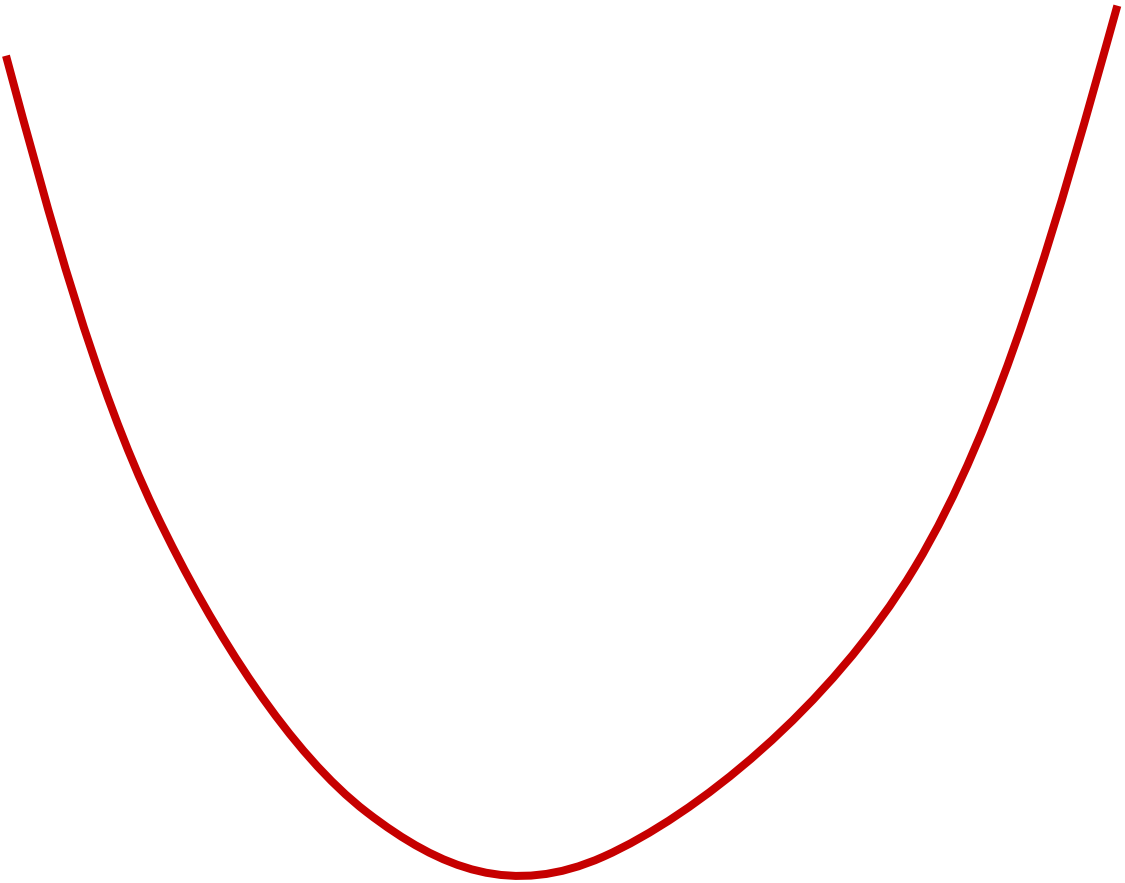
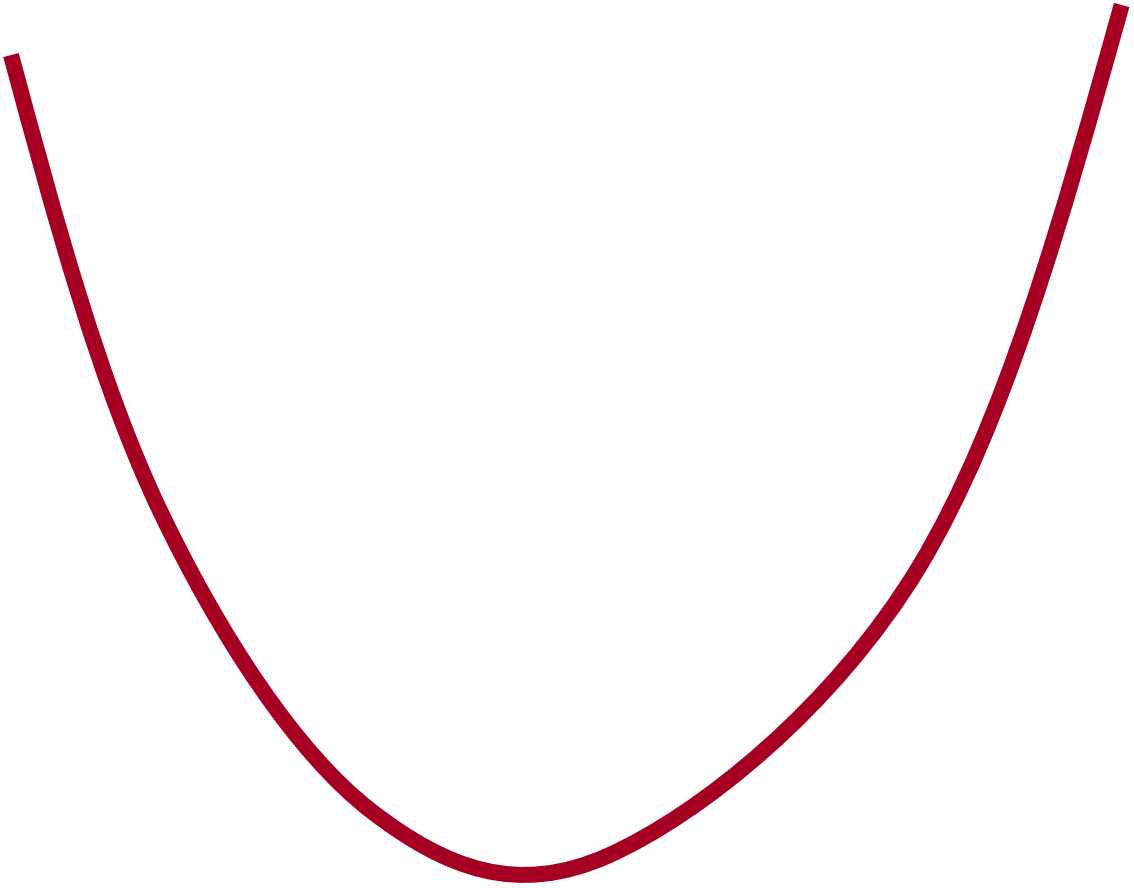
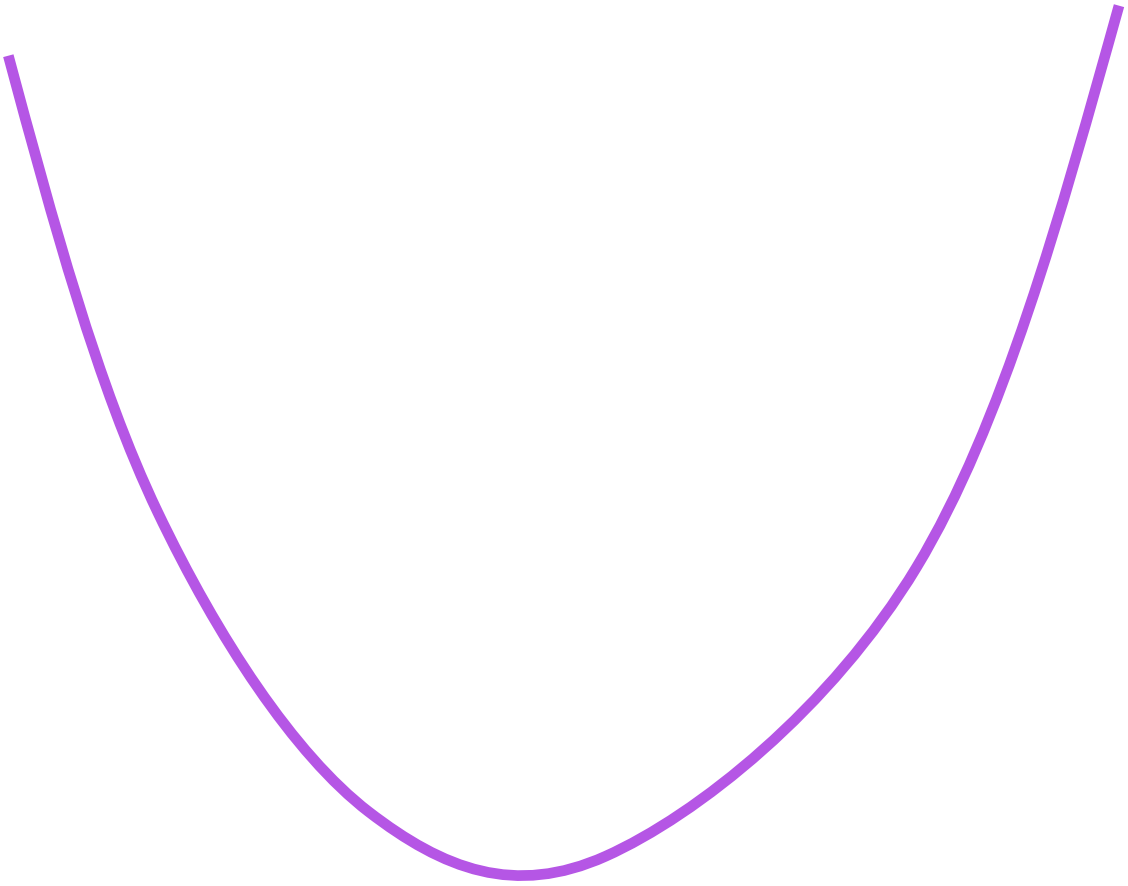
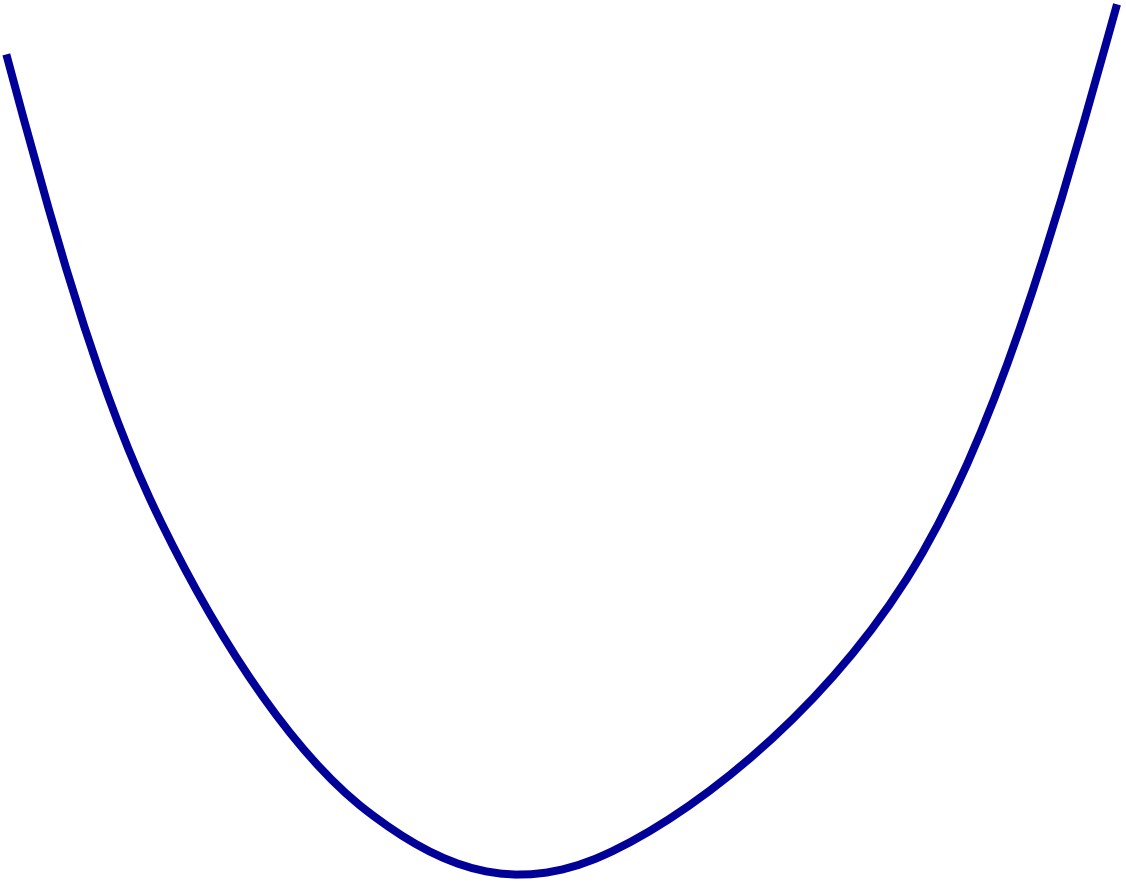
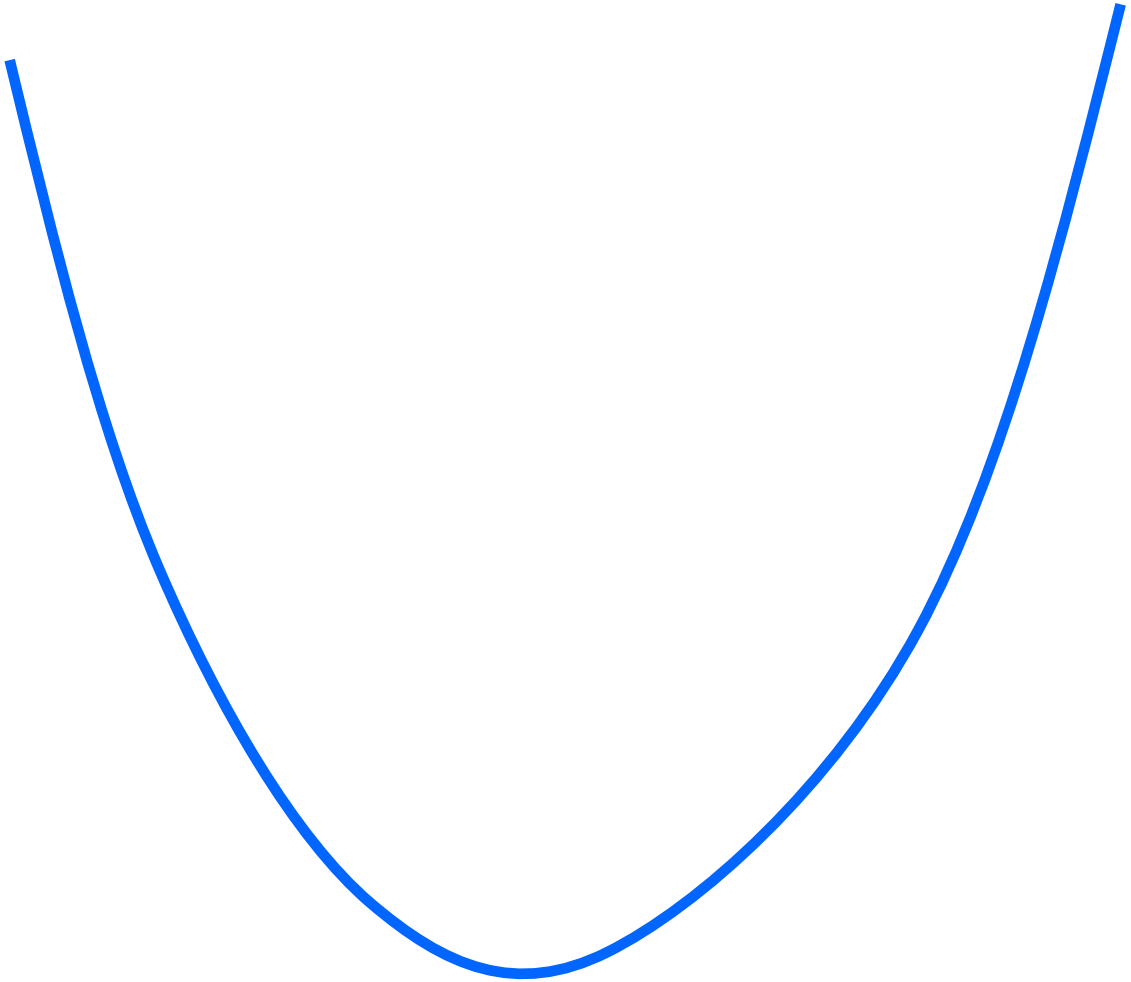
500,000

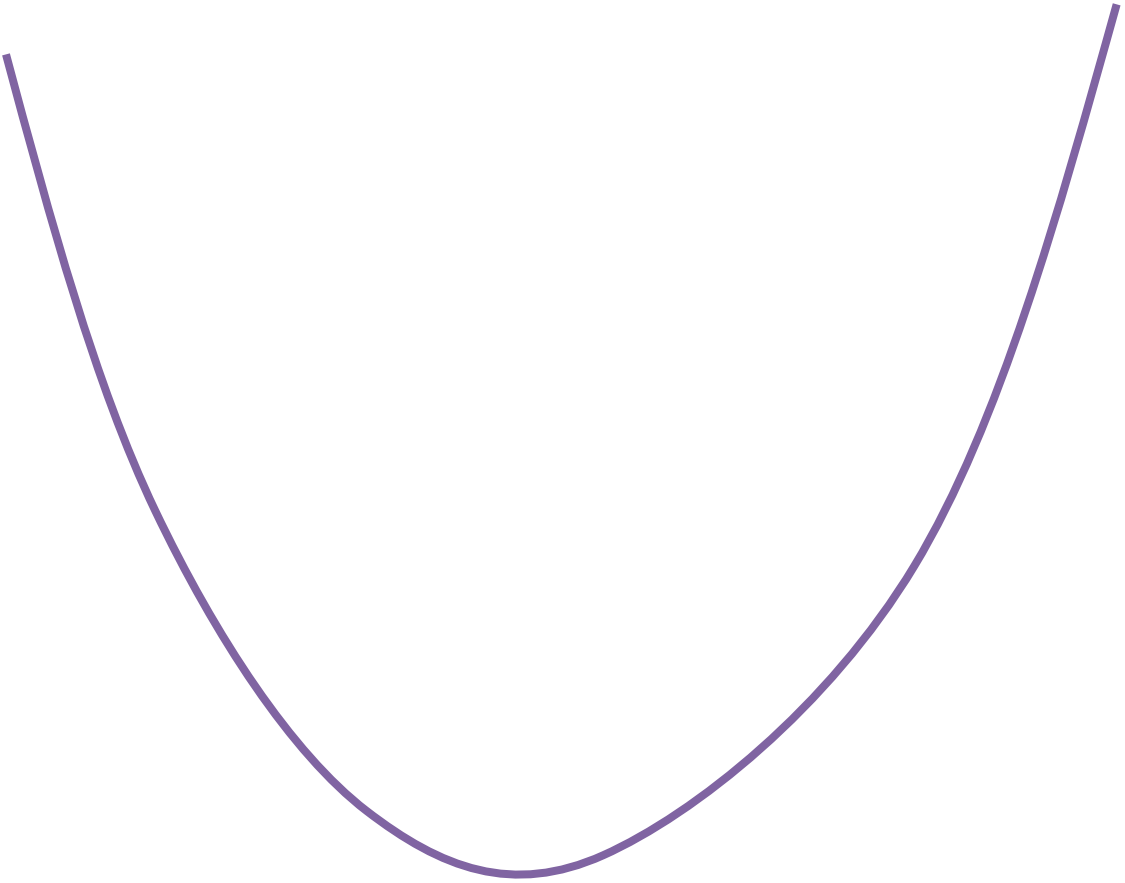


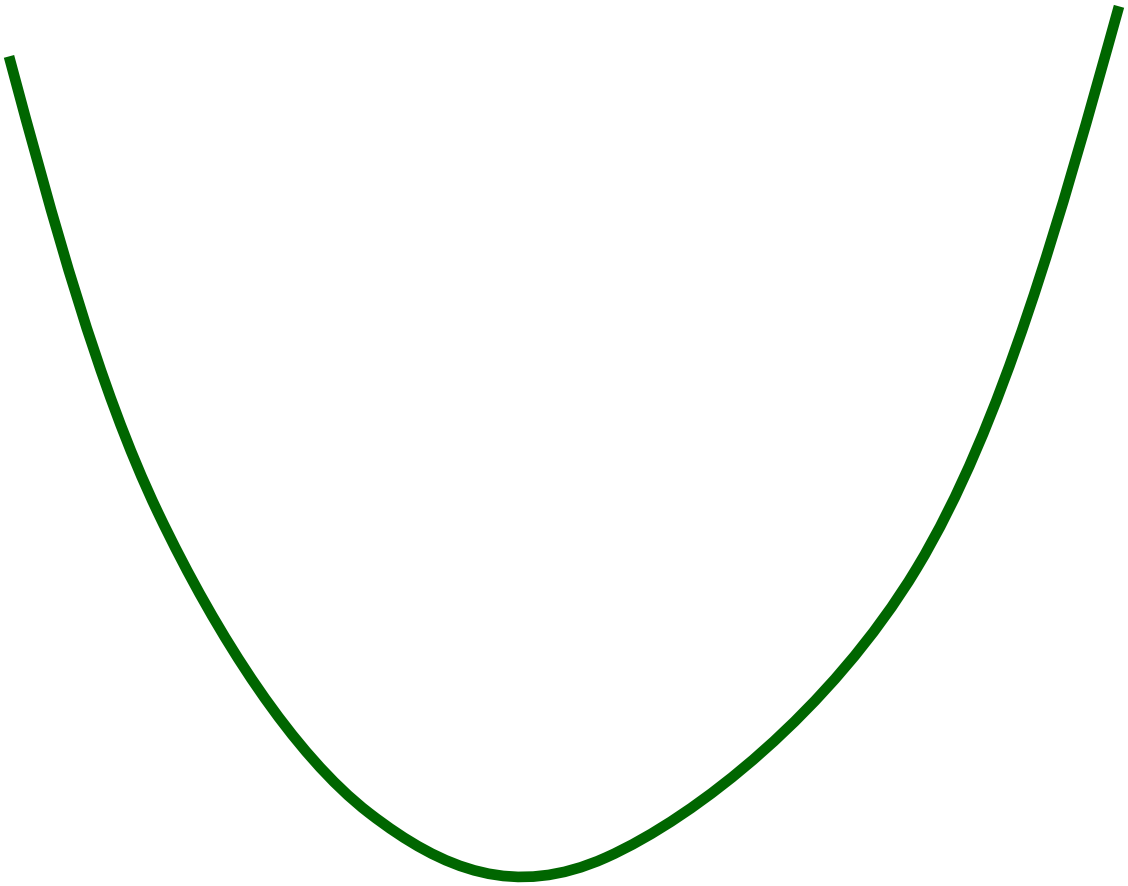












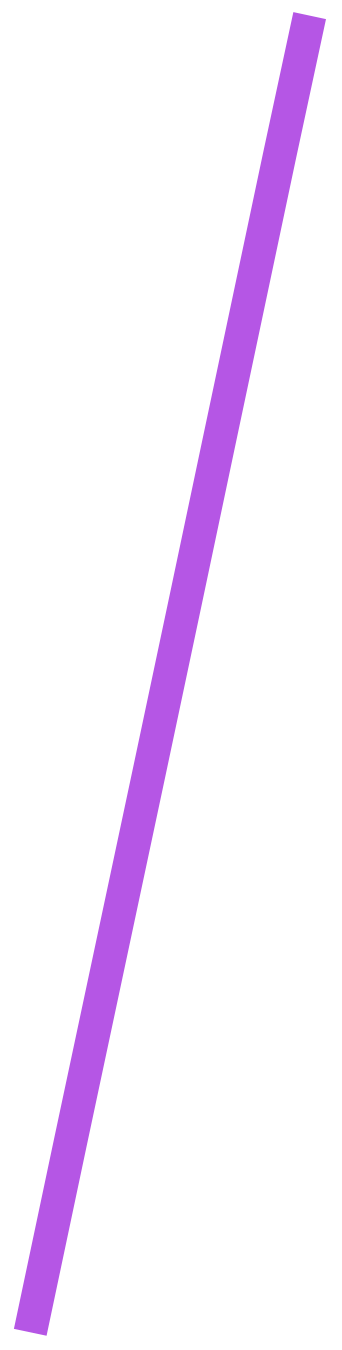
SRATC1

SRATC2

SRATC3

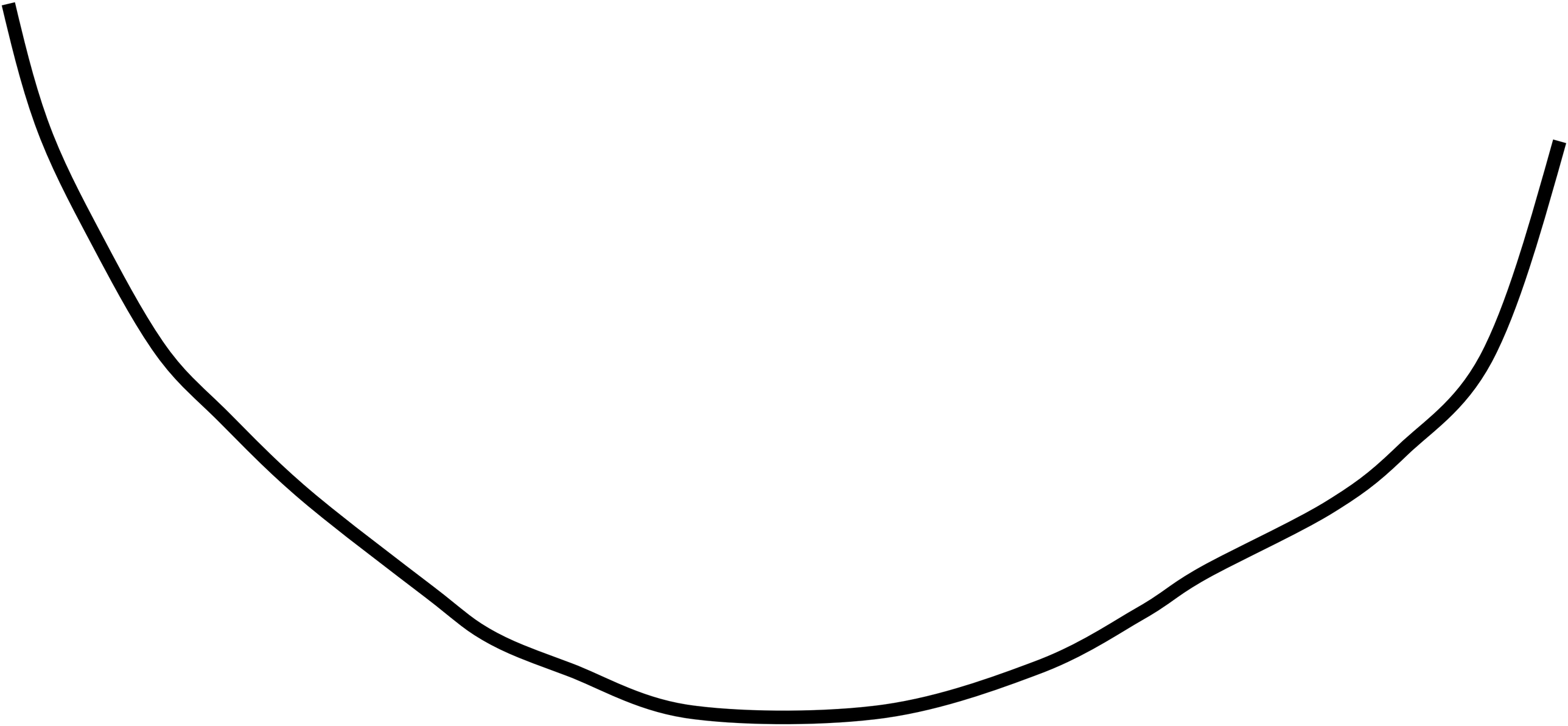

SRATC4

SRATC5



SRATC6


SRATC7




LRATC

AssumeTotal Demand = 3,000,000 units

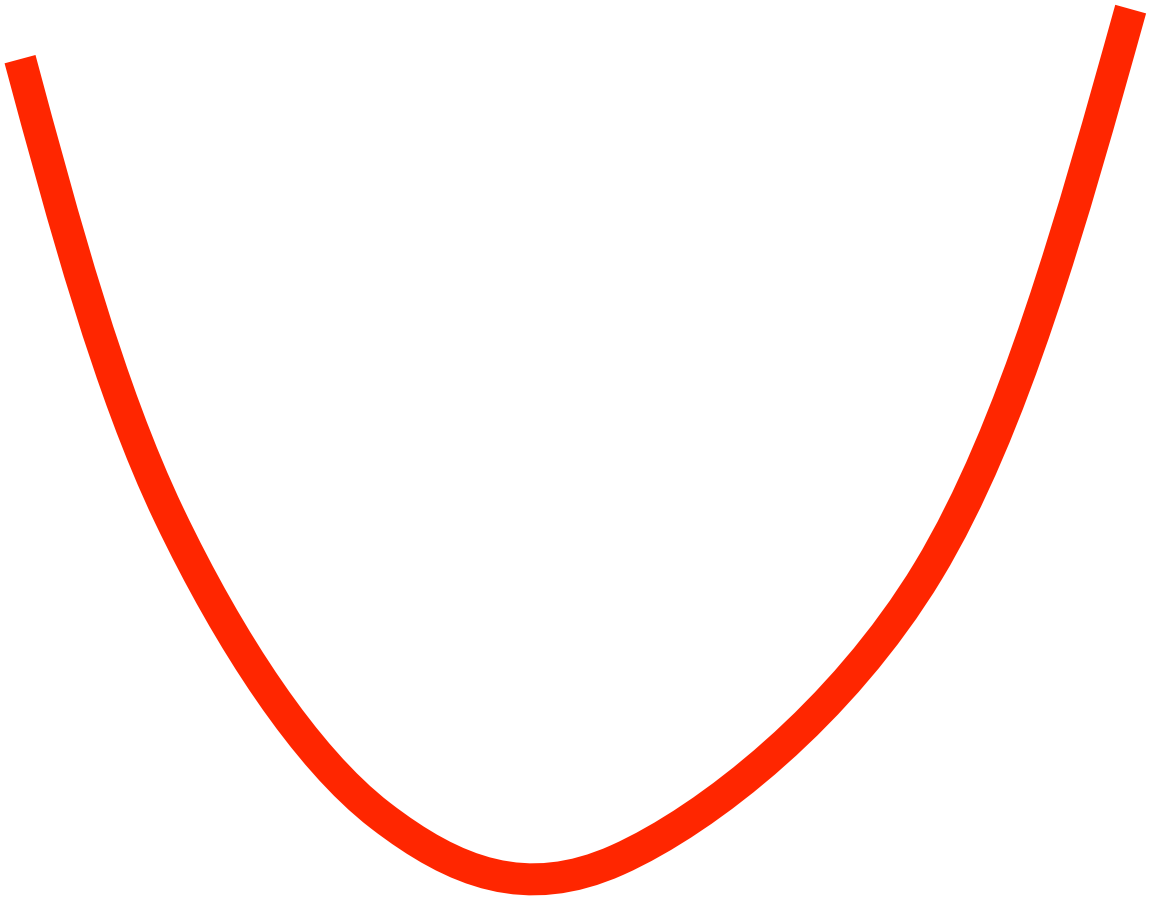
150,000

500,000


150,000

10,000

Smallest plant with lowest LRATC?



The smaller the size of the MES, the larger the number of firms in the industry

= 6 firms

=20 firms

=300 firms

10,000

If the MES is a large plant which reaches min cost at a large output level such as Q= 500,000 units

Total Demand = 3,000,000


There is room for only 6 firms with this MES to supply the industry

MES

If the MES is smaller: a plant that reaches min cost at Q=150,000


There is room for
20 firms with this
smaller MES

If the MES is a small plant that reaches min cost at Q=10,000


There is room for
300 firms with
this smaller MES

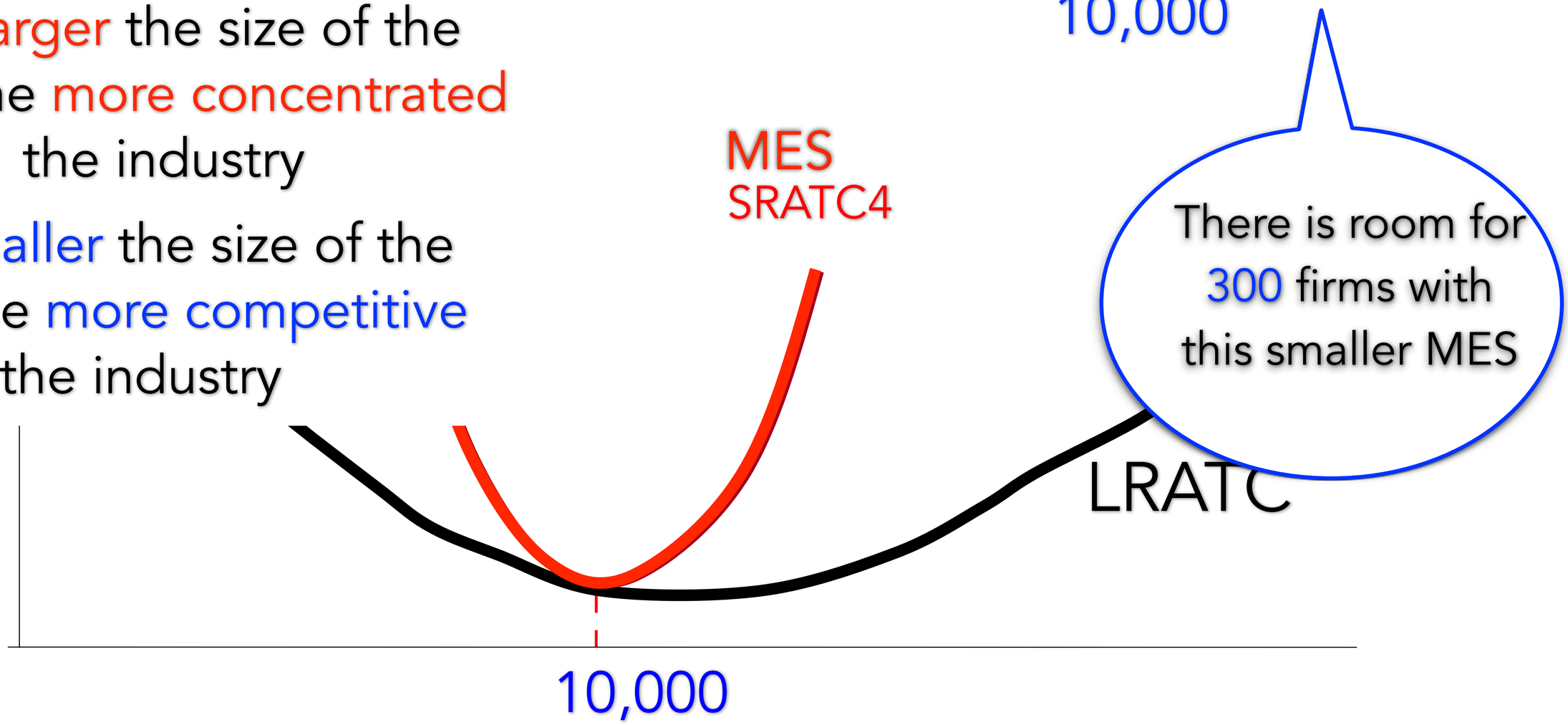
The smaller the size of the MES, the more competitive the industry

The larger the size of the MES, the more concentrated the industry

The larger the size of the MES, the more concentrated the industry

The smaller the size of the MES, the more competitive the industry

Total Demand = $\frac{3{,}000{,}000}{10{,}000}$ = 300 firms



The smaller the size of the MES, the larger the number of firms in the industry

Perfectly Competitive Markets