

Week 6 Overview

Competitive Output

Overview

Welcome to your sixth week! This module we continue our discussion of the firm by focusing on those firms working in a perfectly competitive (or competitive) environment. Specifically, we are going to answer the following 3 questions:

- How does a competitive firm choose the quantity of output that maximizes profits?
- How does a firm decide whether to shut down operation in the short run?
- How does a firm decide whether to enter or exit in the long run?

Goals and Objectives

After you actively engage in the learning experiences in this module, you should be able to:

- Define the characteristics of a perfectly competitive market.
- Explain how a price-taking producer determines the profit-maximizing quantity of output.
- Determine whether a firm is profitable.
- Explain why an unprofitable firm may continue to operate in the short run.
- Explain why industries behave differently in the short run and the long run.
- Define the industry supply curve in the short run and the long run.

Key Phrases/Concepts

Keep your eyes open for the following key terms or phrases as you complete the readings and interact with the lectures. These topics will help you better understand the content in this module.

- Economic profits
- Perfect competition
- Price taking firm
- Break-even price
- Profit maximizing output
- Long run supply curve

Guiding Questions

Develop your answers to the following guiding questions while completing the readings and working on assignments throughout the week.

- What is the difference between accounting profits and economic profits?
- How does a firm choose the quantity of output that maximizes profits?

- How does a firm decide whether to shutdown operation in the short run?
- How does a firm decide whether to enter or exit in the long run?
- What are the short-run and long-run adjustments of a change in market demand?

Optional Readings and Resources

- Chapter 12, *Microeconomics*, Krugman and Wells, 3rd Ed.
- [Econ Tutorial: Perfect Competition](#)