

care industry being perfectly competitive, there are no barriers to entry and other greedy capitalists are able to enter. This entry into the industry will have the following effects on Pete's business (Baye, 2009):

- Entry increases market supply, drives down the market price and increases market quantity
- Demand for shifts down
- Reduction of output to maximize profit
- Long run profits are zero
- Due to the entry into the market, total revenue is greater than total cost ( $P > AC$ )

Pete's 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):

- Continue mowing lawns as long as  $P \geq AVC$
- Close the doors when  $P < AVC$

The core of microeconomics is marginal analysis. As long as the benefits of each step outweigh its cost, the step should be taken. However, once the step's cost exceeds its benefit, the step should not be taken. The following is the basic procedure of marginal analysis (Wessels, 1997).

Step 1: Break an Action into Small units

Goal: Maximize the net benefit from taking the action:

Net Benefit = Total