care industry being perfectly competitive, there are no barriers to entry and other greed capitalists are able to enter.ĊThis entry into the industry will have the following effects on PeteâĢĻs business (Baye, 2009):ĊEntry increases market supply, drives down the market price and increases market quantityĊDemand for shifts downĊReduction of output to maximize profitĊLong run profits are zeroĊDue to the entry into the market,Ċtotal revenue is greater than total cost ($P > AC$)Ċ, PeteâĢĻs lawn care company may have to make the decision to either temporarily or permanently shutting down the company if profits decline due to the increased competition. The rule of thumb that Pete should use is the following (Baye, 2009):ĊContinue mowing lawns as long as P âī¥ AVCĊClose the doors when $P < AVC$ĊThe core of microeconomics is marginal analysis.ĊAs long as the benefits of each step outweigh its cost, the step should be taken.ĊHowever, once the stepâĢĻs cost exceeds its benefit, the step should not be taken.ĊThe following is the basic procedure of marginal analysis (Wessels, 1997).ĊStep1 âĢĵ Break an Action into Small unitsĊGoal: Maximize the net benefit from taking the action:ĊNet Benefit = Total