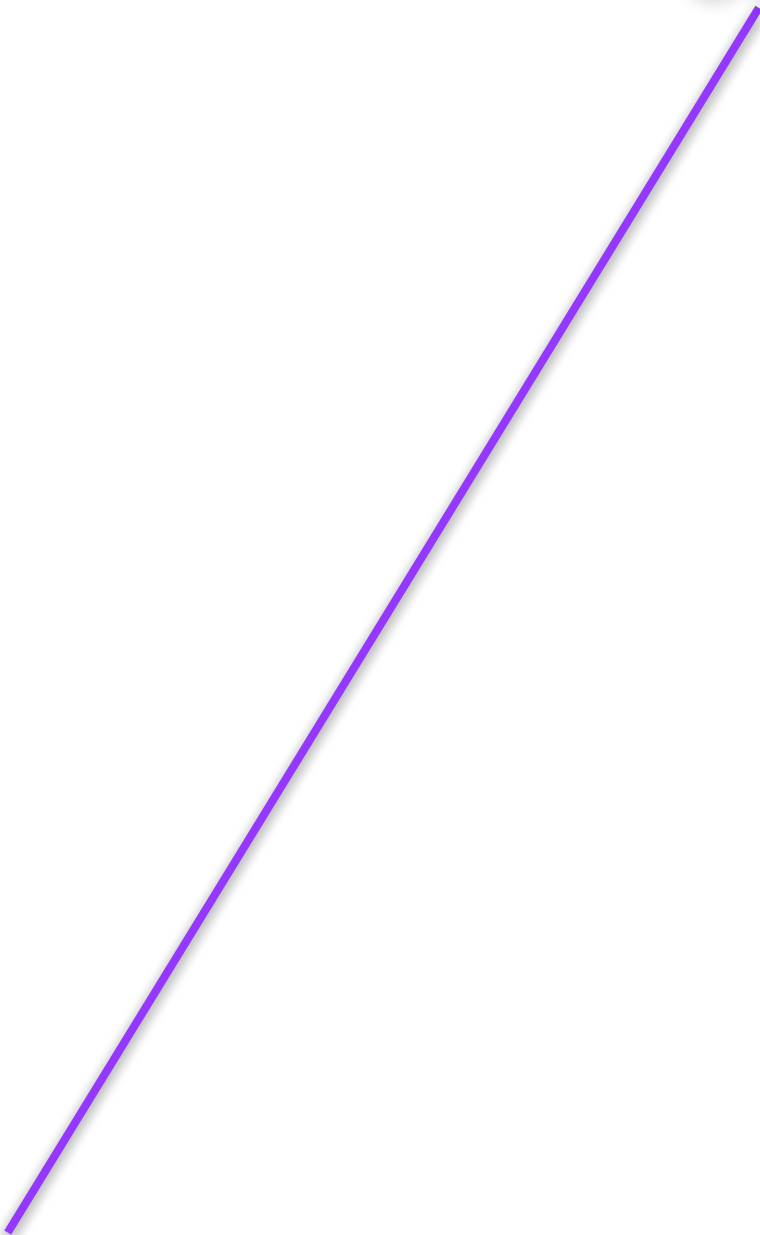


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Competition forces firms to be **efficient**: To produce with the **plant** that has the **lowest costs in the industry**

90





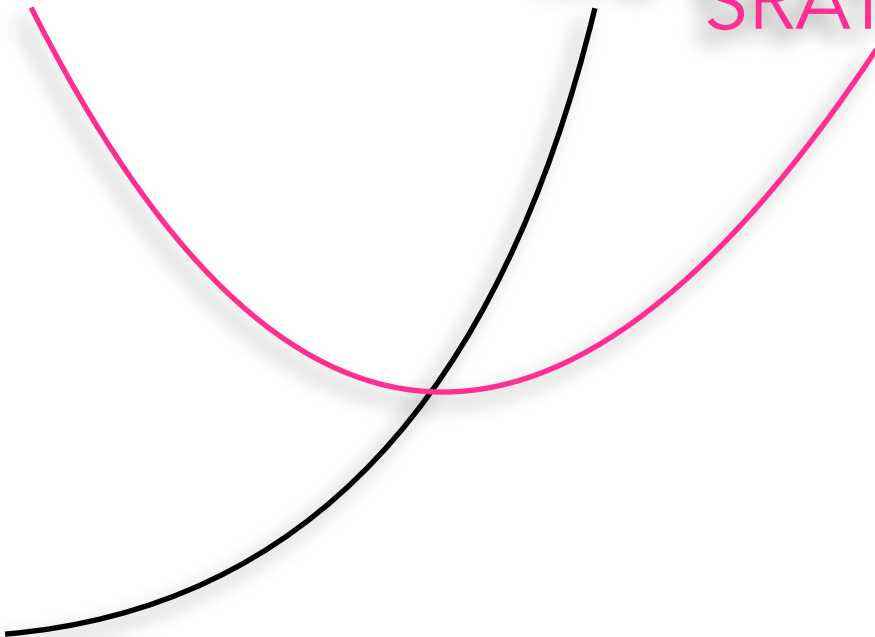
A pink speech bubble with a white drop shadow, pointing towards the bottom-left. It contains white text.

Firms are producing
with a plant that is
“too small” with
high costs

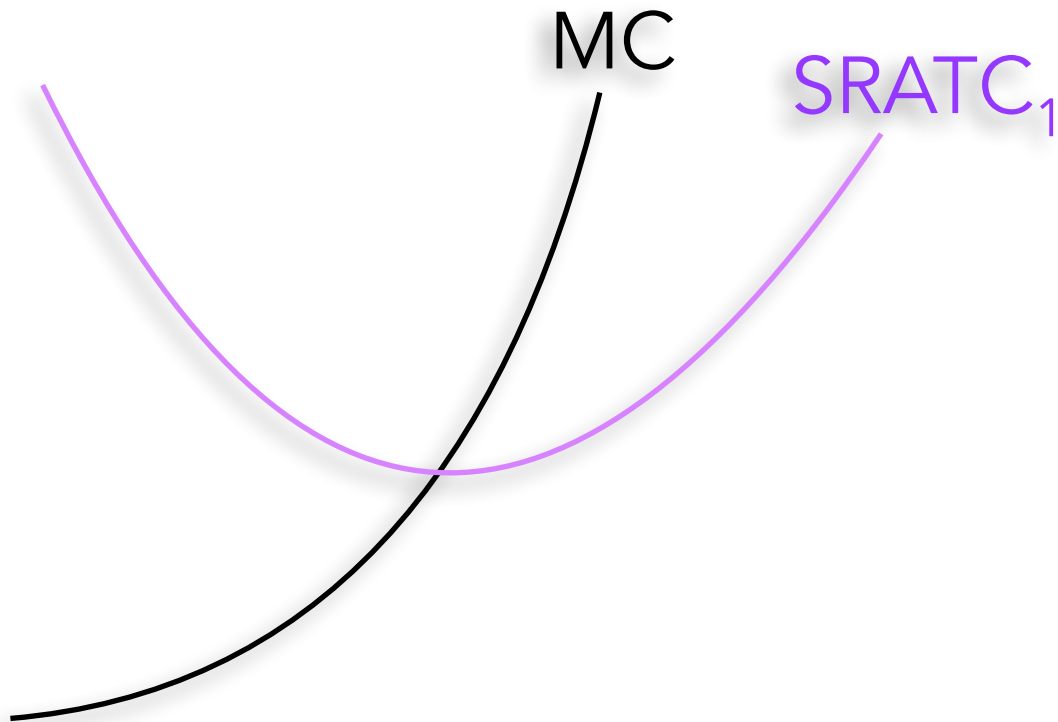


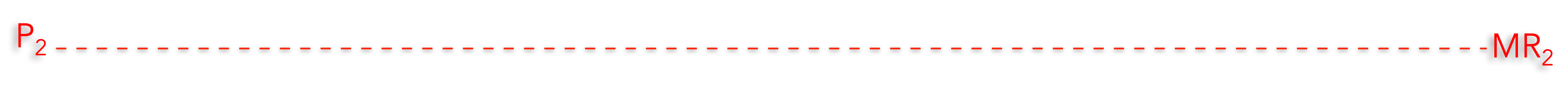
MC

SRATC₀



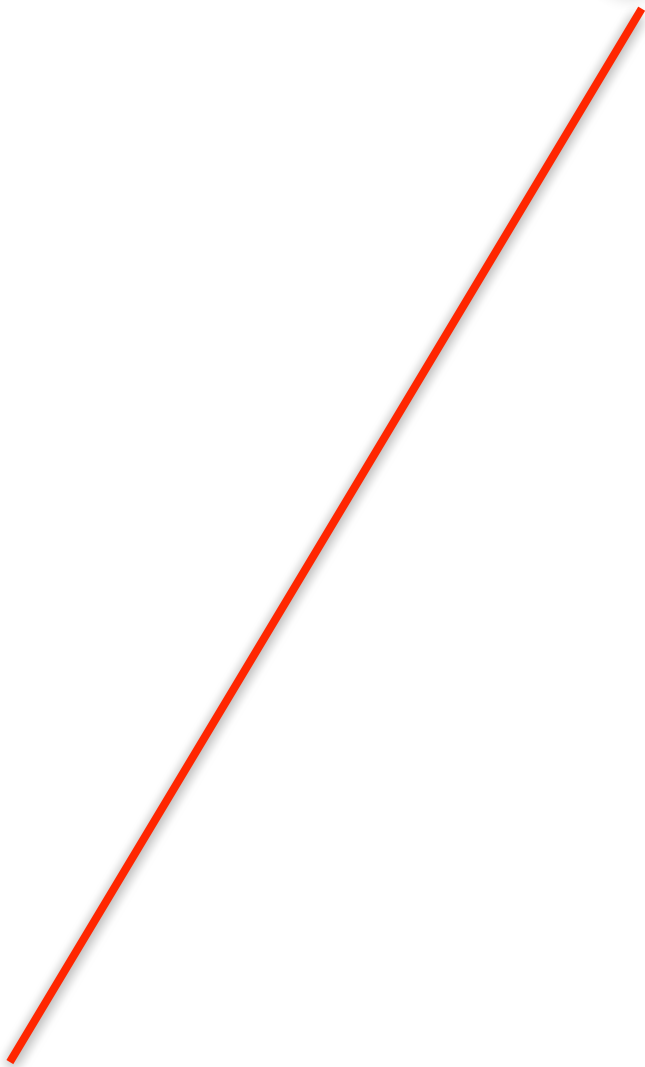








S_2



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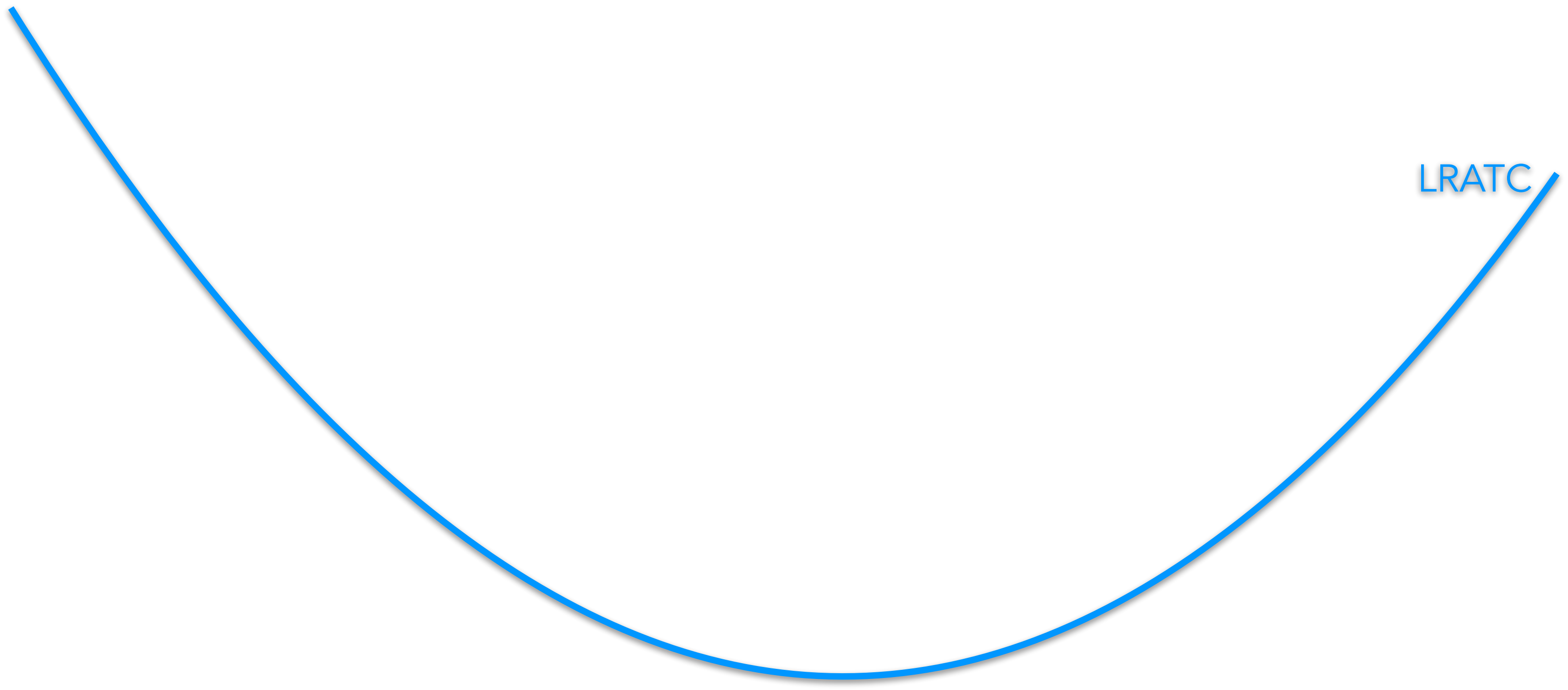
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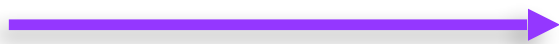
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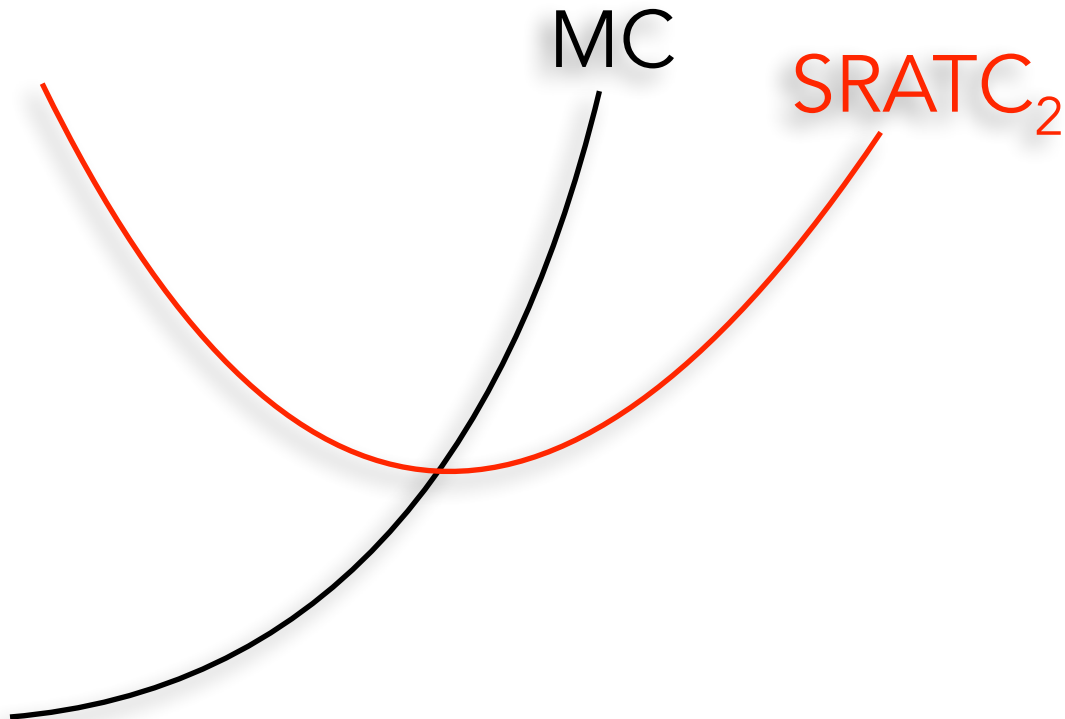
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q_2

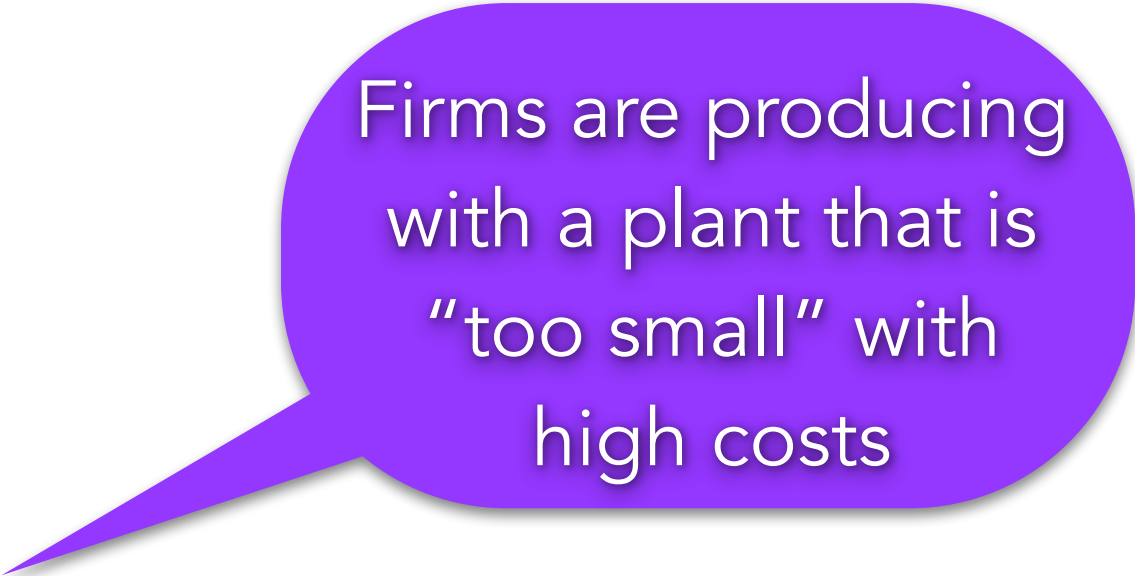




Each firm can now produce
more: Supply shifts right







Firms are producing
with a plant that is
"too small" with
high costs

Firms **expand** their plants again
to avoid being priced out



Supply shifts right again

Competition forces firms to **expand** their
plant until they **minimize** the **LRATC**

P,

MC,


MR,

ATC



P





All remaining firms
produce with a plant
that has the lowest
costs for the industry



Price
drops
until equal
to Min
ATC



Price
drops
until equal
to Min
ATC



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

Firms expand their plants
to avoid being priced out

Competition forces firms to be **efficient**: To produce with the **plant** that has the **lowest costs in the industry**

Firms **expand** their plants again to avoid being priced out

