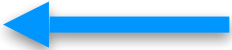
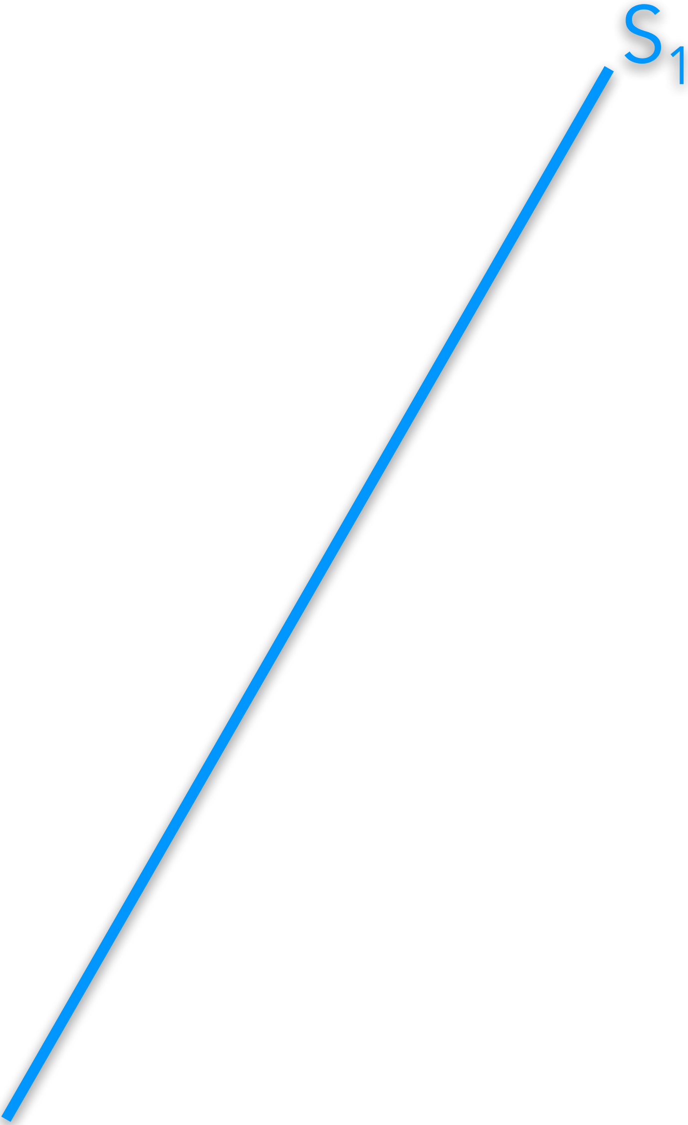
ATC

MC

D

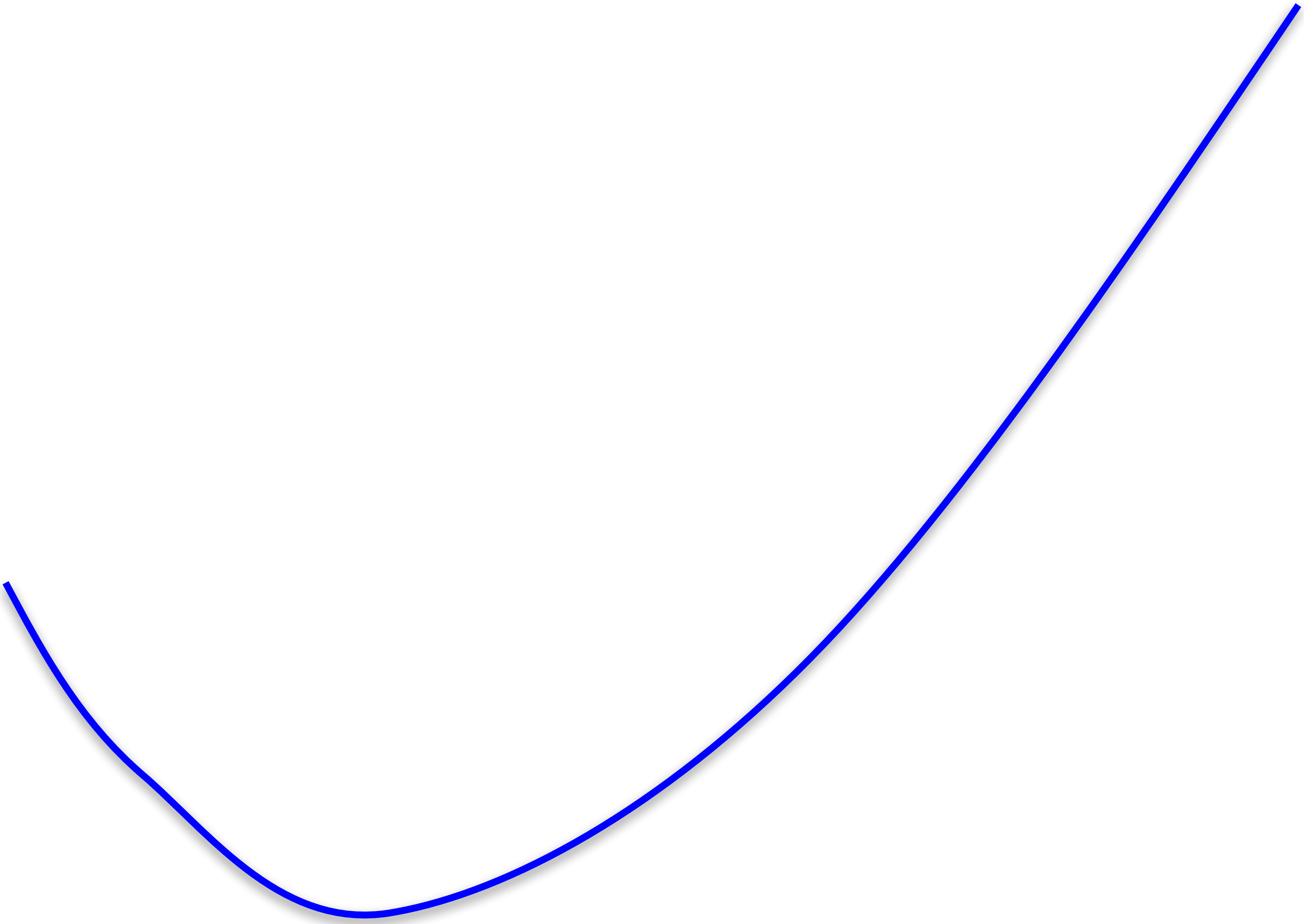
$S_0$



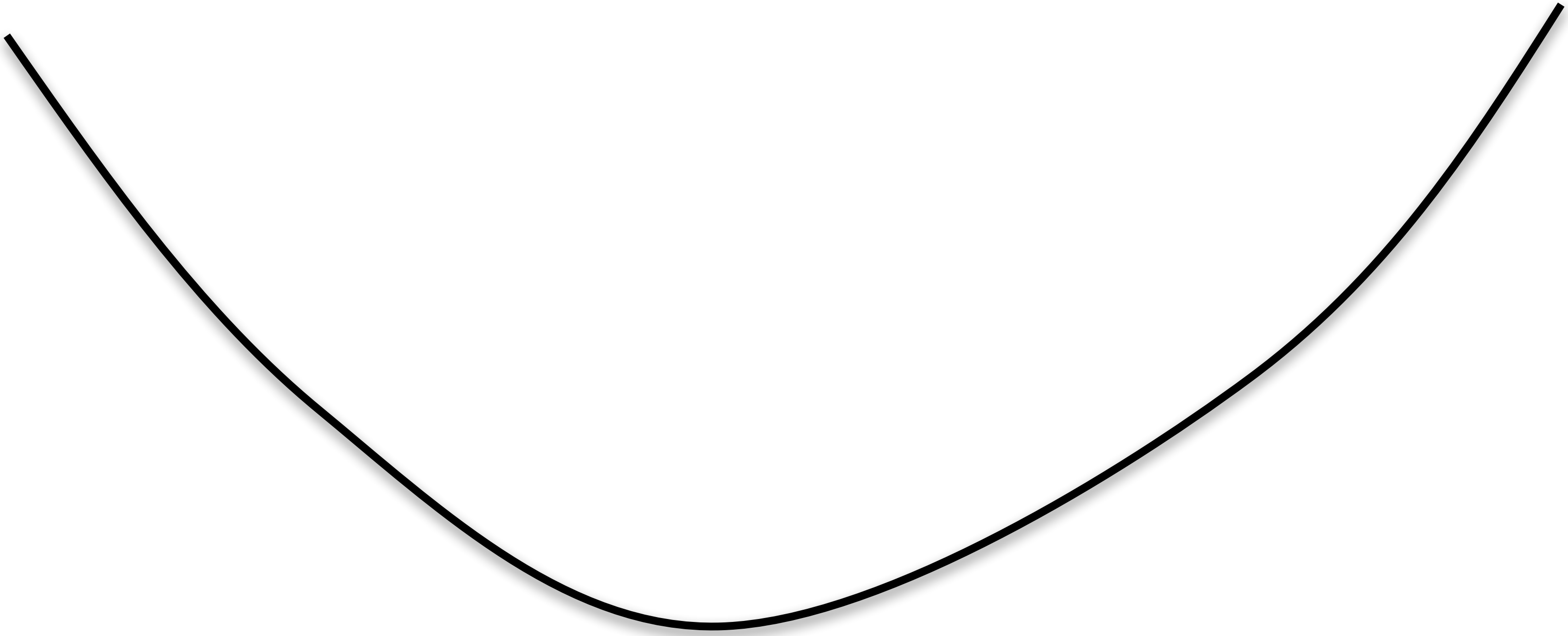

$S_1$


P1
MR1

$q_1$



$q_0$



# I

n

P

e

r

f

e

C

t

C

O

m

p

e

t

i

t

i

O

n

e

X

i

t

f

r

O

m

h

e

i

n

d

U

S

t

y

i

S

C

O

S

t

e

S

$P_0$ - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - $MR_0$

# Once the price = ATC, losses are zero

Firms exit, supply shifts left and price rise until P = Min ATC

# Firms exit the industry because they incur a loss: Supply shifts left

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


Price
rise

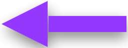
# More firms exit the industry due to losses: Supply shifts left again

$P_2$ - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - $MR_2$

$q_2$


$S_2$

# More firms exit the industry due to losses: Supply shifts left again




$S_2$

$P_3$ - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - $MR_2$

$q_3$

Each firm in the industry produces $q_0$ the profit maximizing output

# Market View

# A Typical Firm's View

Once losses are zero no more firms exit the industry and Supply no longer shifts

# P

MC, ATC

# Q

q

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


Price
rise


Price
rise

# Loss

# Loss

# Loss

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 exit from the industry is costless

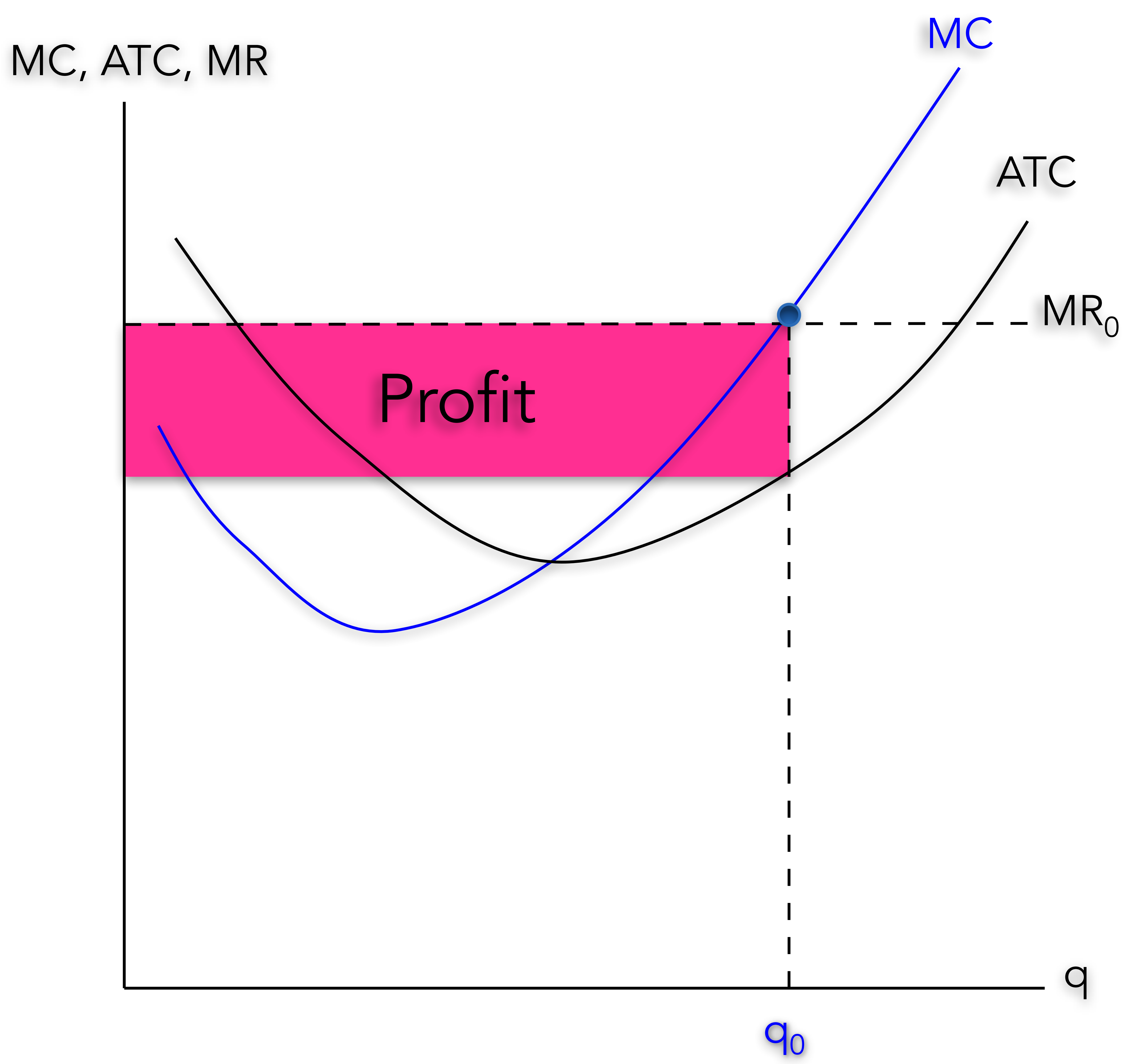
# In Perfect Competition exit from the industry is costless

Market View

A Typical Firm's View


Once losses are zero no more firms exit the industry and Supply no longer shifts

Firms exit, supply shifts left and price rise until P = Min ATC


MC, ATC, MR
MC
ATC
$MR_0$
Profit
q
$q_0$