Characteristics of Perfect Competition:

- Numerous small firms and customers. Firms have insignificant market share.
- Homogeneity of Product. Firms produce perfect substitutes.
- Freedom of Entry and Exit.
- Perfect Information.

Demand Facing a Typical Firm in Perfect Competition
Normal Profit: The entrepreneur’s opportunity cost. It is equal to or greater than the maximum income an entrepreneur could have received employing his or her resources elsewhere. Normal Profit is included in the firm’s costs.

Economic Profit: Profit that an entrepreneur makes over the Normal Profit.

\[
P = 20 \quad MR = MC, \text{ at } Q = 2000
\]

- Total Explicit Cost = 10,000
- Opportunity Cost = 22,000
- Economic Profit = TR - TC
- \[TR = P \times Q = 20(2000) = 40,000\]
- Economic Profit = \[TR - TC = 40,000 - 10,000 - 22,000 = 8,000\]
- Accounting Profit = 30,000

\[
TC = \text{Total (Economic) Cost} = \text{Explicit Cost} + \text{Implicit Cost}
\]
Exercises:

Long Run Equilibrium under Perfect Competition

Industry       Representative Firm
Monopoly:

This is a situation where a single producer (firm) is the sole producer of a good that has no close substitutes.

Sources of Monopoly:

♣ The firm may control the entire supply of raw materials required to produce that output.

♣ The firm may have a patent or copyright.

♣ The case of “Natural Monopoly”. Economies of Scale may permit only one firm to be efficient in the market.
Sources of Monopoly:

♣ The firm may control the entire supply of raw materials required to produce that output.

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♣ The case of “Natural Monopoly”. Economies of Scale may permit only one firm to be efficient in the market.

♣ The case of Government Franchises.

♣ Through Mergers and Acquisitions.

Characteristics of Monopoly:

♦ A single seller: A single firm produces all industry output. The monopoly is the industry.

♦ Blockaded entry: Firms are heavily restricted from entering the industry.

♦ Imperfect dissemination of information: Cost, price, and product quality information are withheld from uninformed buyers.
TR₂ = 8(2) = 16 \quad AR₂ = 8 = P

TR₃ = 7(3) = 21 \quad AR₃ = 7 = P

MR₃ = TR₃ - TR₂ = 21 - 16 = 5
Find the Profit maximizing output from the following information.

<table>
<thead>
<tr>
<th>Demand Information</th>
<th>Cost Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>P</td>
<td>Q</td>
</tr>
<tr>
<td>12</td>
<td>0</td>
</tr>
<tr>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
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<td>9</td>
<td>3</td>
</tr>
<tr>
<td>8</td>
<td>32</td>
</tr>
<tr>
<td>7</td>
<td>5</td>
</tr>
</tbody>
</table>

Profit = TR - TC = 32 - 19 = 13

Monopolistic Competition:
It is a form of market organization in which there are many sellers of a heterogeneous or differentiated product, and entry into and exit from the industry are rather easy in the long run.

Differentiated Product:
Products which are similar but not identical and satisfy the same basic need.
Characteristics:

- Large number of buyers and sellers.
- Product Heterogeneity.
- Free Entry and Exit.
- Perfect dissemination of information.

The Market Structure Spectrum

The Demand Curve for Coca-Cola: Before and After Substitutes Appear on the Market
The Effect of Advertising on the Firm’s Demand Curve