eLearneconomics: Perfect Competition – Revenue Curves (1)

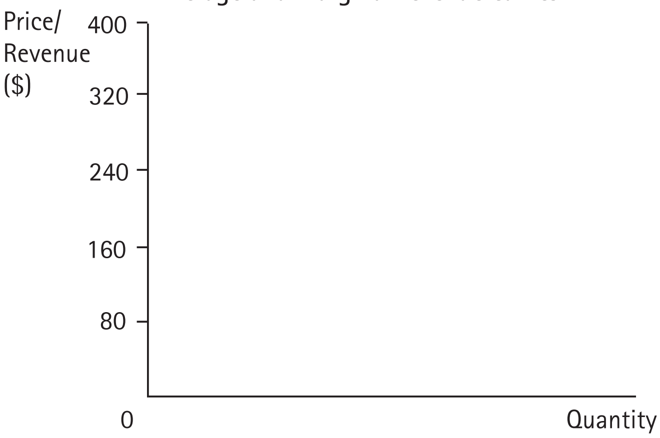
Student response ______________________________

Assume the market for a product is pefectly competitive and the current market price is $80.

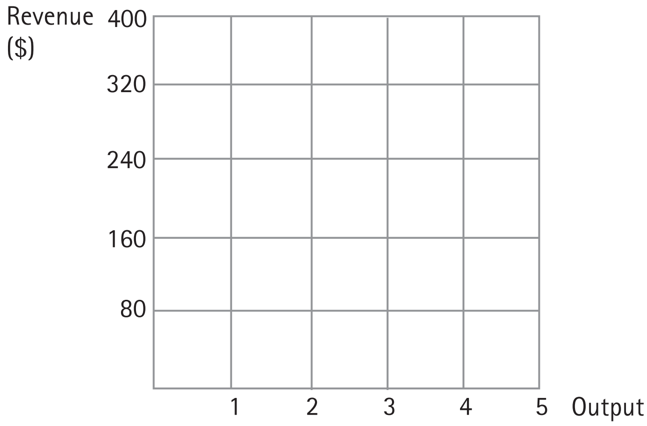
(a) Complete the table for a perfect competitor and then draw the curve indicated by the title of each graph.

Output	Price ($)	TR ($)	AR ($)	MR ($)
1				
2				
3				
4				
5				

Average and marginal revenue curves



Total revenue curve



(b) Explain why a perfect competitor's AR and MR curves are drawn as a horizontal line.

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(c) Tick (✓) which of the following ideas are features of perfect competition.

- **(i)** Homogeneous product ____________
- **(ii)** Many sellers small in size ____________
- **(iii)** Weak barriers to entry ____________
- **(iv)** No barriers to entry ____________
- **(v)** Price taker ____________
- **(vi)** Perfect knowledge: by sellers of prices and technology available; by consumers of prices ____________
- **(vii)** In the long run each firm will produce where AC = MC and face the same cost conditions and produce same level of output as other firms in the industry ____________

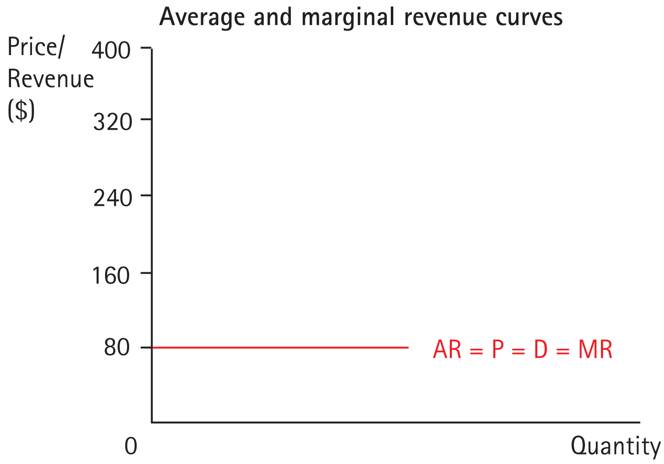
eLearneconomics: Perfect Competition – Revenue Curves (1a)

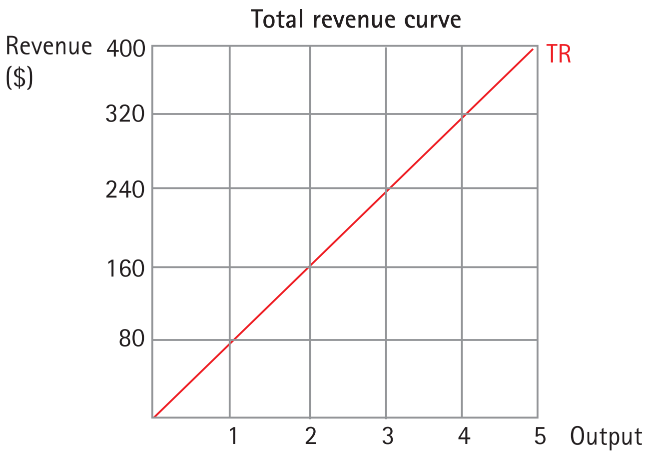
Solutions

Assume the market for a product is pefectly competitive and the current market price is $80.

(a) Complete the table for a perfect competitor and then draw the curve indicated by the title of each graph.

Output	Price ($)	TR ($)	AR ($)	MR ($)
1	80	80	80	80
2	80	160	80	80
3	80	240	80	80
4	80	320	80	80
5	80	400	80	80





(b) Explain why a perfect competitor's AR and MR curves are drawn as a horizontal line.

The firm is too small to influence price, it must accept the ruling market price. As a price taker it can sell any amount at the market price therefore AR = MR.

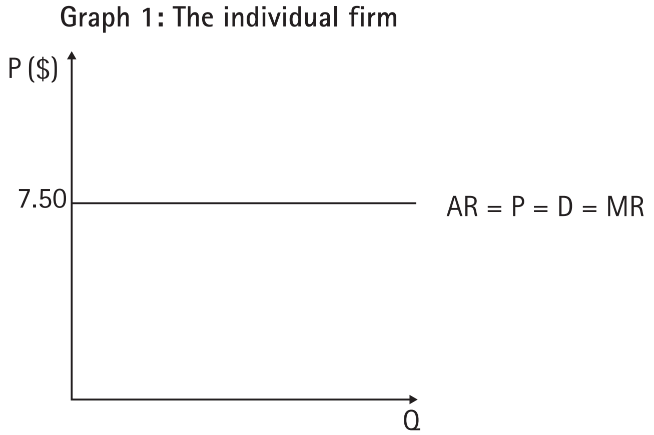
(c) Tick (✓) which of the following ideas are features of perfect competition.

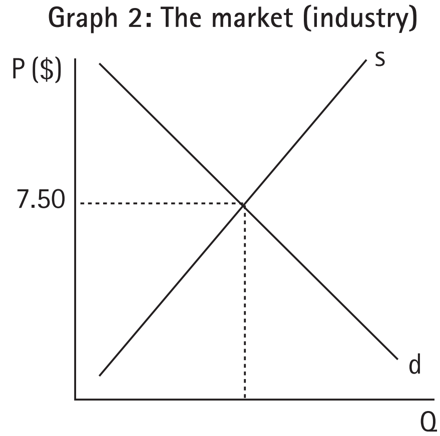
- **(i)** Homogeneous product ✓
- **(ii)** Many sellers small in size ✓
- **(iii)** Weak barriers to entry
- **(iv)** No barriers to entry ✓
- **(v)** Price taker ✓
- **(vi)** Perfect knowledge: by sellers of prices and technology available; by consumers of prices ✓
- **(vii)** In the long run each firm will produce where AC = MC and face the same cost conditions and produce same level of output as other firms in the industry ✓

eLearneconomics: Perfect Competition – Revenue Curves (2)

Student response

(a) Use the diagram to answer the questions that follow.

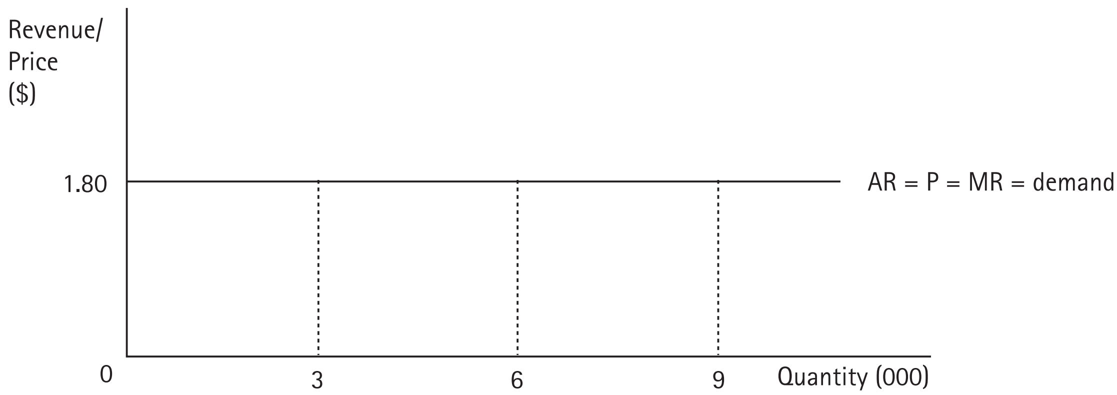




(i) Explain how Graph 1 and Graph 2 illustrate perfectly competitive competition.

(ii) Explain why the industry demand curve is downward sloping.

(b) (i) Use the diagram to complete the table.



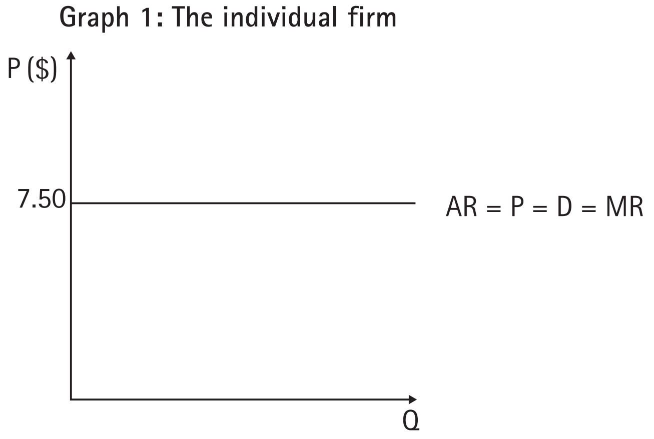
Output	Price ($)	TR ($)	AR ($)
3 000			
6 000			
9 000			

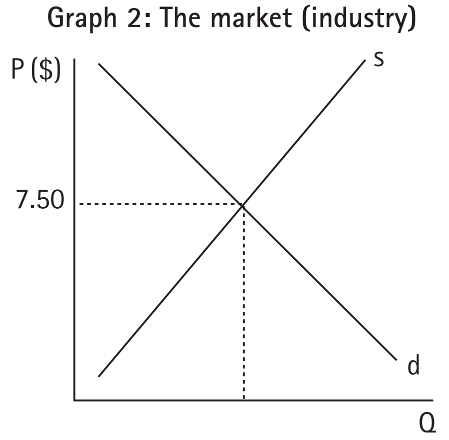
(ii) What do you notice about the price in perfect competition as output increases or decreases? Explain why this is so.

eLearneconomics: Perfect Competition – Revenue Curves (2a)

Solutions

(a) Use the diagram to answer the questions that follow.





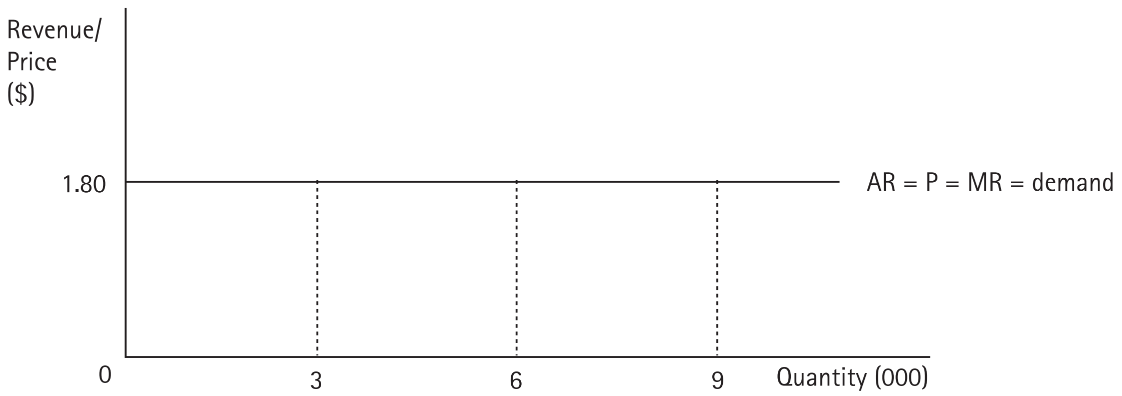
(i) Explain how Graph 1 and Graph 2 illustrate perfectly competitive competition.

The market (demand and supply) in Graph 2 sets the price that firms receive in Graph 1. The horizontal AR curve in Graph 1 shows that the individual firm is a price taker, which is typical of perfect competition.

(ii) Explain why the industry demand curve is downward sloping.

Idea that it represents the sum of all individual consumer demand curves for the good or service at each price.

(b) (i) Use the diagram to complete the table.



Output	Price ($)	TR ($)	AR ($)
3 000	1.80	5 400	1.80
6 000	1.80	10 800	1.80
9 000	1.80	16 200	1.80

(ii) What do you notice about the price in perfect competition as output increases or decreases? Explain why this is so.

Price does not change as perfect competitors are price takers and must accept the ruling market price; they are too small to influence price.