Day 8

→ $\pi = PQ - wL - rk$ — Revenue

π → Retained earning

PQ → Revenue or Total sales

If p, w, r are competitive prices.

→ Production decision :

$Q > 0$ if Retained profit $\geq$ opportunity cost

Economic profit $= PQ - wL - rk$ − Rent − implicit cost $= 0$

This is normal profit

P → competitive price of the output (Fair market price)

$\left.\begin{matrix} w \\ r \end{matrix}\right\}$ → Fair market price to labourers and capital holders.

☆ In monopoly market, abnormal profit is made

☆ Paying higher wage to more skilled workers, less to less skilled workers is such that actual price < overall market price.

→ Ideal conditions:

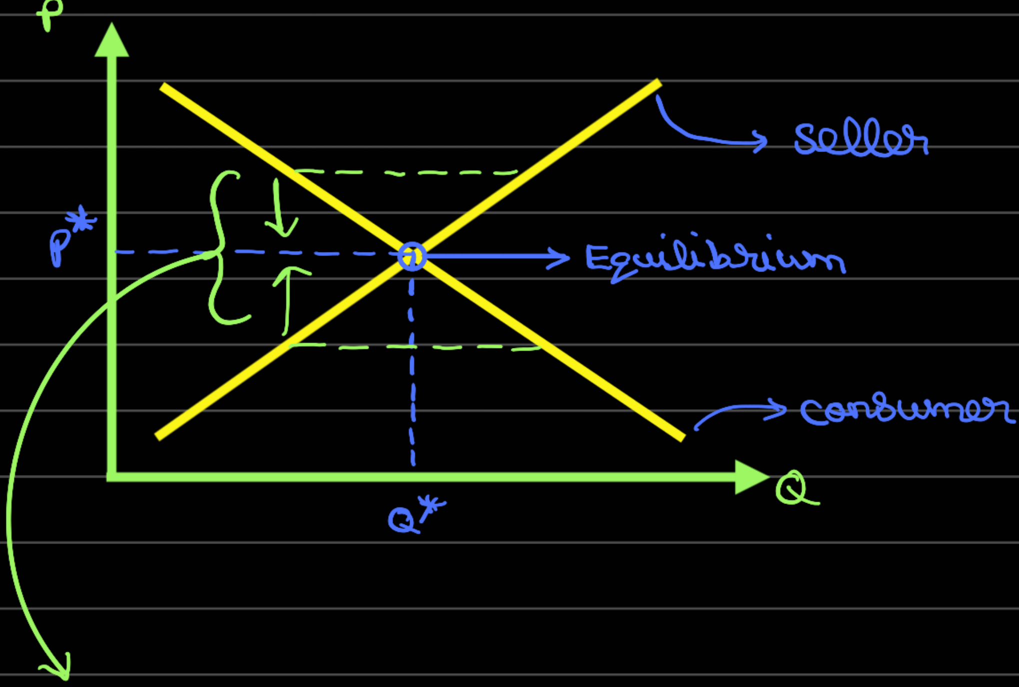
Large no. of buyers and sellers.

→ Equilibrium

→ Equilibrium –

The combination of P and Q from which seller and buyer do not want to deviate

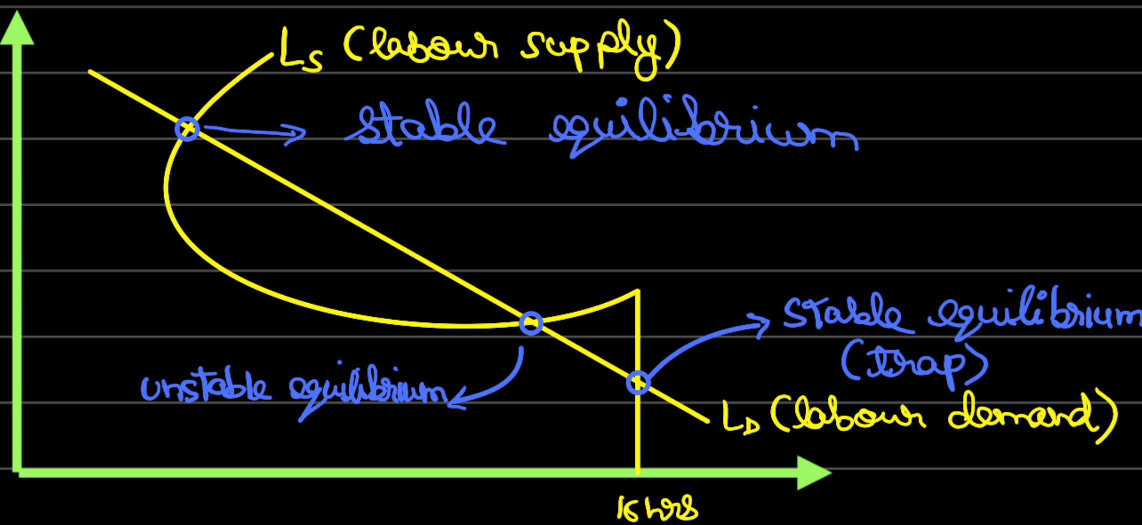
→ Stability –



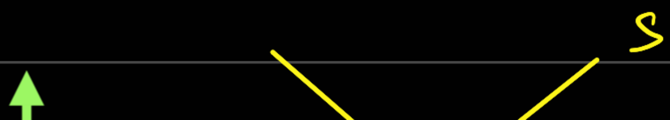
Stable market

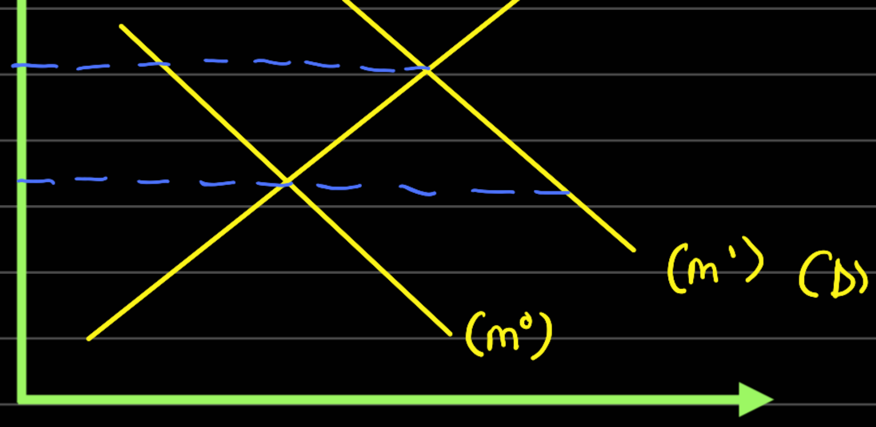
If L, S are reversed, that graph is unstable market (not possible practically)

→ Practical example of stability :



→ Comparative Static :

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