Microeconomics assignment

Economics, Microeconomics

No economies of scale: increase in output has not effect on the AC, so the curve is flat and AC is constant Economies of scale: property of a cost function whereby the average cost of production falls as output expands Discomposes of scale: property of cost function whereby there are cost of production rises when the output increase 7. ; Lower costs in the long-run Long-Run Average Cost as the [common] Envelope of Short-Run Average Cost Curves LIRA Information is readily available and transaction costs are cheap. The firm faces a very elastic demand curve which causes it to be a price taker. 2. Profit Minimization: when maximizing profit you have to: much to produce -whether to produce at all -decide how 3. Short run competition: In the short run the variable costs that impact the 4. Long Run Competition: in the long run means that all of the inputs can be followed along even if you’re not on OK 5. Residual Demand Curve: this curve lets you know that amount The market demand -residual demand curve: D(p)= D(p)-SO(P) -in short we can think of the residual demand as the difference between the market demand curve and the supply curve of other firms 6.

Economic Profit: Economic Profit= Revenue – Costs where costs include both implicit (Opportunity Cost) and explicit (out of pocket costs). 6. Marginal Revenue: the change in revenue a firm gets from selling one more unit 7. Residual Supply Curve: the quantity that the market supplies that is not consumed by other demander at any given price Formulas -Marginal Profit (q)= MR.(q)-MS(q) -MR.= p -profit= R-PVC-F -Average Cost= p-AC Perfect Competition (Horizontal demand curve) Large number of buyers and sellers Identical products Full information Lastly we Just LOL pictures Trans Costs

(Low) Two Steps to Maximizing Profit Step 1: First, you must decide what is the level of output (q*) that will maximize profit and minimizes loss

Step 2: Decide whether to produce or shut down Output rules -the firm will set its output where its profit is maximized -It will also set its output where the marginal profit equals zero -Set the output where the MR.= MS Shut Down Rule -the firm shuts down only if it can reduce its loss by doing so down if revenue is less than avoidable costs -Shut -*in the short run, the firm has fixed costs which is it capital , but it can vary the variable costs (labor and materials) -Sunk costs in this case are irrelevant because they cannot be changed, the firm has to pay them whether it produces or to Factor Prices and the Short-Run Supply Curve -a firm can face an increase in input prices -this causes the supply curve or MS to move to the left -The PVC will shift up -*An increase in factor prices causes the production costs to rise wage, price of energy or price of oil seeds increase the MS and PVC left and up Moreover…. -Ex: if shift -when either the costs of labor or capital changes the fall will adjust its inputs to make up for the change Ex: if one of the inputs such as labor becomes cheaper, then the firm would use more of it, so a change in price affects the mix of inputs

Competition in the Long Run all outputs are avoidable by shutting down inputs that were fixed in the short term become variable in the long-run Tax x w s tone marginal cost and the average cost by After a tax the firm will produce less units Both profits and quantities decrease Lump Sum the amount to the tax Will shift the MS and AC up (you Just add it to the production function) Long Run Competitive Profit Max Short Run: An increase in demand leads to an increase in the price and the firms in the market currently make a profit which is the average profit per unit times the output amount -Accounts= Profit Long Run: Other firms can enter the market this will increase supply prices will remain the same and the market quantity will decrease Long-Run Firm Supply Curve -Firm can choose its capital in the long run, so the firms long run supply curve will more than likely be very different to the short run supply curve the short run, the firm will make a profit -In the long run the firm does not operate at a loss Exit and Entry -A firm enter the market if it can make a long-run profit, Profit is > O firm exits the market to avoid a long-run ISO, Profit -In -A