ATC

MC

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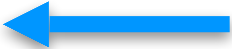
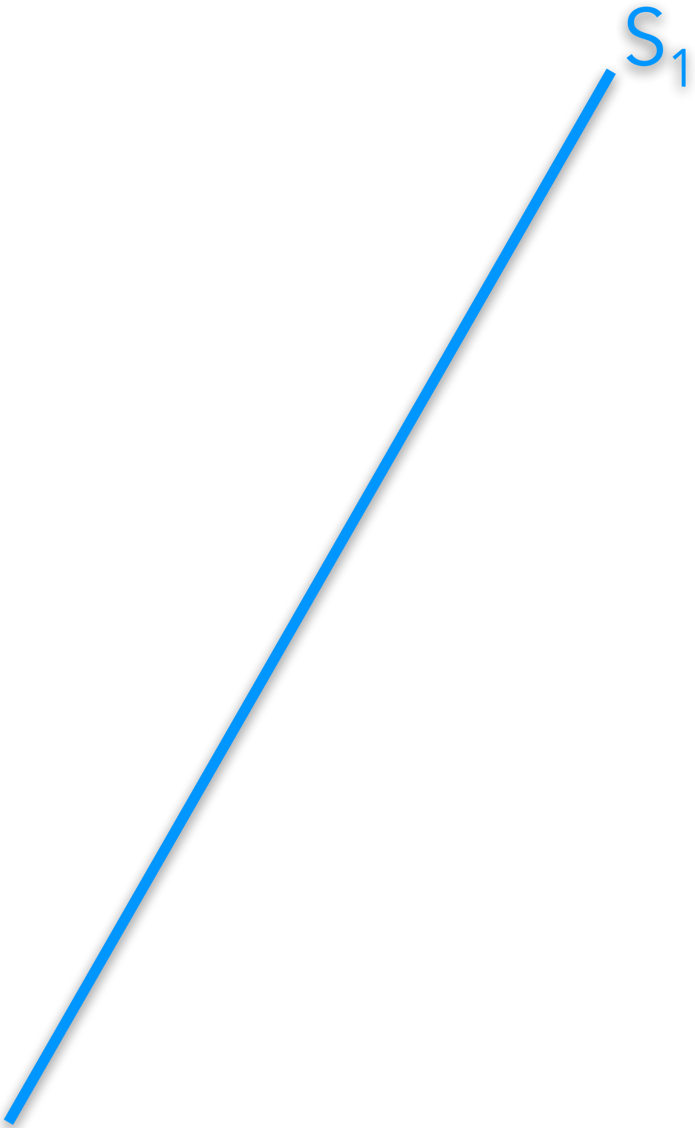
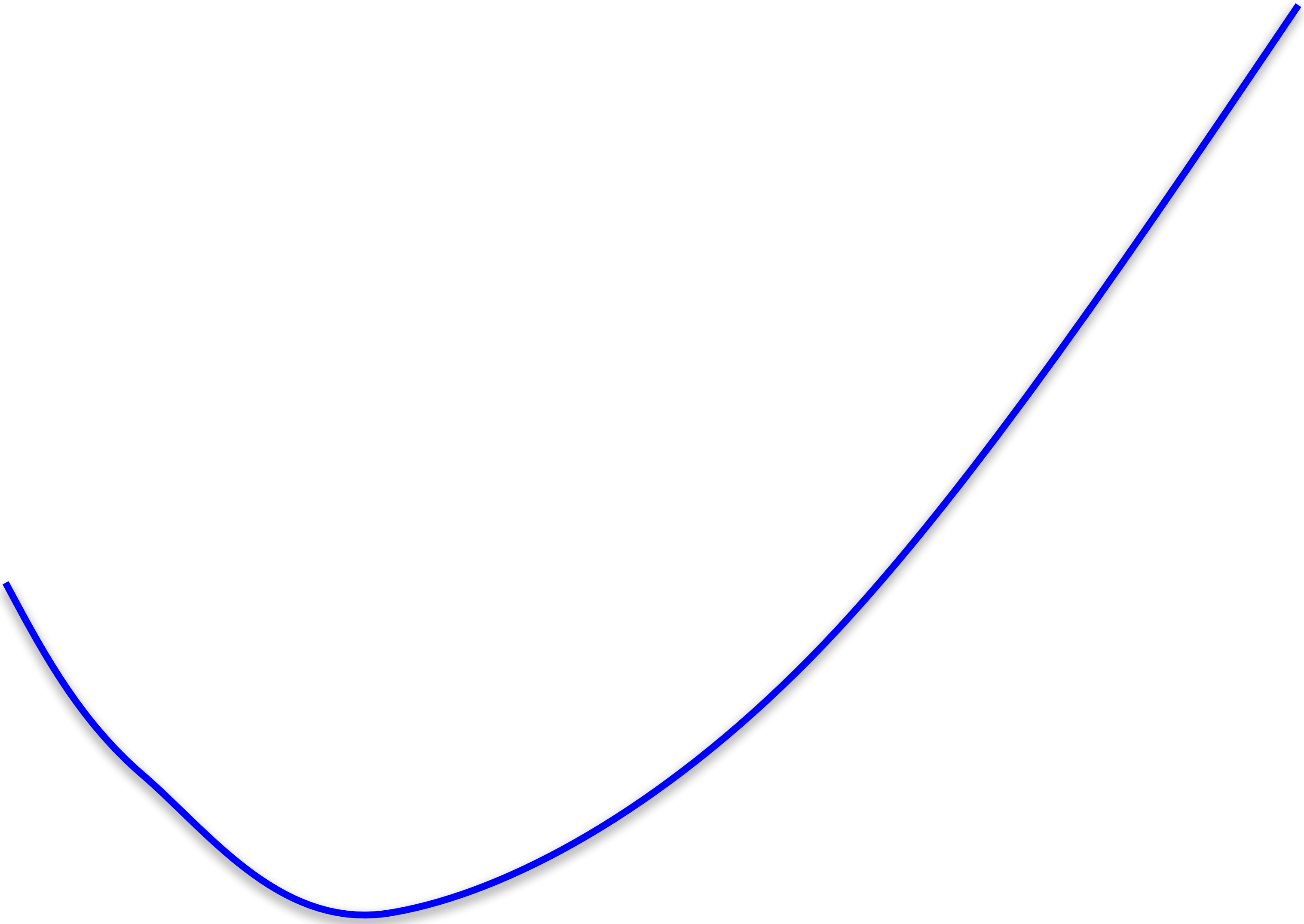
S_0



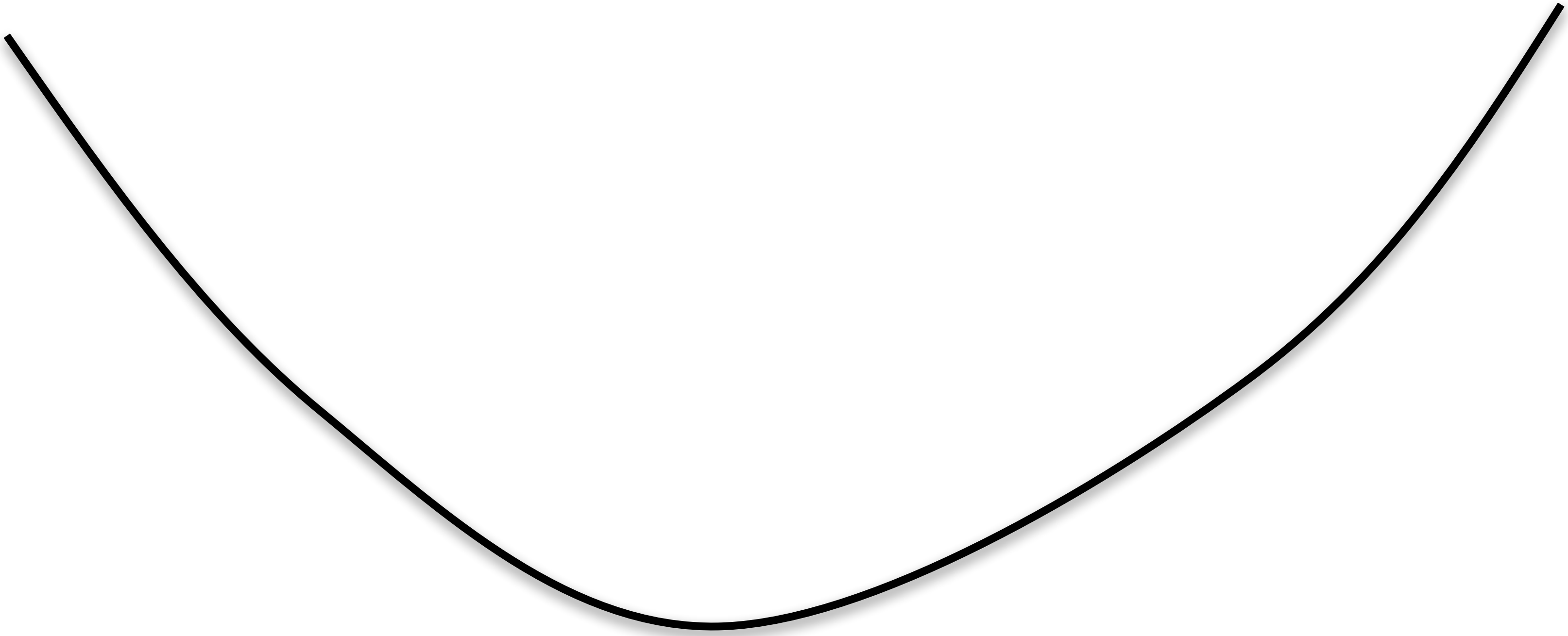

S_1

P_1 - MR_1

q_1



q_0



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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

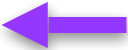
More firms exit the industry due to losses: Supply shifts left again

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

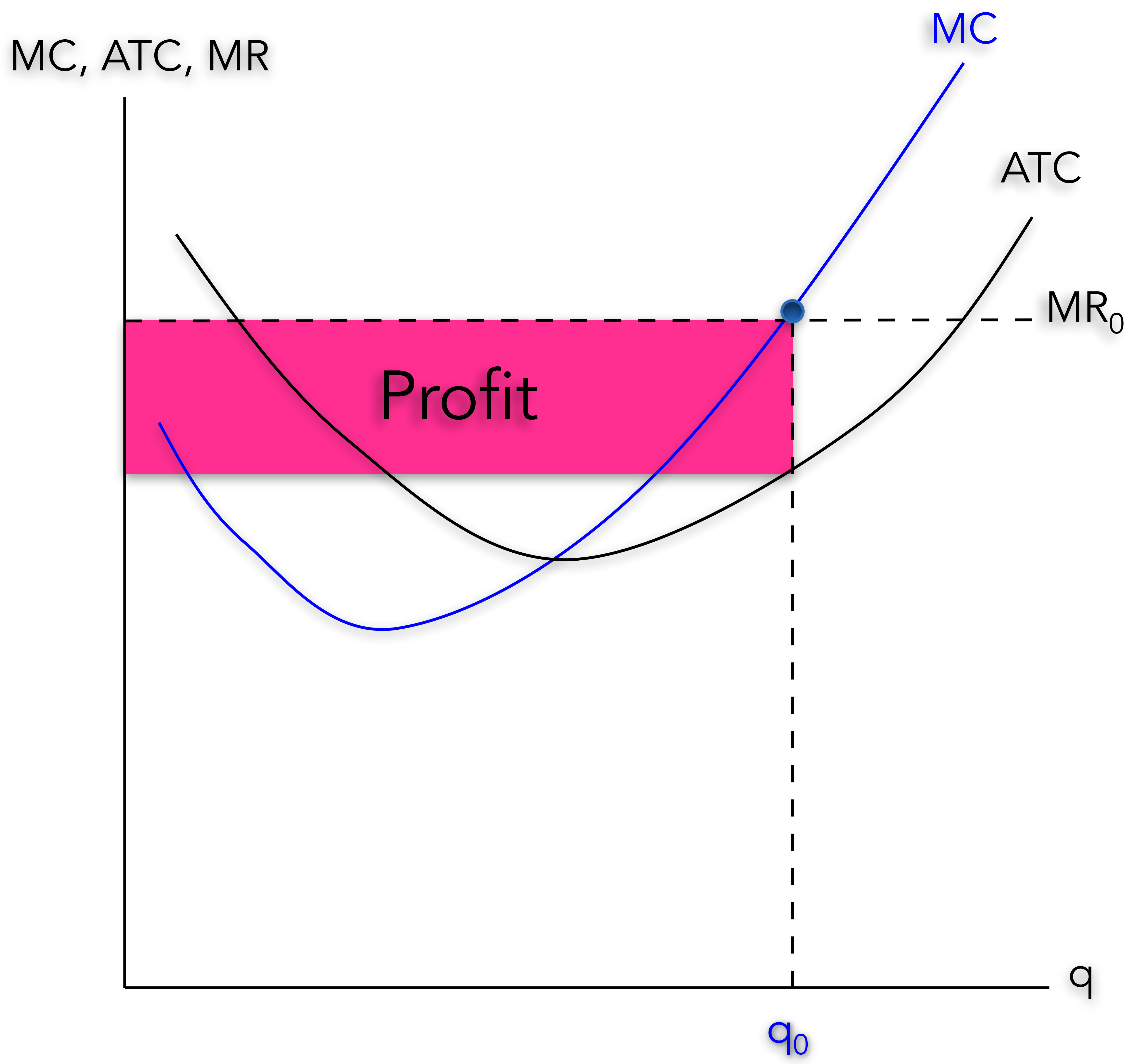
Loss

In Perfect Competition exit from the industry is costless

In Perfect Competition exit from the industry is costless

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
MR0
Profit
q
q0