eLearneconomics: Perfect competition (1)

Student response

Dairy farmers have been enjoying excellent returns in recent years. Forestry, sheep and beef farm units in recent times have been converted into dairy units in the expectation that high returns will continue.

(a) What is the relationship between a perfectly competitive dairy farm and the market supply of dairy products?

(b) List three characteristics of a perfectly competitive firm that could apply to a dairy farm.

(c) Is the demand curve faced by an individual firm in perfect competition the same as the market demand curve? Why or why not?

eLearneconomics: Perfect competition (1a)

Solutions

Dairy farmers have been enjoying excellent returns in recent years. Forestry, sheep and beef farm units in recent times have been converted into dairy units in the expectation that high returns will continue.

(a) What is the relationship between a perfectly competitive dairy farm and the market supply of dairy products?

Market supply comprises the total output of all individual dairy farms.

(b) List three characteristics of a perfectly competitive firm that could apply to a dairy farm.

Price takers.

Homogeneous product

No barriers to entry.

Firms have perfect knowledge of the market.

Many producers in the industry

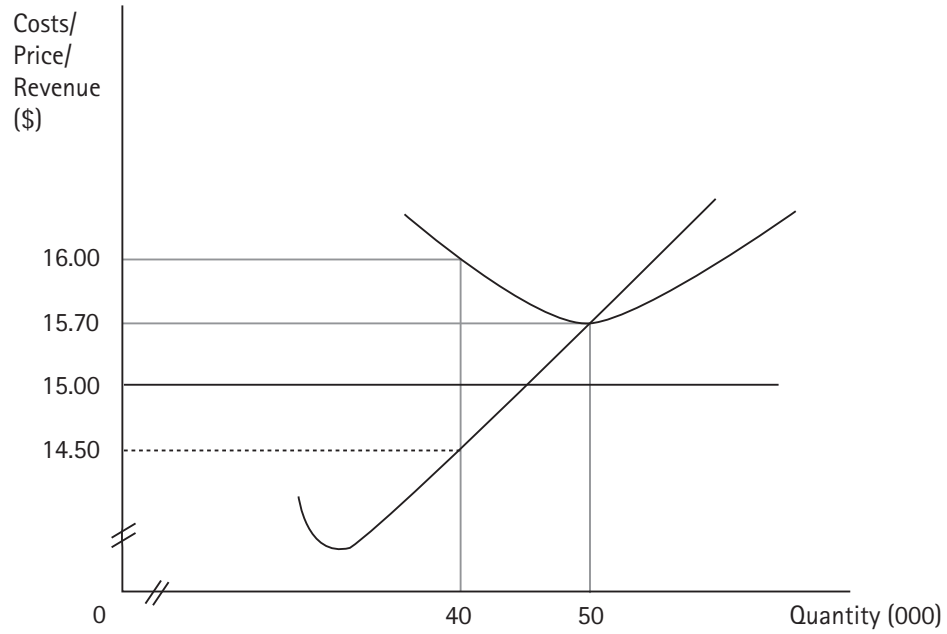
(c) Is the demand curve faced by an individual firm in perfect competition the same as the market demand curve? Why or why not?

The firm's demand curve shows the demand for the firm's part of total industry output only. The individual seller may sell as much as it wishes of its own production at the market price because the quantity it can supply to the market only has a negligible effect on market price. No, the firm's demand curve is not the same as the market demand curve. The market demand curve is determined by the overall demand for the whole market and is downward sloping, i.e., showing that additional total quantities will only be purchased at lower prices.

eLearneconomics: Perfect competition (2)

Student response

Use the diagram to answer the questions that follow.



(a) Label the curves.

(b) **(i)** Identify the loss-minimising level of output as Q and price charged as P.

(ii) What made you choose this position?

(c) Shade in the loss made.

(d) At 50 000 units:

identify average revenue

identify marginal revenue

calculate total revenue

calculate total cost

calculate loss made

(e) At 40 000 units:

identify average revenue

identify marginal revenue

calculate total revenue

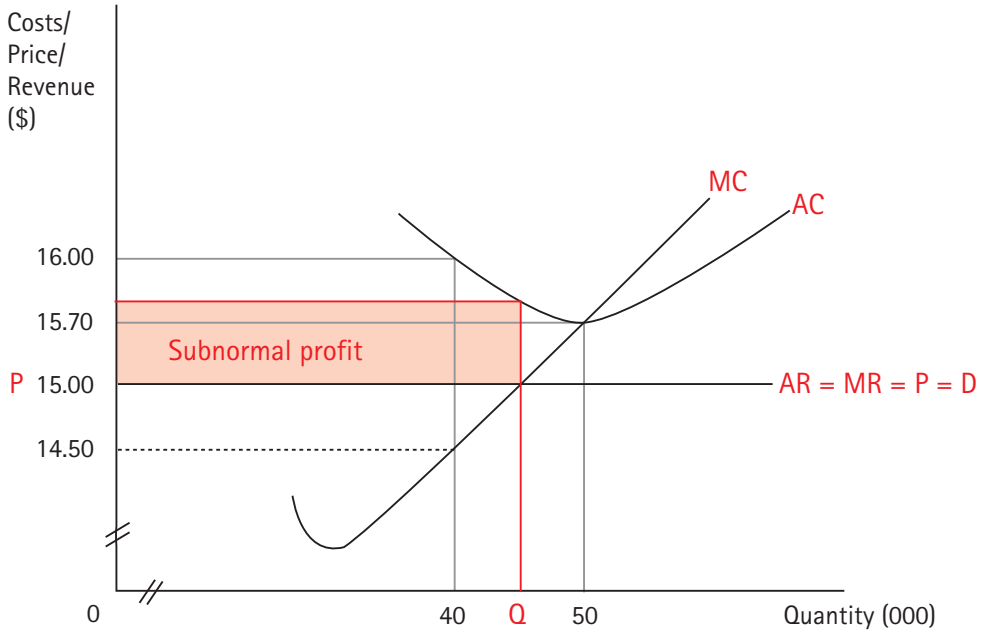
calculate total cost

calculate loss made

eLearneconomics: Perfect competition (2a)

Solutions

Use the diagram to answer the questions that follow.



(a) Label the curves.

(b) **(i)** Identify the loss-minimising level of output as Q and price charged as P.

(between 40 000 and 50 000) shown

(ii) What made you choose this position? MR = MC; any other position is a greater loss.

(c) Shade in the loss made.

(d) At 50 000 units:

identify average revenue $15.00

identify marginal revenue $15.00

calculate total revenue 50 000 x $15 = $750 000

calculate total cost 50 000 x $15.70 = $785 000

calculate loss made $35 000

(e) At 40 000 units:

identify average revenue $15.00

identify marginal revenue $15.00

calculate total revenue 40 000 x $15 = $600 000

calculate total cost 40 000 x $16 = $640 000

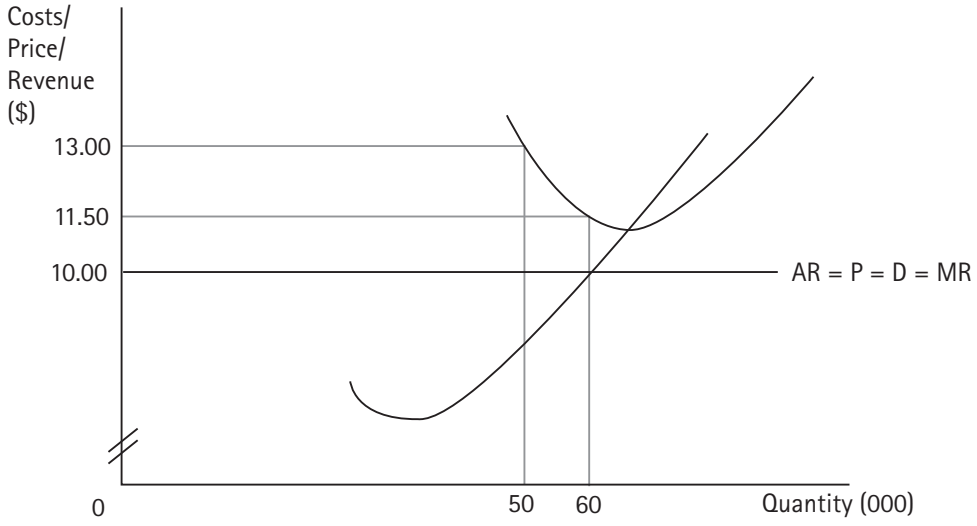
calculate loss made $40 000

eLearneconomics: Perfect competition (3)

Student response

Use the graph to answer the questions that follow.

(a) Define 'subnormal profits'.



(b) Label the curves on the diagram above.

(c) **(i)** Identify loss minimising level of output as QM.

(ii) At the loss minimising level of output what is AR?

TR?

TC?

loss?

(d) Shade in the loss made.

(e) **(i)** Why would the firm not produce at 50 000 units?

(ii) At 50 000 units what is AR?

TR?

TC?

loss?

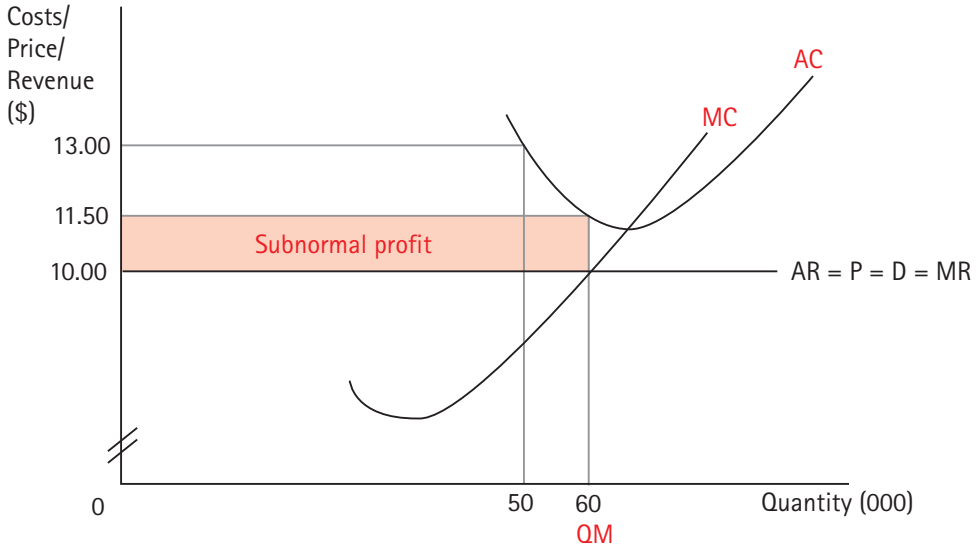
eLearneconomics: Perfect competition (3a)

Solutions

Use the graph to answer the questions that follow.

(a) Define 'subnormal profits'.

A return to entrepreneurs which is less than normal and which is insufficient to keep them in their present activity.



(b) Label the curves on the diagram above.

(c) **(i)** Identify loss minimising level of output as QM.

Shown on diagram at 60 000.

(ii) At the loss minimising level of output what is AR? $10

TR? $10 x 60 000 = $600 000

TC? $11.50 x 60 000 = $690 000

loss? = $90 000

(d) Shade in the loss made.

(e) **(i)** Why would the firm not produce at 50 000 units?

Makes a greater loss (MR > MC). It could make a smaller loss by producing more.

(ii) At 50 000 units what is AR? $10

TR? $10 x 50 000 = $500 000

TC? $13 x 50 000 = $650 000

loss? $150 000