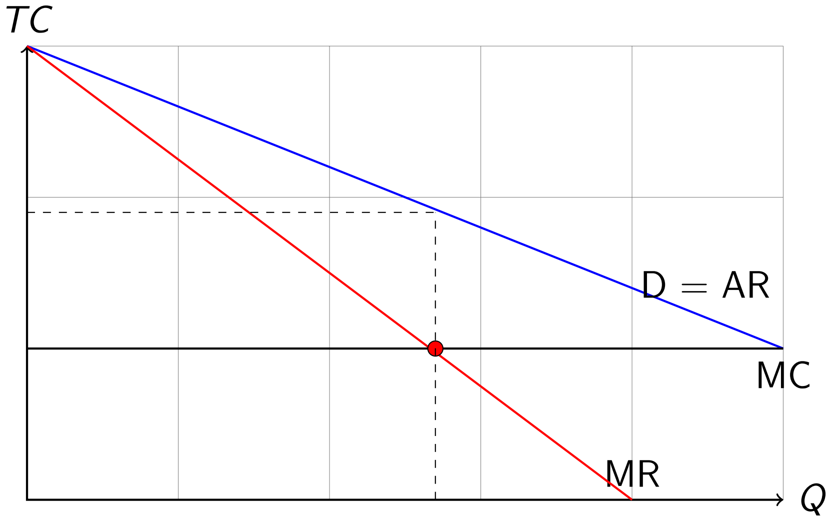

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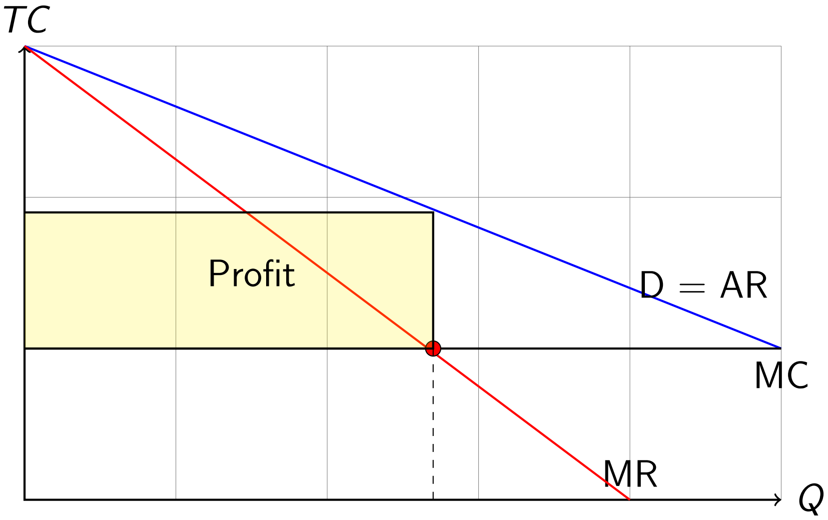

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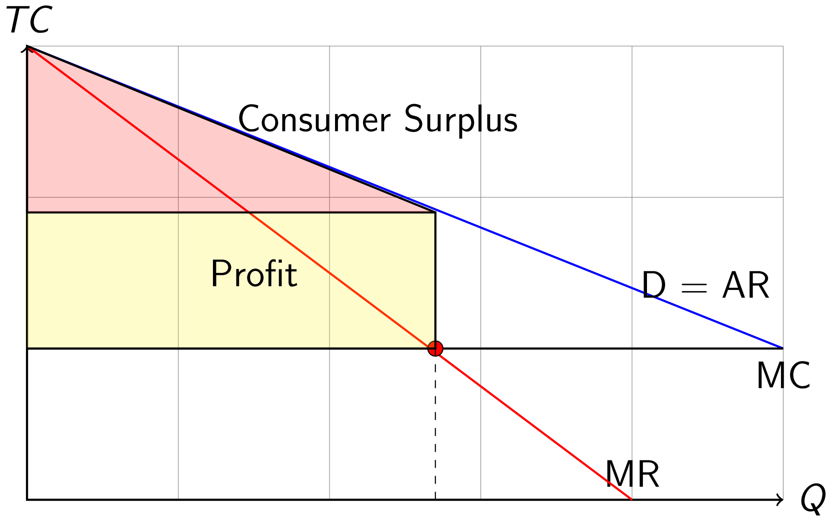

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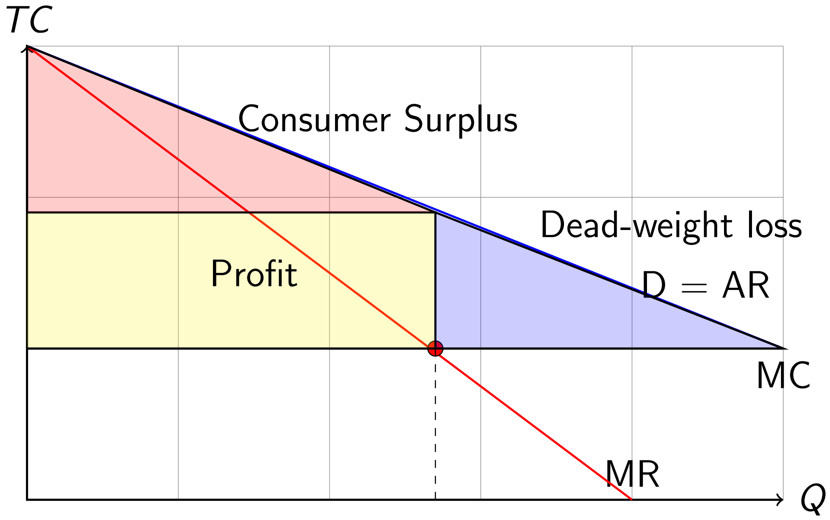

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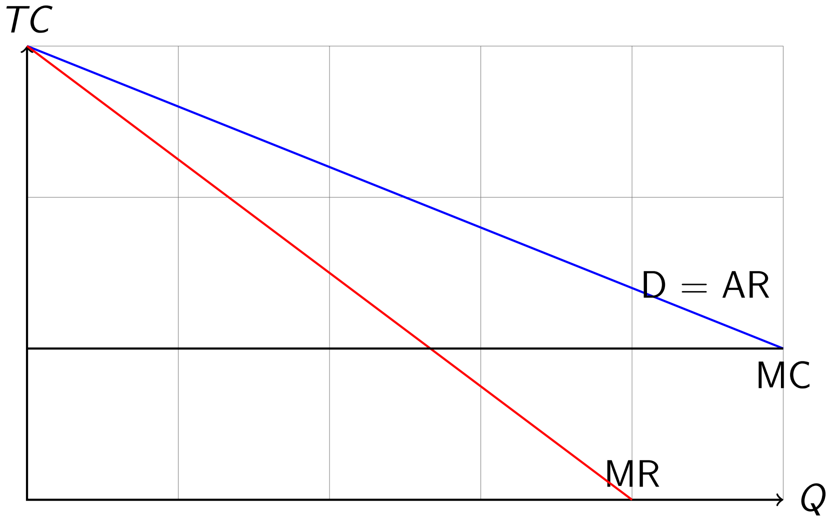

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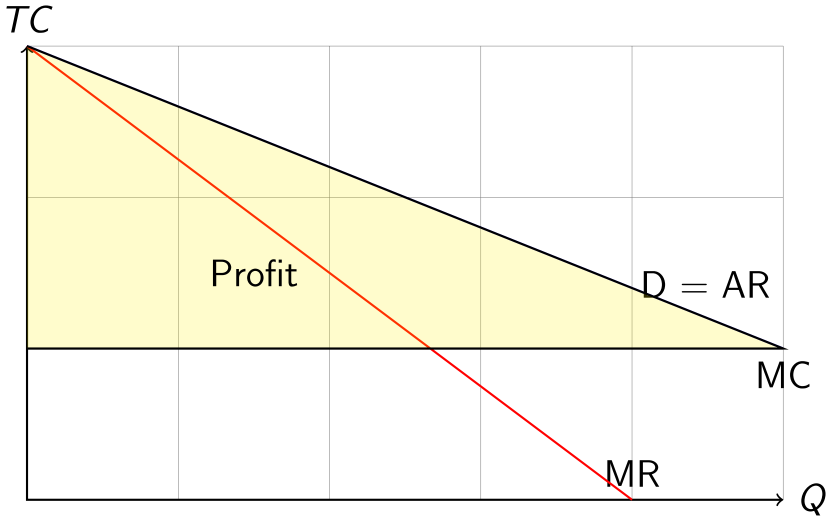

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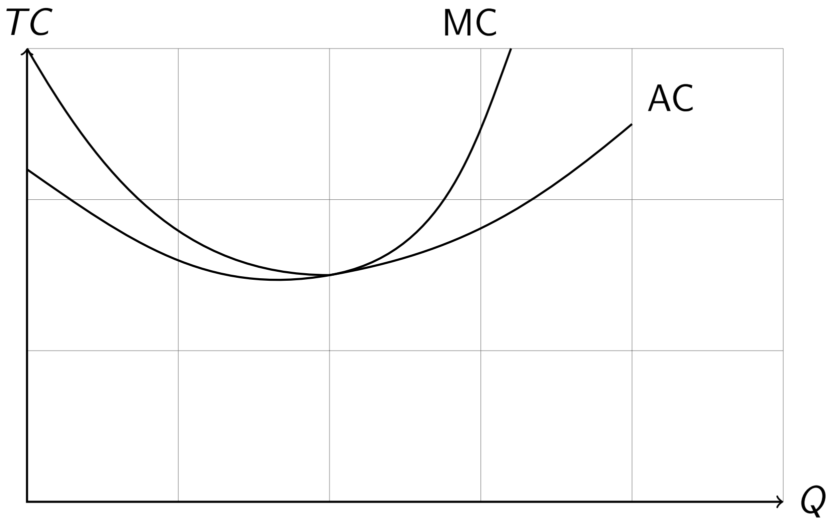

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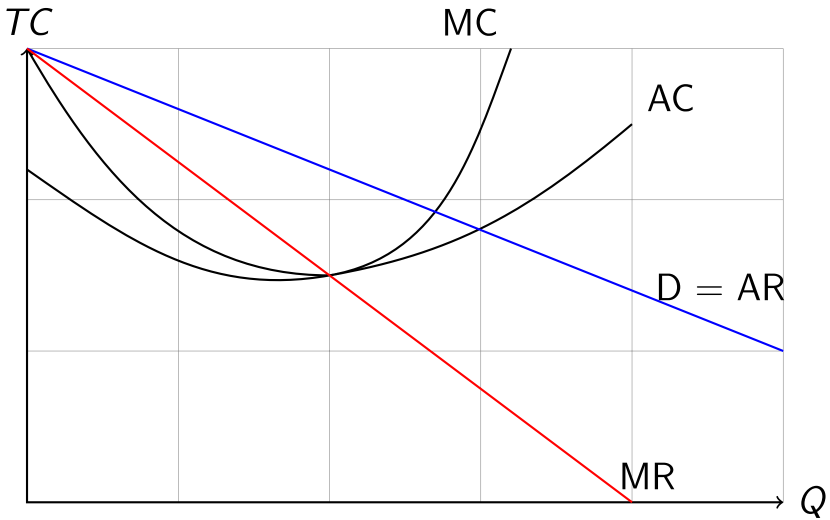

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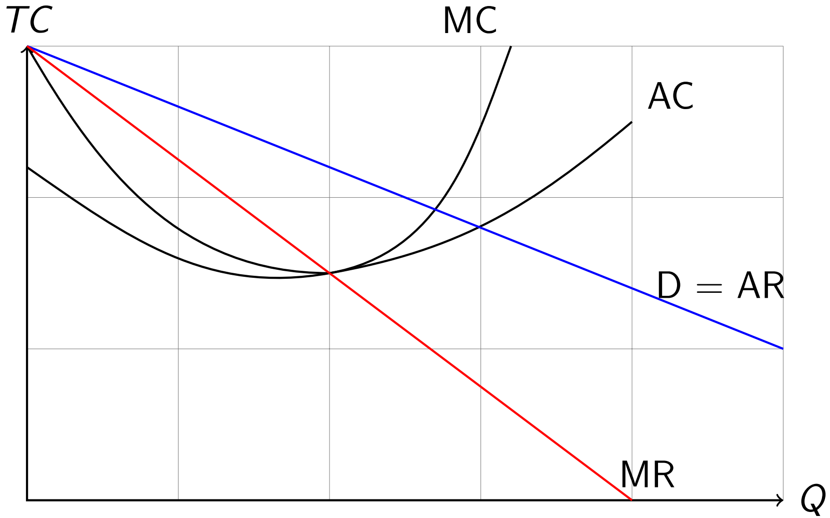

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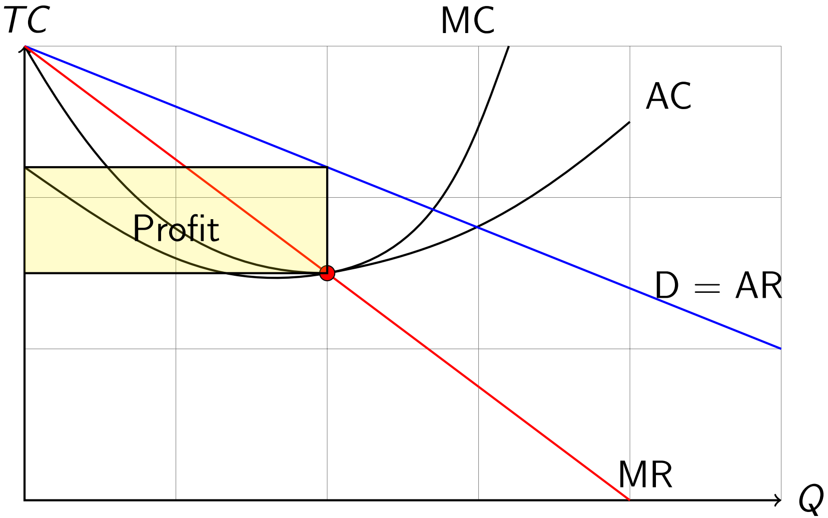
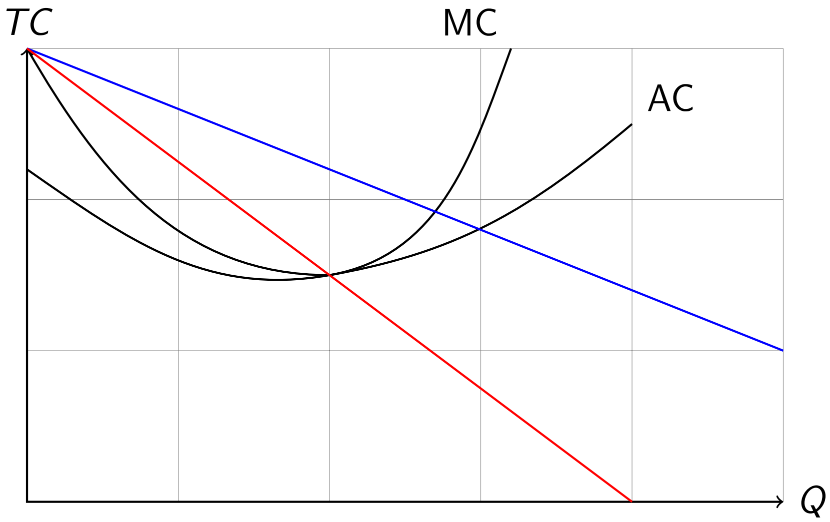
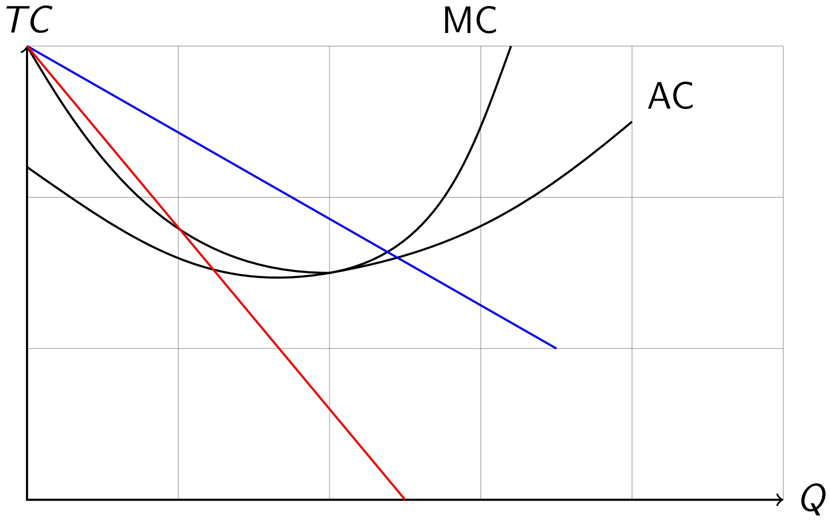


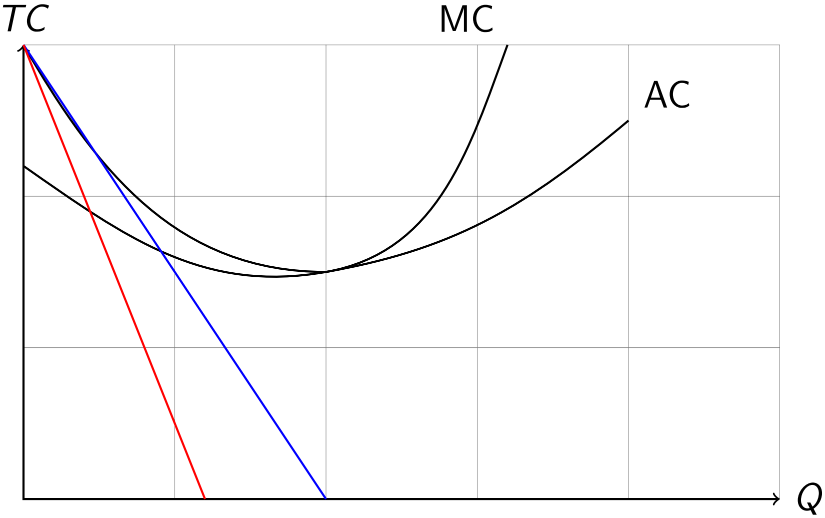
Monopolistic Competition: Long run 1



Monopolistic Competition: Long run 2



Monopolistic Competition: Long run 3



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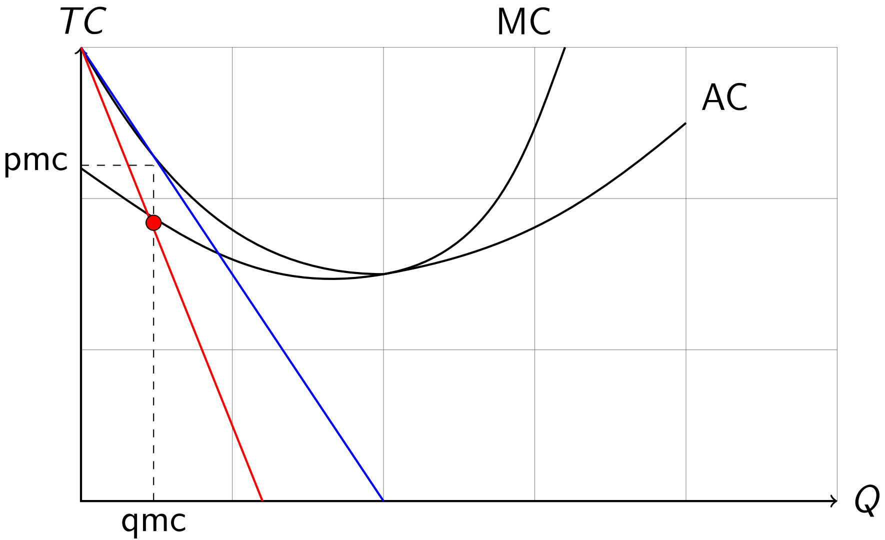

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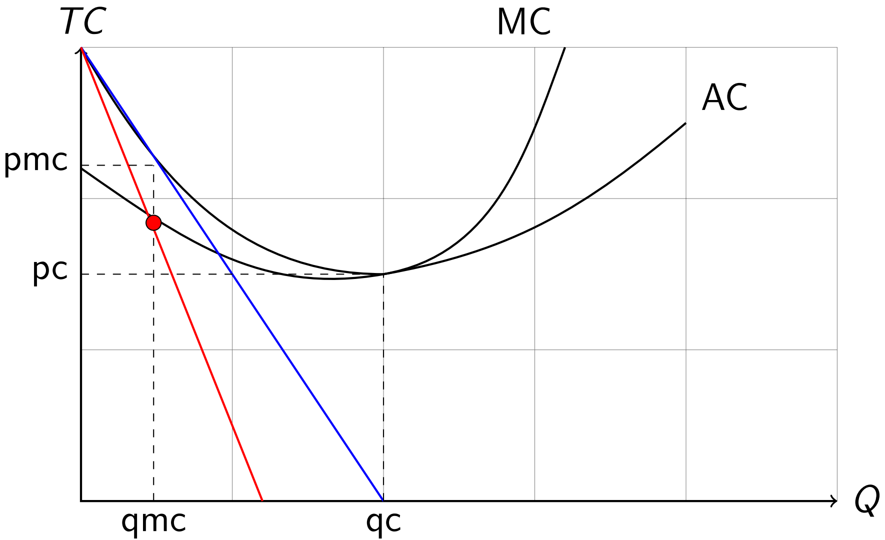

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