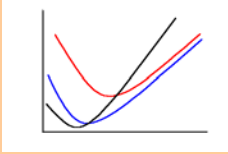


A Competitive Industry



A Competitive Industry

- The General Rules
 - Produce widgets until $MC = P$.
 - If I cannot cover VC, shut down immediately
 - If I cannot cover my $VC + FC$, start shedding my fixed costs. Then shut down.

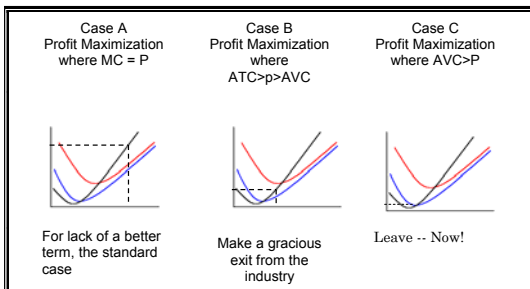
A Competitive Industry

- The General Rules
 - Produce widgets until $MC = P$.
 - If I cannot cover VC, shut down immediately
 - If I cannot cover my $VC + FC$, start shedding my fixed costs. Then shut down.

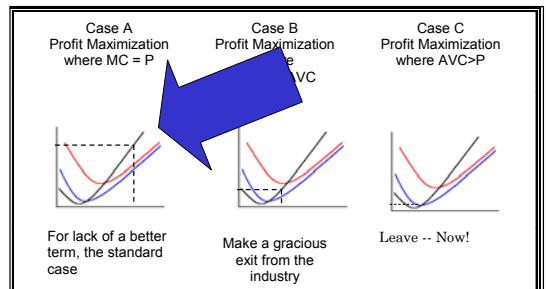
A Competitive Industry

- The General Rules
 - Produce widgets until $MC = P$.
 - If I cannot cover VC, shut down immediately
 - If I cannot cover my $VC + FC$, start shedding my fixed costs. Then shut down.

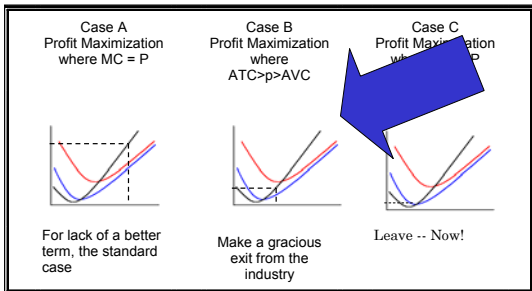
The Graphics of the Rule



The Graphics of the Rule



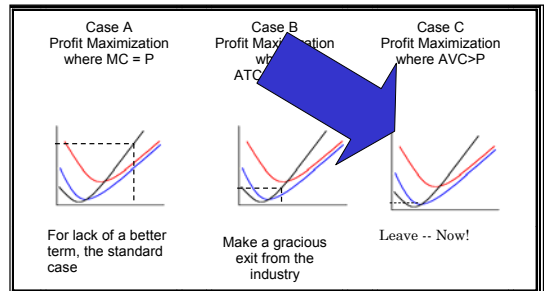
The Graphics of the Rule



KENT STATE UNIVERSITY

A Competitive Industry

The Graphics of the Rule



KENT STATE UNIVERSITY

A Competitive Industry

A Competitive Industry

- Two cases:
 - When all firms have the same cost functions
 - When firms have different cost functions

KENT STATE UNIVERSITY

A Competitive Industry

A Competitive Industry

- Two cases:
 - When all firms have the same cost functions
 - When firms have different cost functions
- We do the first case here; the second case in a later lecture.

KENT STATE UNIVERSITY

A Competitive Industry

Identical Cost Functions

- In many cases, the assumption of identical production functions and hence identical cost functions make sense.

KENT STATE UNIVERSITY

A Competitive Industry

Identical Cost Functions

- In many cases, the assumption of identical production functions and hence identical cost functions make sense.
 - Consider machine shop operators Smith and Jones

KENT STATE UNIVERSITY

A Competitive Industry

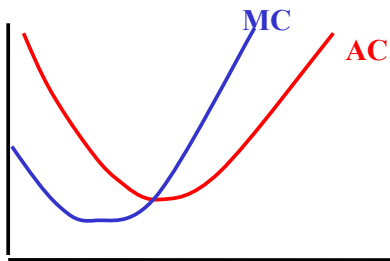
Identical Cost Functions

- In many cases, the assumption of identical production functions and hence identical cost functions make sense.
 - Consider machine shop operators Smith and Jones
 - Wilson, Brown and Green can also enter with the same production function.

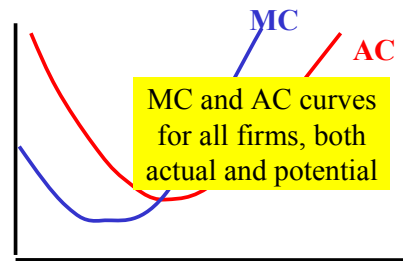
Identical Cost Functions

- In many cases, the assumption of identical production functions and hence identical cost functions make sense.
 - Wilson, Brown and Green can also enter with the same production function.
- After all, is there a difference between McDonald's and Burger King?

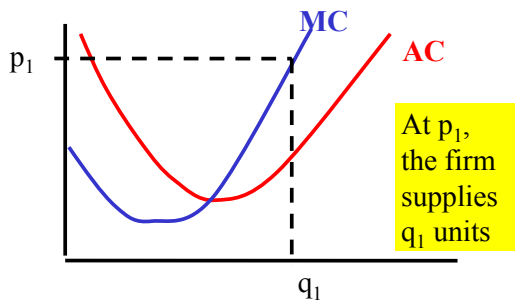
The Graphical Analysis



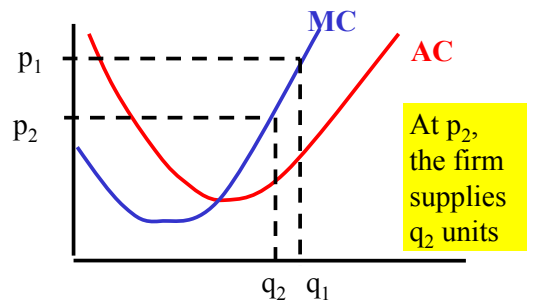
The Graphical Analysis



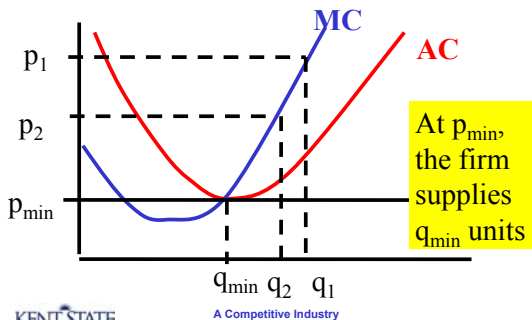
The Graphical Analysis



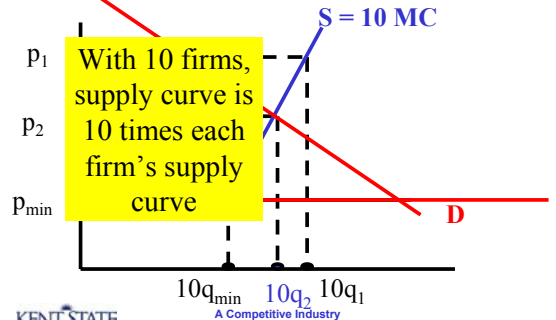
The Graphical Analysis



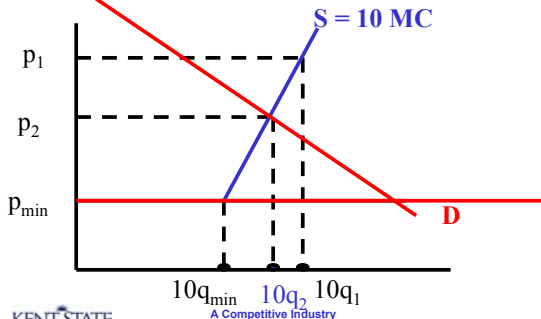
The Graphical Analysis



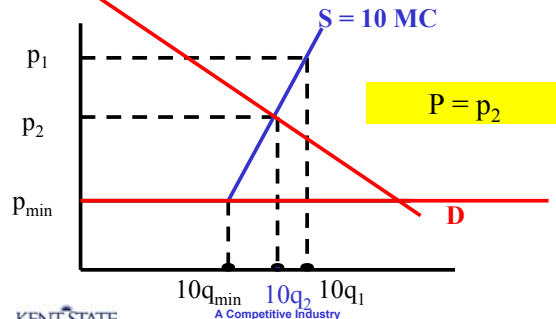
Industry Equilibrium



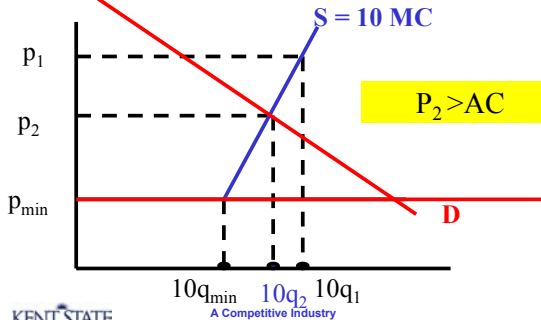
Industry Equilibrium



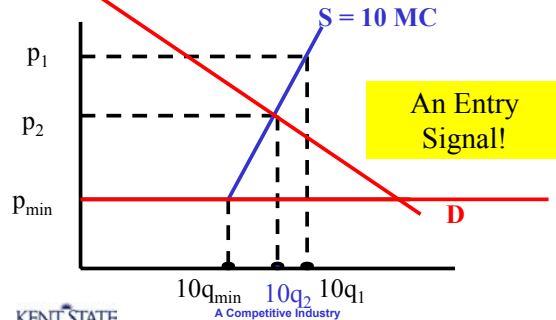
Industry Equilibrium

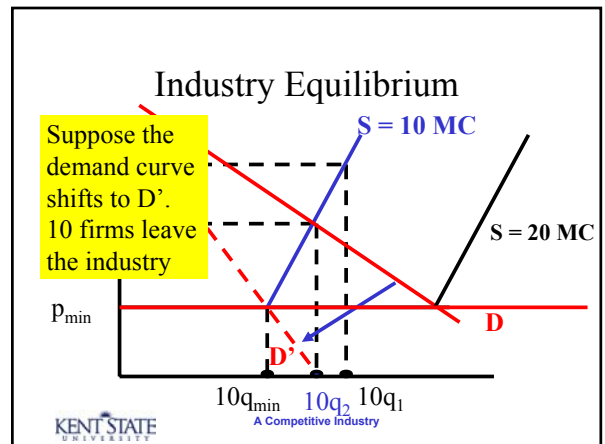
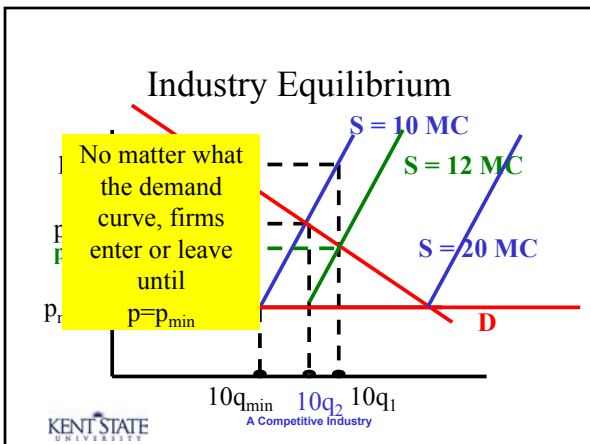
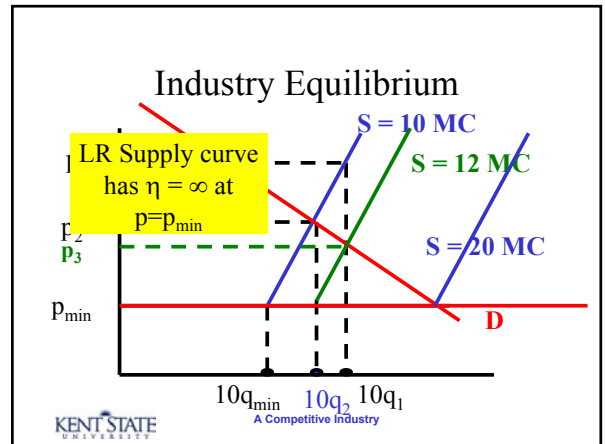
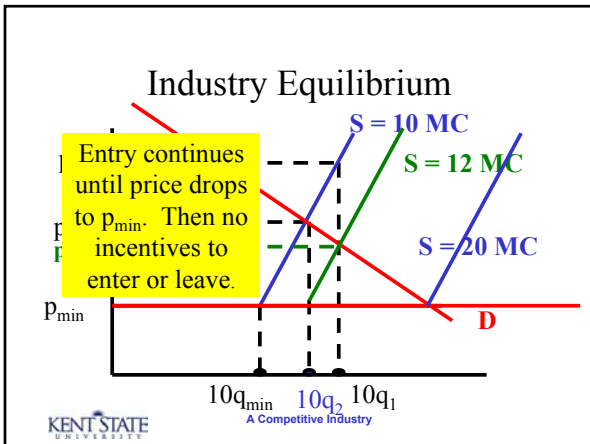
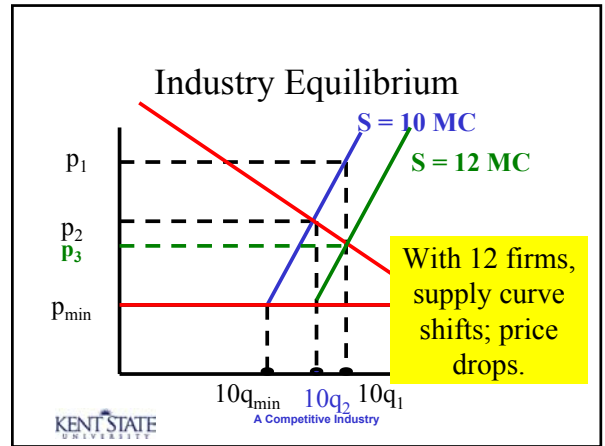
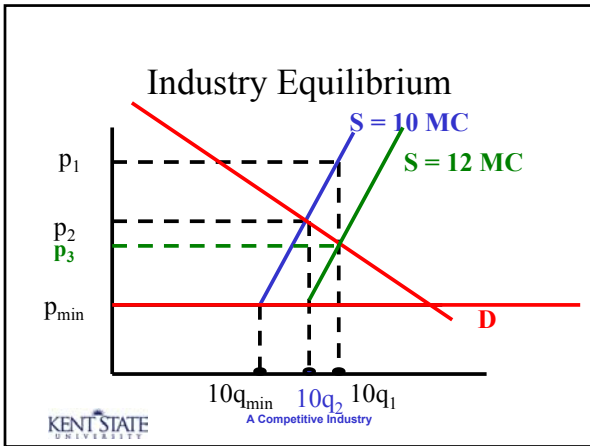


Industry Equilibrium

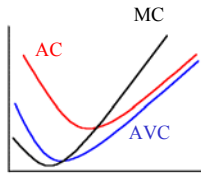


Industry Equilibrium



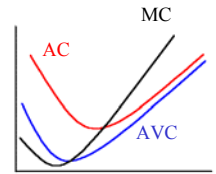


The U-Shaped AC Curve



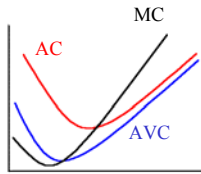
The U-Shaped AC Curve

- Common sense suggests initially, AC is downward sloping.



The U-Shaped AC Curve

- Common sense suggests initially, AC is downward sloping.
- If it never sloped upward, $MC < AC$. Always. No competitive firms.



End

©2003 Charles W. Upton