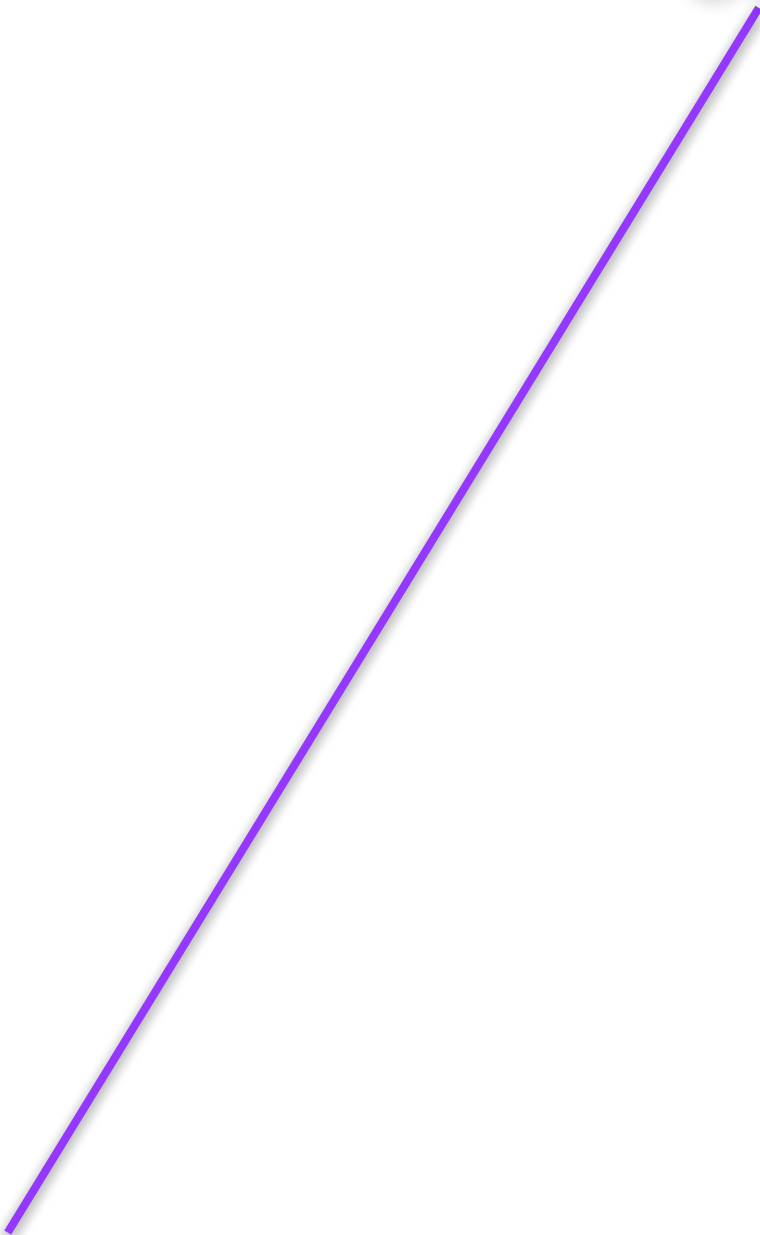


S<sub>0</sub>



$S_1$





q<sub>1</sub>

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6

7

8

9

0

1

2



$P_0$  -----  $MR_0$

**F**







m

S



e



p

a

n



d



h

e





**p**

[REDACTED]



a

n



S





a

**V**







d

**b**

e



n

g



**p**





C

e

d



u





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

90

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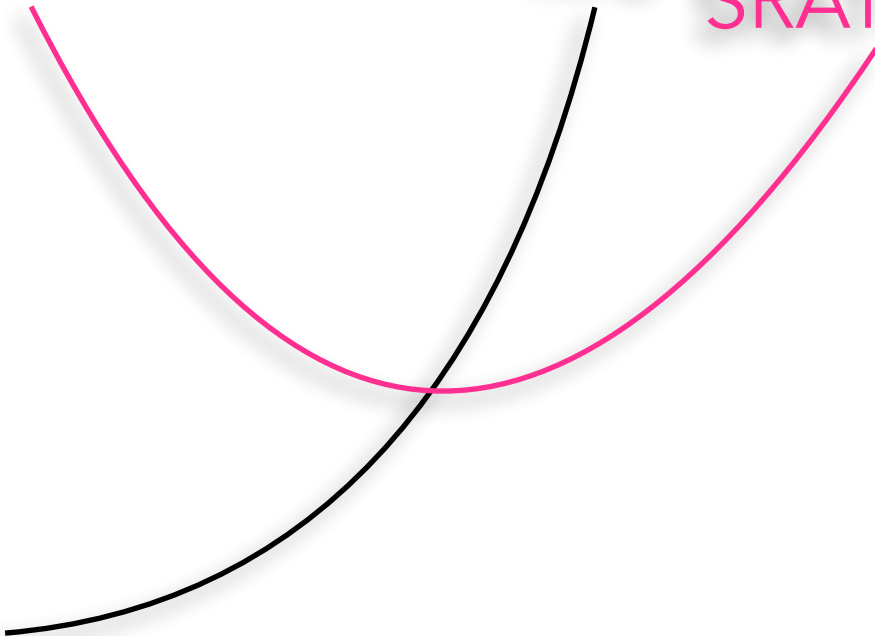
A pink speech bubble with a white drop shadow, pointing towards the left. The text inside is white and reads: "Firms are producing with a plant that is 'too small' with high costs".

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



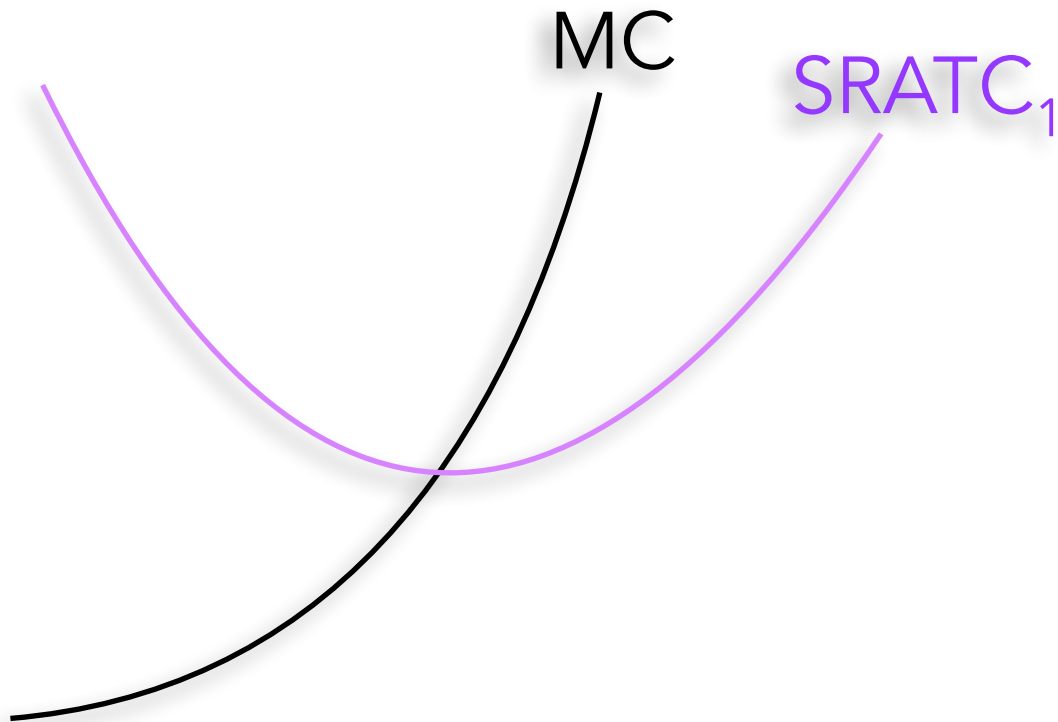
MC

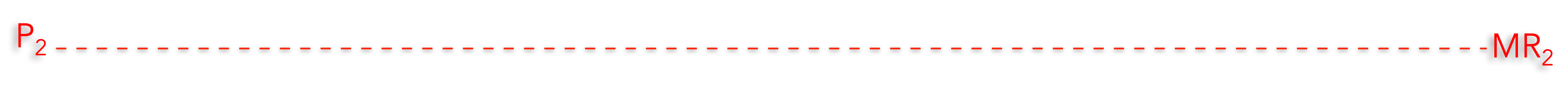
SRATC<sub>0</sub>





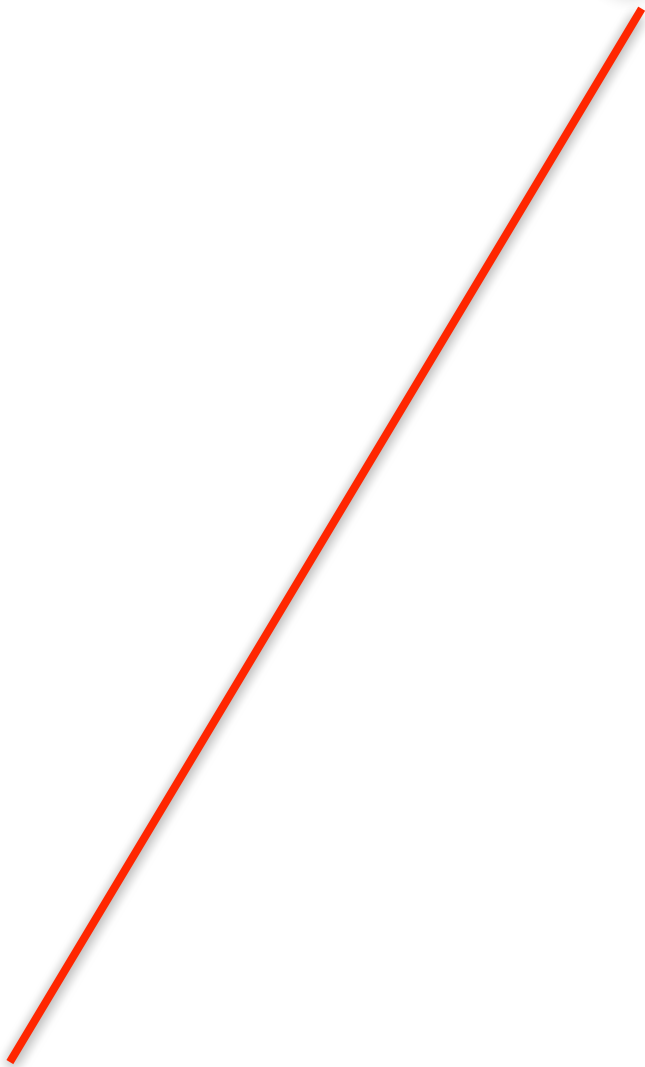








$S_2$



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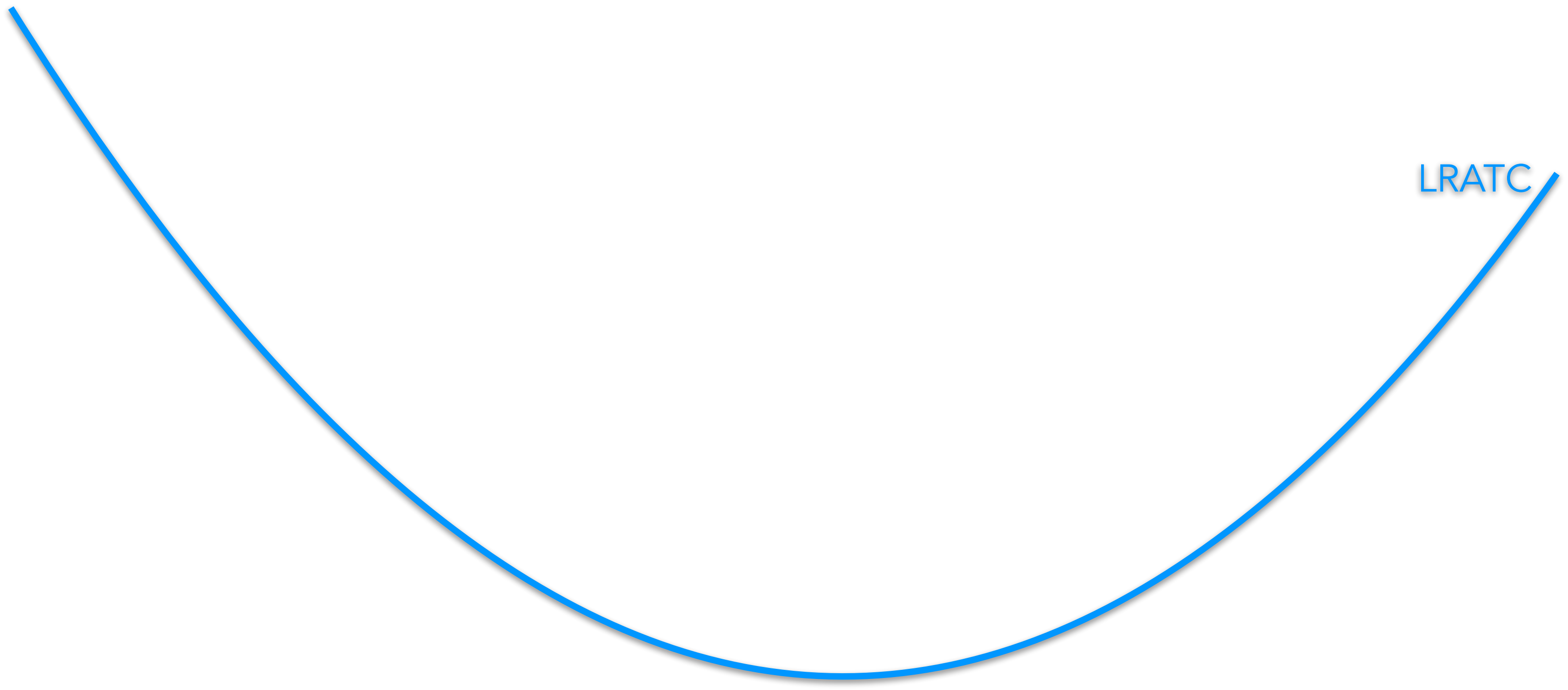
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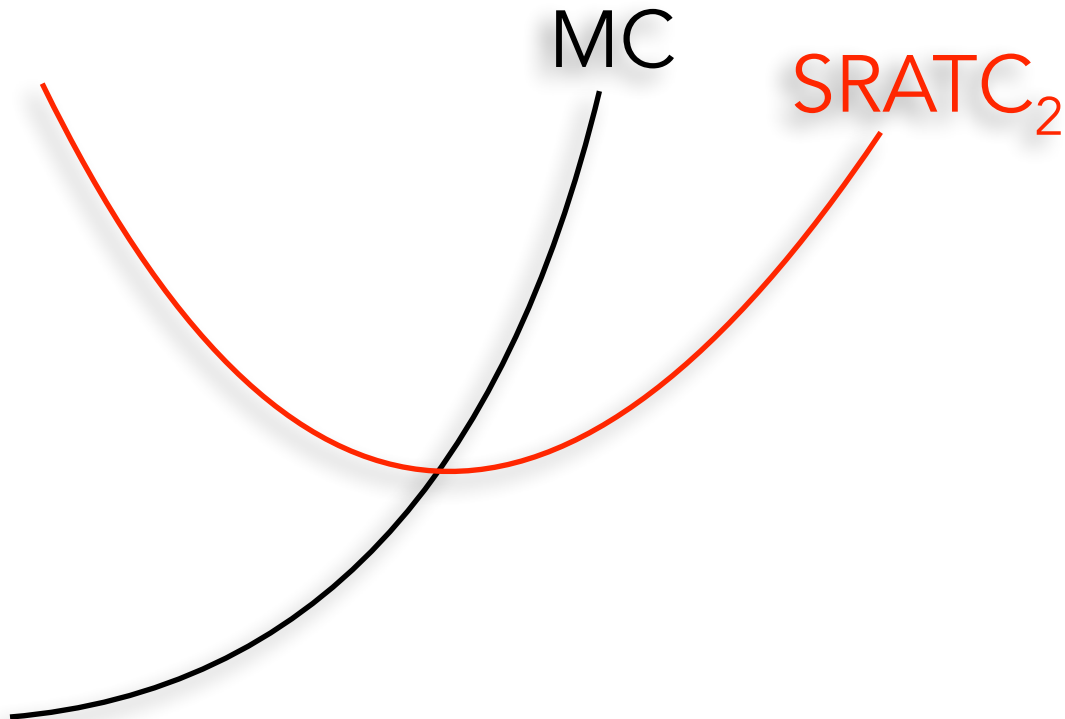
$q_2$



LRATC

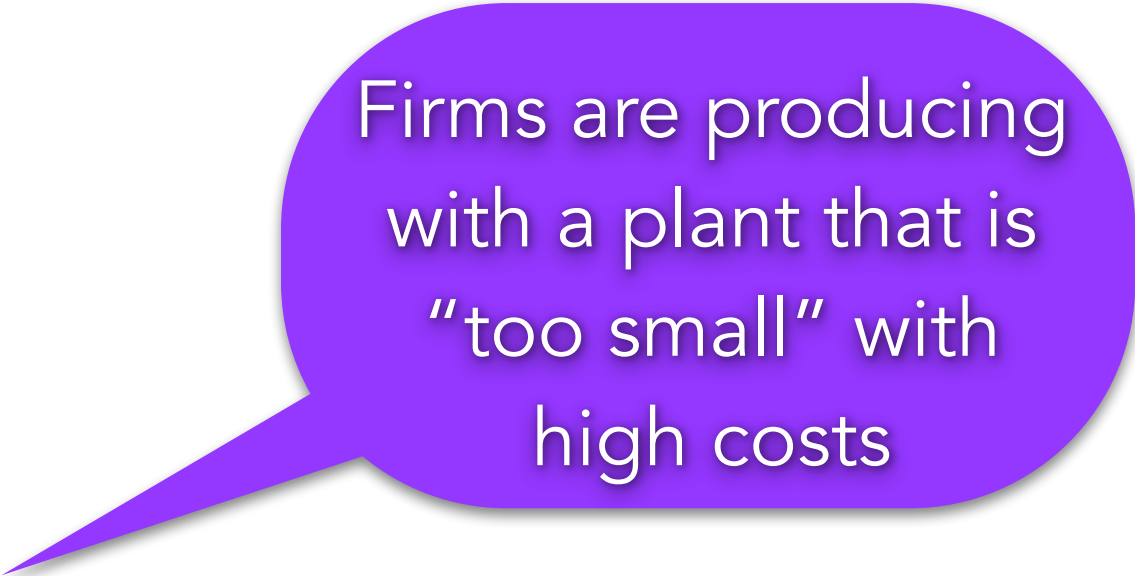


Each firm can now produce  
more: Supply shifts right









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 Perfect 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

