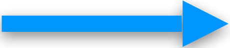
ATC

MC

D

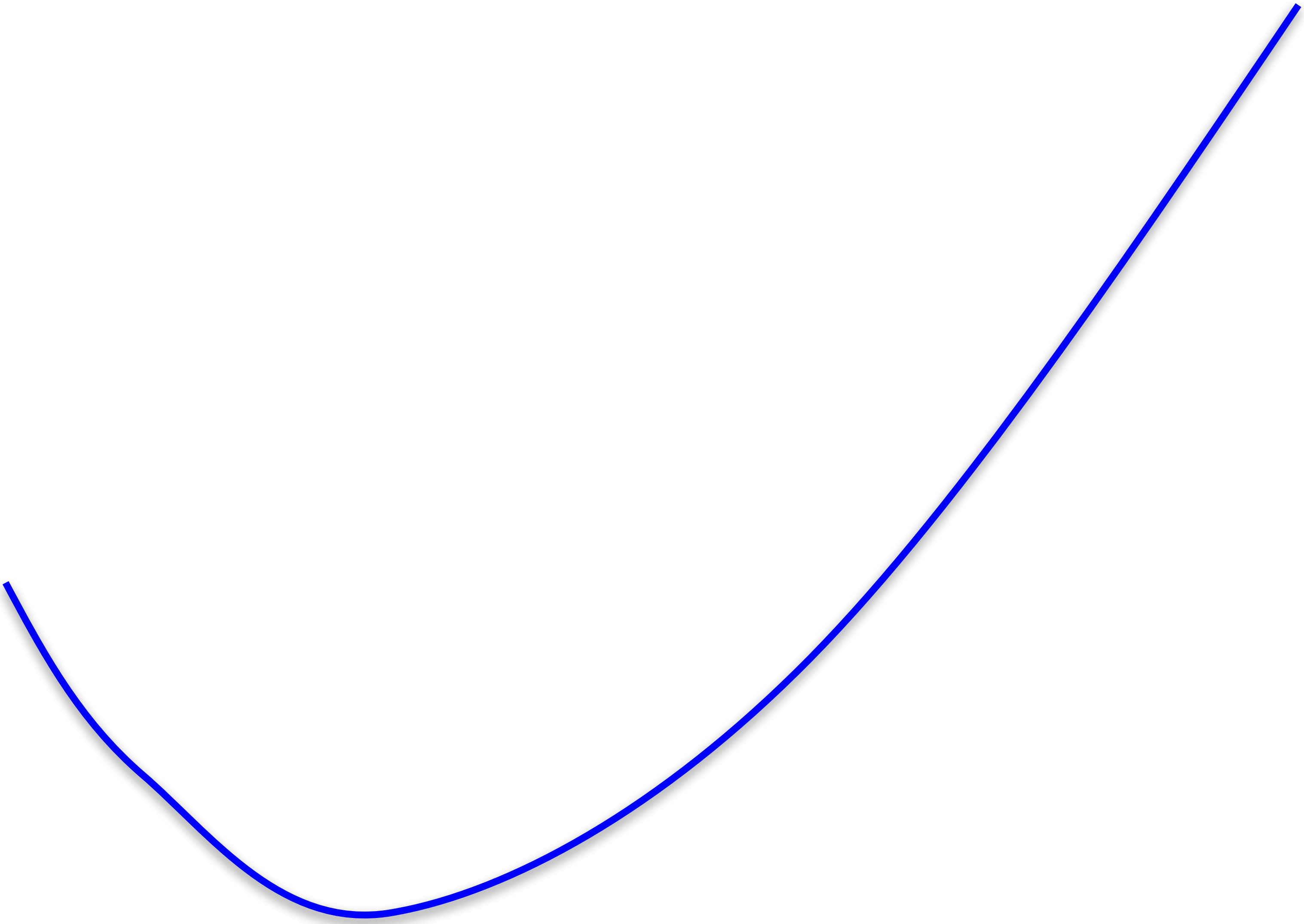
S_0



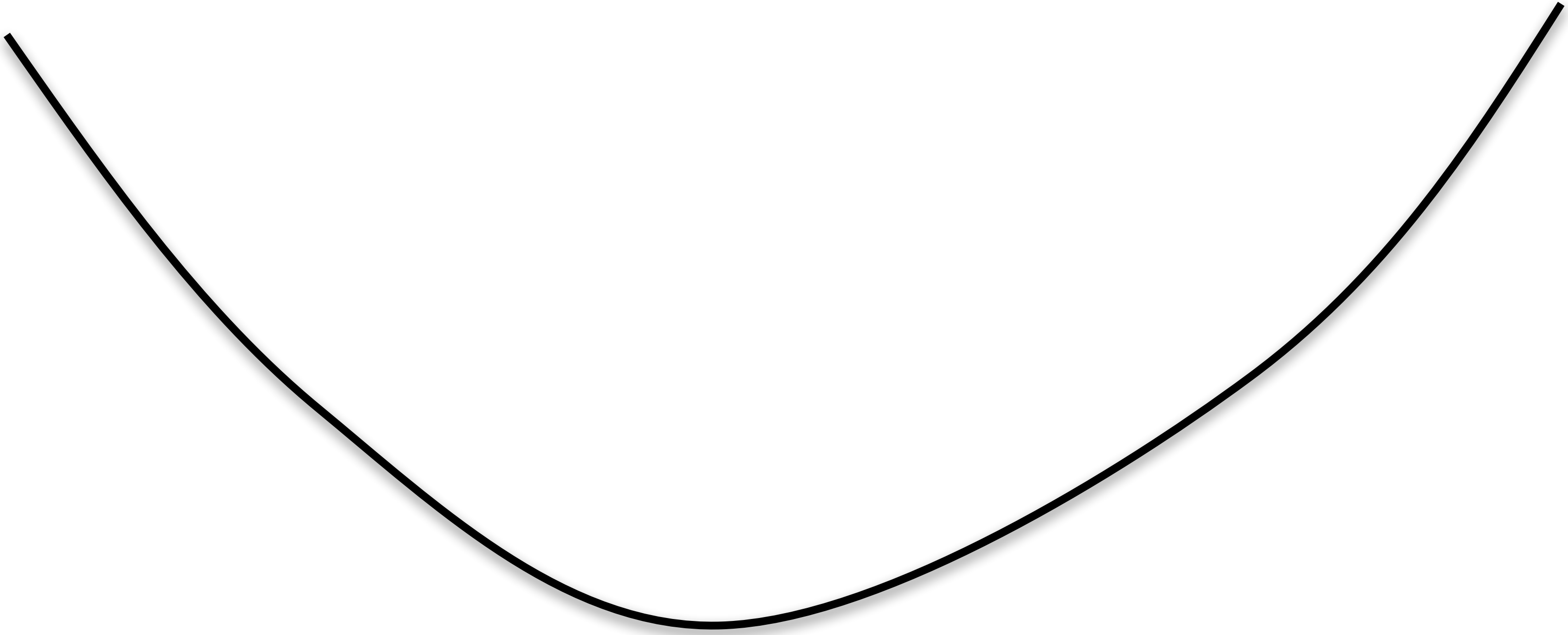

S_1

P_1 - MR_1

q_1



q_0



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P_0 MR_0

Once the price = ATC, profits are zero

Firms enter, supply shifts right and price drops until P = Min ATC

New firms enter the industry attracted by profits: Supply shifts right

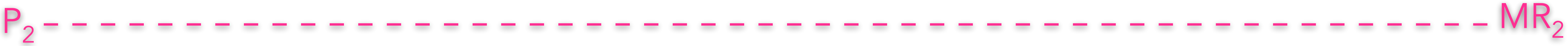
In Perfectly Competitive Markets, Consumers pay the lowest possible price = Min ATC


Price
drops

Profit

Profit

More firms enter the industry attracted by profits: Supply shifts right again


P_2
MR_2

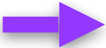
q_2

S_2


Price
drops

Profit

More firms enter the industry attracted by profits: Supply shifts right again




S_2

P_3 - MR_2


Price
drops

q_3

Each firm in the industry produces q_0 the profit maximizing output

Market View

A Typical Firm's View

Once profits are zero no more firms enter the industry and Supply no longer shifts

P

MC, ATC

Q

q

In Perfectly Competitive Markets, Producers make the lowest possible profit = zero economic profit

Each firm in the industry produces now q_1 the profit maximizing output

Each firm in the industry produces now q_2 the profit maximizing output

In Perfect Competition there are no barriers to entry: entry into the industry is free

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Once profits are zero no more firms enter the industry and Supply no longer shifts

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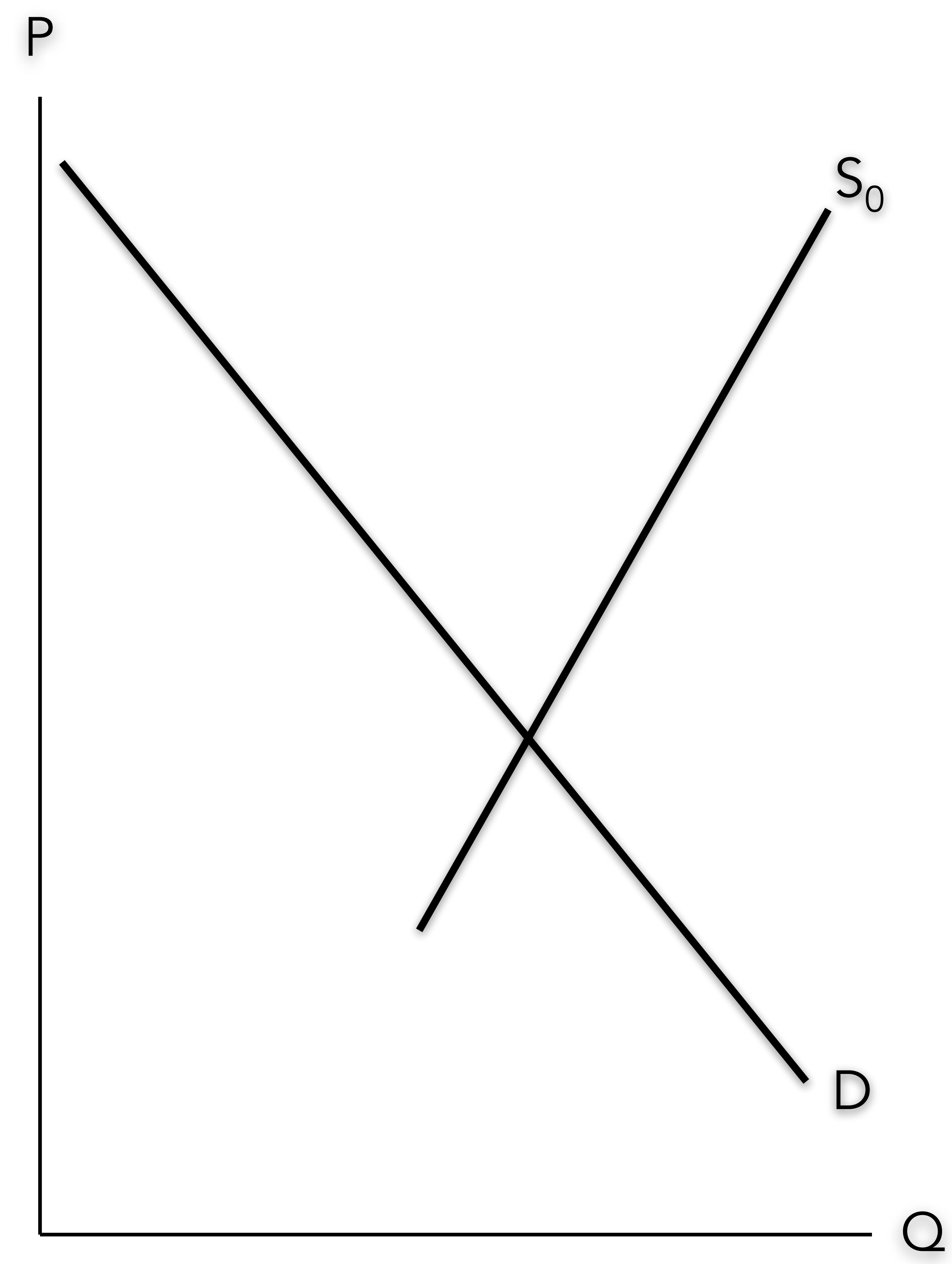
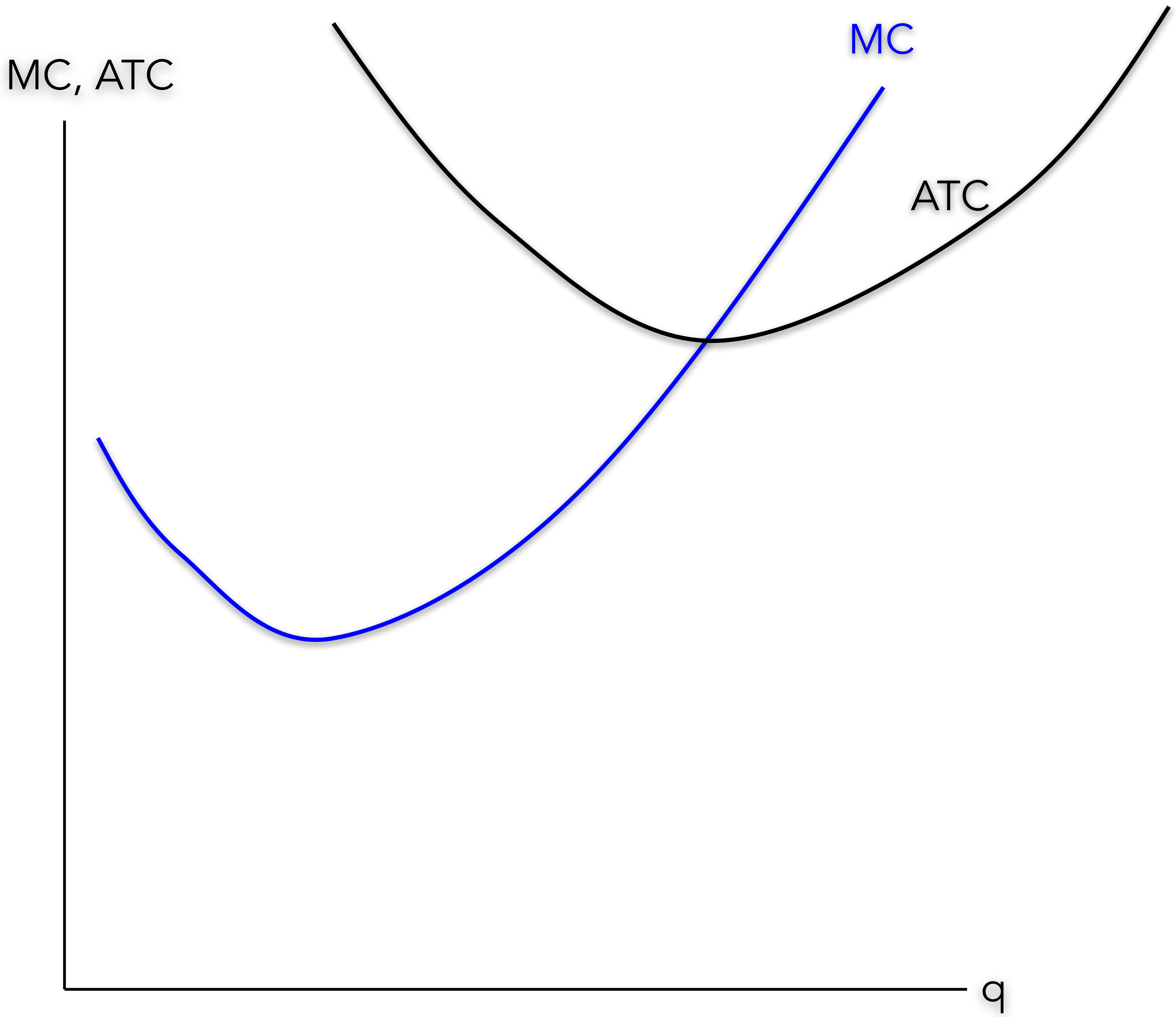

P
S_0
D
Q


MC, ATC
MC
ATC
q