

# Micro econ exam review



**ASSIGN  
BUSTER**

Characteristics of competitive markets (3): There must be many buyers and sellers, none of whom can have a large market share, a few players cannot dominate the market. Firms must produce a standardized product, buyers must see all their products as equivalent. (Identical (Homogeneous)

Products), Firms and resources are typically fully mobile, allowing free exit and entry. These three conditions make all consumers and producers price-takers. Models: Section 12. 2 Market Market Assumptions: Firm The firm is a profit maximizing firm.

The individual firm can sell all they can at the market price. Each Individual firm supplies only a small portion of market supply, and therefore can't manipulate the market price. The firm is a price-taker: they take the market price as given. 2. Profit Maximization: The firm will maximize profit at the output level that has the greatest difference between Revenues + Cost. The firm can/will profit maximize where Marginal Revenue (MR..) = Marginal Cost (MAC). Since the perfectly competitive firm is a price taker  $P = MR...$

Therefore, the profit maximizing condition can be written  $MR.. = MAC$  or  $FEM..$  (Same

Condition). If  $MR.. > MAC$  then Increase Output. If  $MAC > MR..$  Then Decrease Output. Model: Section 12. 3 Finding the Profit Maximizing Level of Output Model: 1 OFF Determine if the firm is generating economic profits, economic losses, or Zero economic profits. NOTE: cost curves include both implicit + explicit costs + can therefore be used to determine economic profits or losses. 4 Step Process: 1 . Determine the profit maximizing level of output (where  $MR.. = MAC$ ). 2. Calculate total revenue = Price x Quantity 3.

Calculate total cost = TACT x Quantity (TACT is always U Shaped) 4.

Compare TRY + ETC

If TRY > ETC then Con. Profits If ETC > TRY then Con. Losses If TRY = ETC

then Zero Con. Profits 5. Models on next page. Section 12. 4: Economic

Profits Economic Loss Zero Economic Profits Economic Profits: firm is

generating enough revenue to cover accounting cost + opposing cost of resources employed. (Covering both explicit + implicit costs) Indicates an

efficient allocation of scarce economic resources. Economic Losses: firm may

be covering act. Cost but they are not covering the pop. Cost of resources

employed. Indicates an inefficient allocation of scarce economic resources.

Long - Run Analysis: If existing firms are generating economic profits: it will

result in outside firms/ resources to enter the market. Models below: Section

12. 5 Individual Firm Individual firms will continue to enter the market until

all economic profits have been competed away. In long-run equilibrium all

firms will be left generating zero profit. If existing firms are generating Con.

Loss: Left with 2 options: 1. Continue operating 2. Shut down (temporarily

stop producing) If the firm is at least covering bag. Variable cost (PVC) they

would be best off to