

Economics II

Firm behavior and supply shaping

Part II.

Decision-making firm in perfect competition

Introduction

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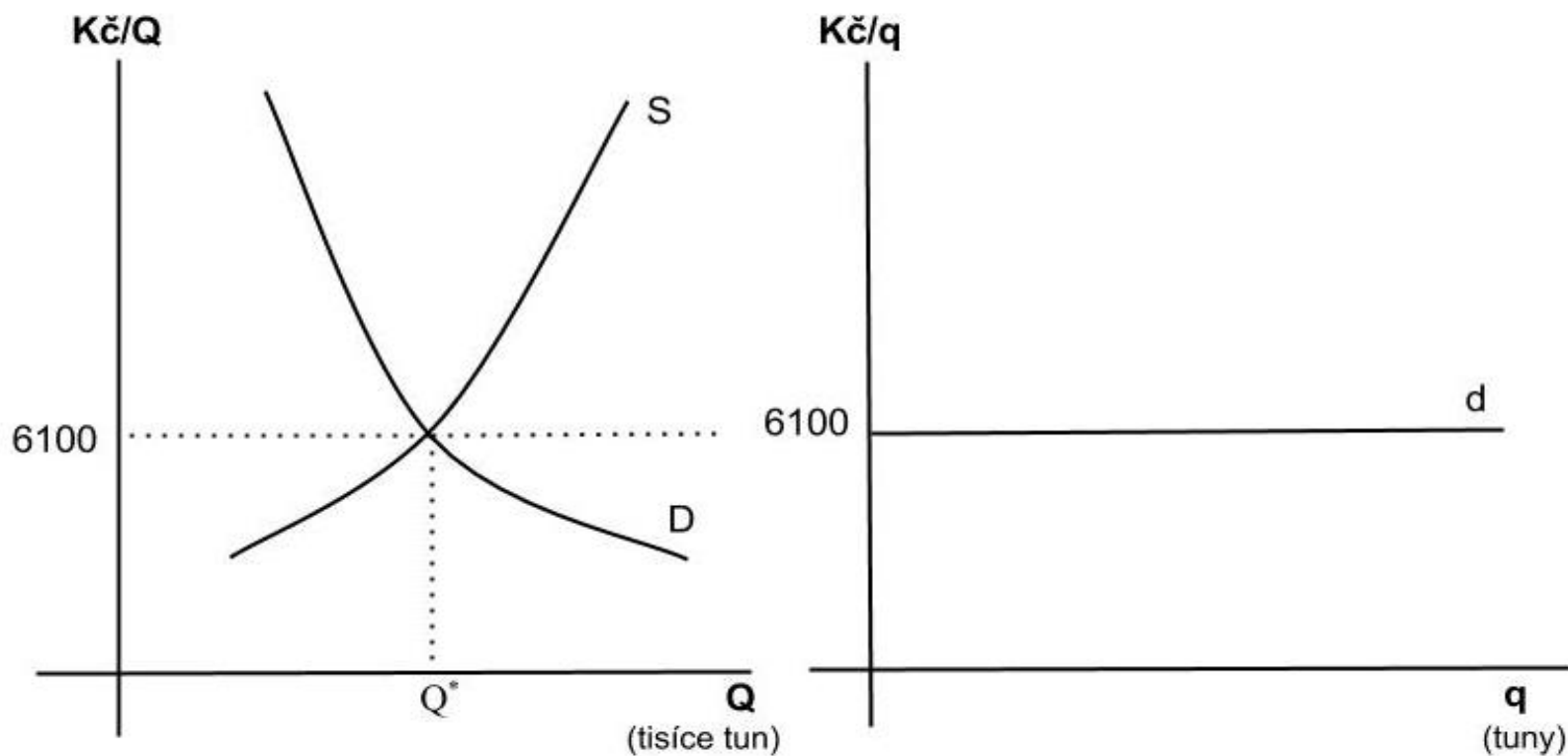
General background

- **Profit** = $TR - TC$
- **Accounting profit** = $TR - \text{Explicit costs}$
- **Economic profit** = $TR - \text{Explicit costs} - \text{Implicit costs}$

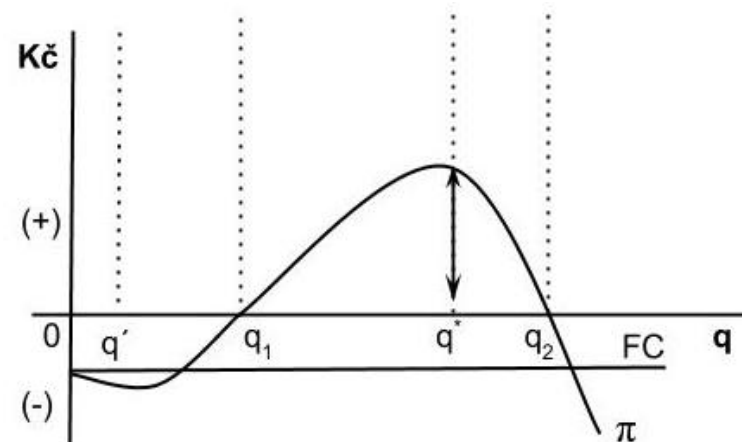
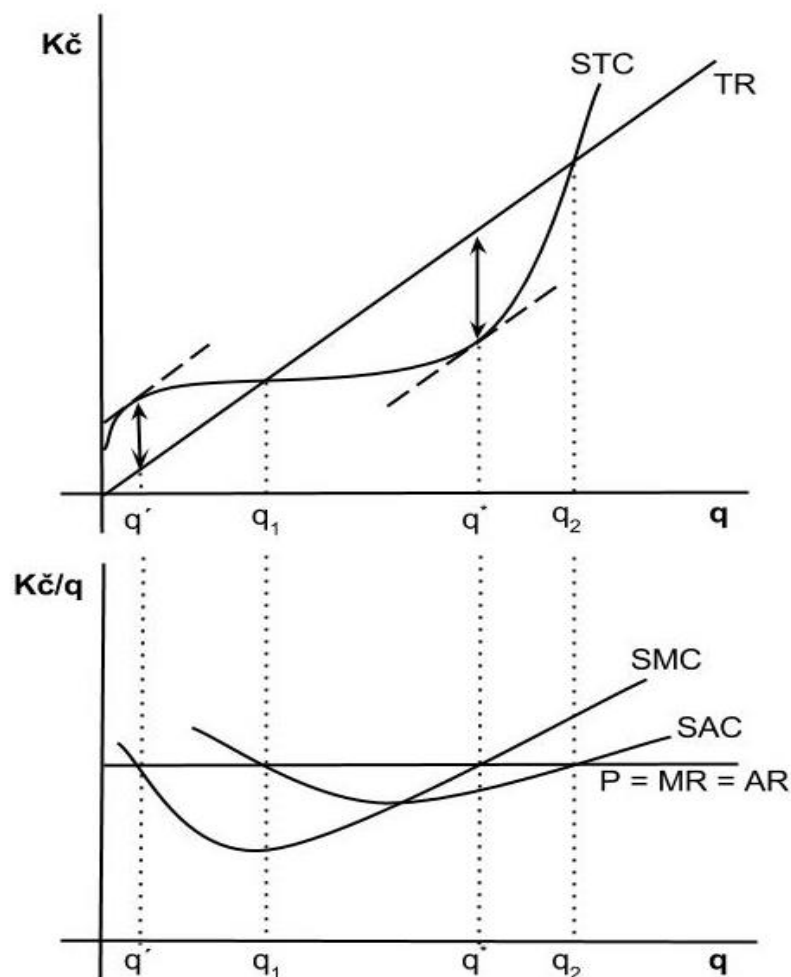
Perfect competition model assumptions

- Large number of buyers and sellers
- All goods are **homogeneous**
- **No barriers to market entry**
- Producers and consumers are **perfectly informed**
- Companies goal is **profit**
- Consumers goal is **utility maximizing**
- Firms are **price takers**

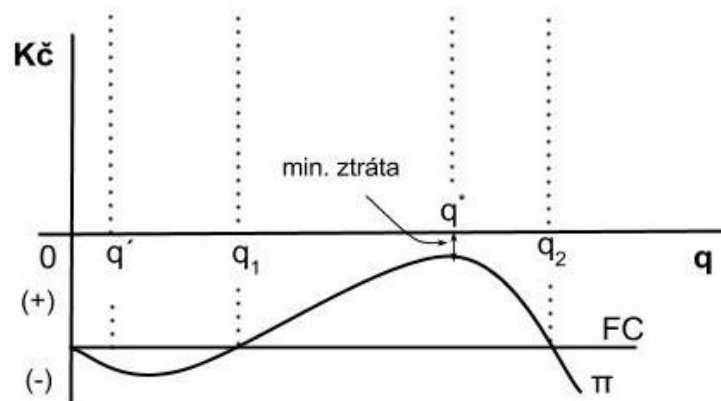
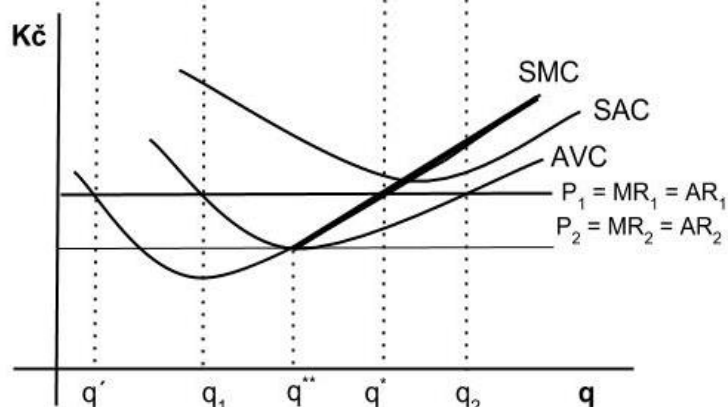
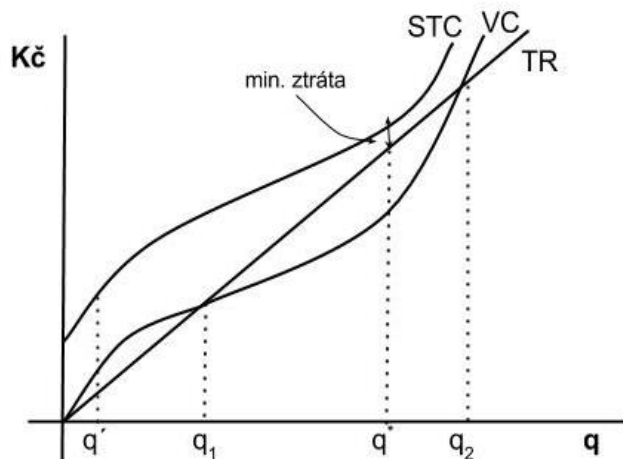
Perfectly competitive market, firm



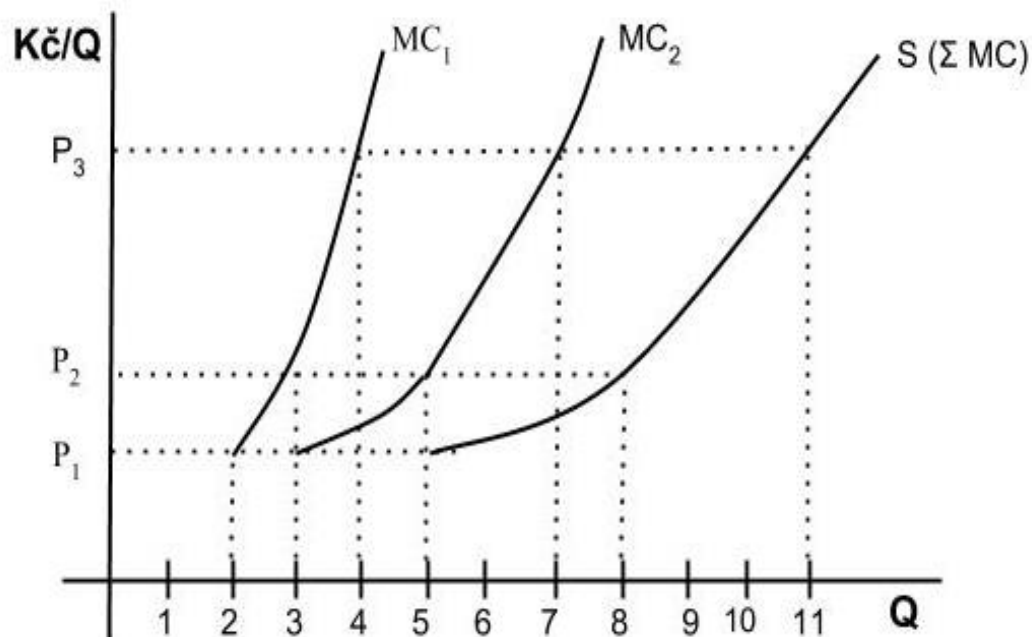
Decision-making firms in the SR



The company minimizes loss continuing in production

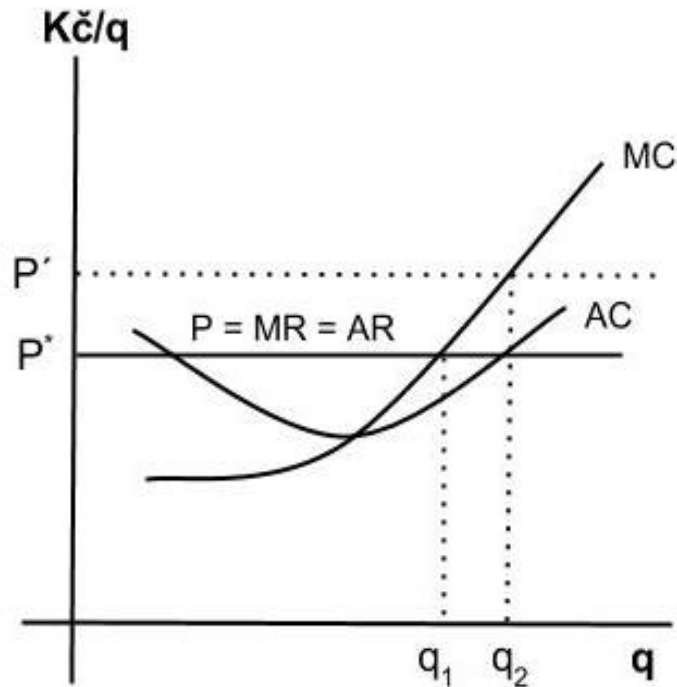


Perfectly competitive firm industry in SR

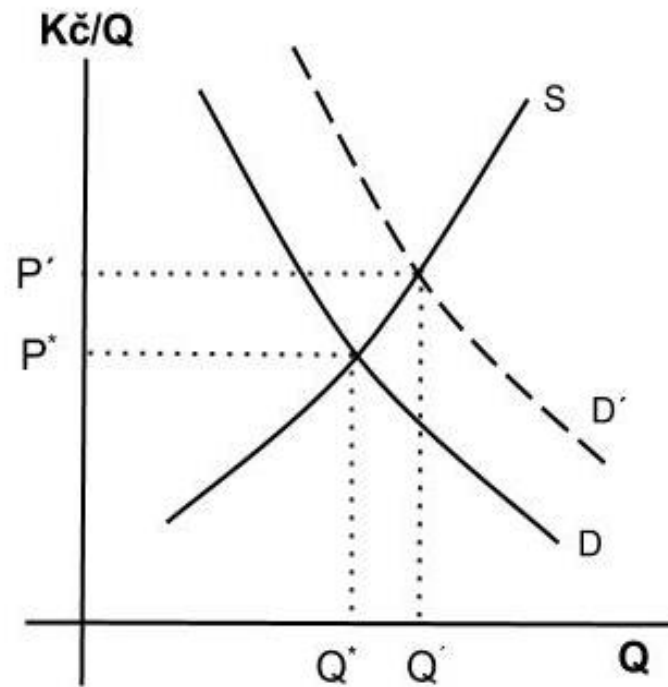


The balance in the short run

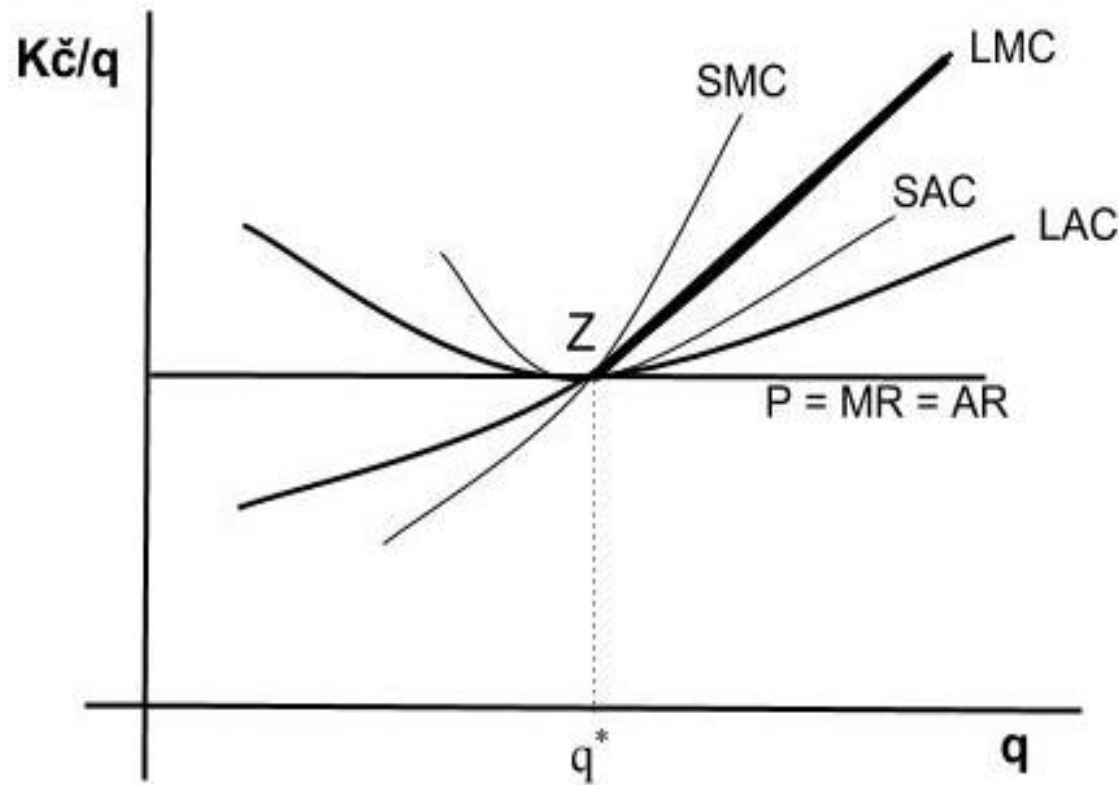
(a) the company



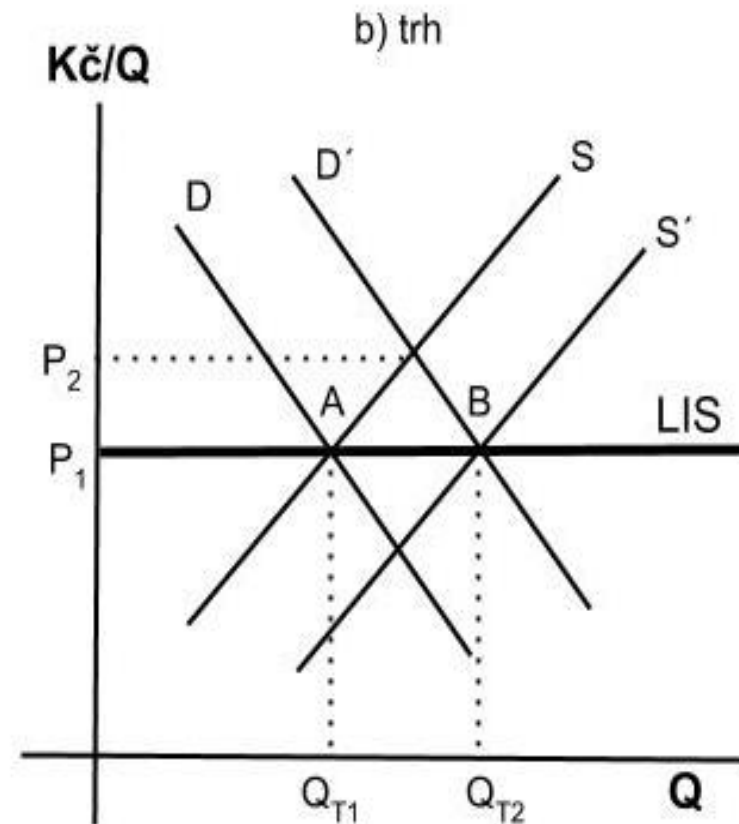
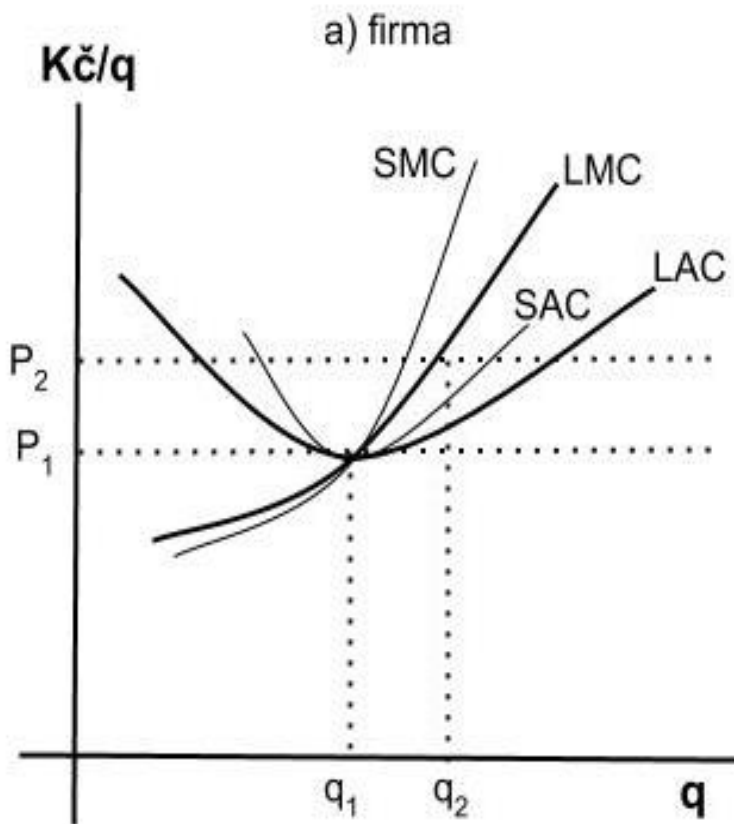
(b) market



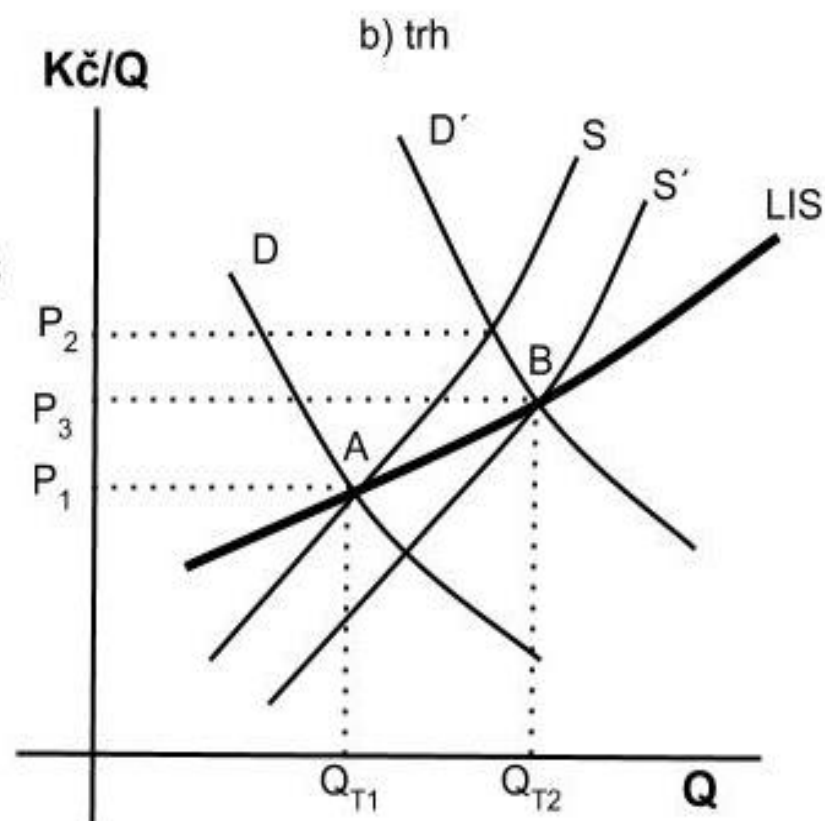
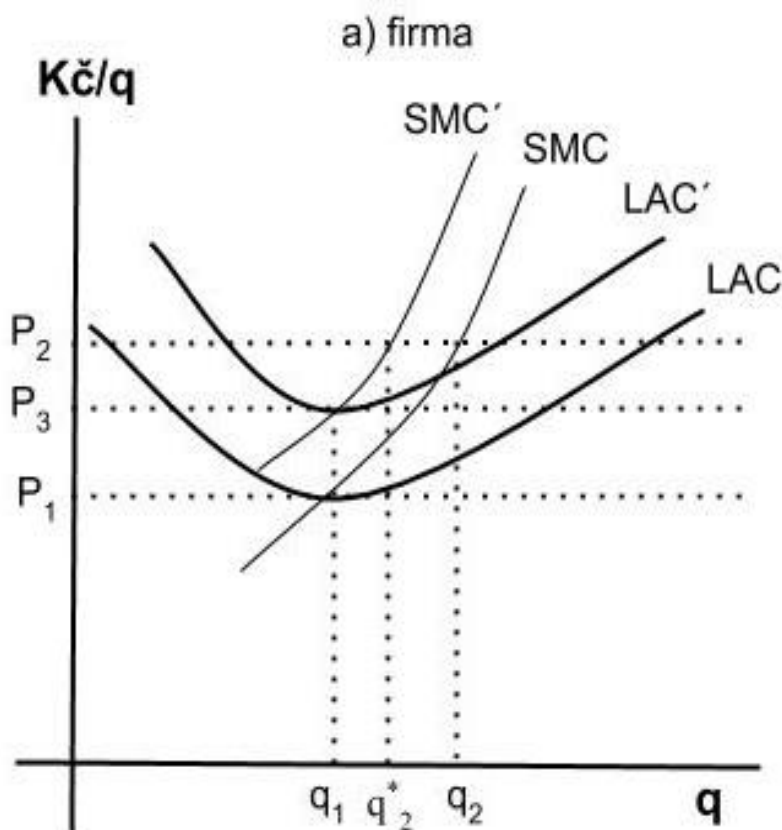
Optimal output perfectly competitive firm in the long run



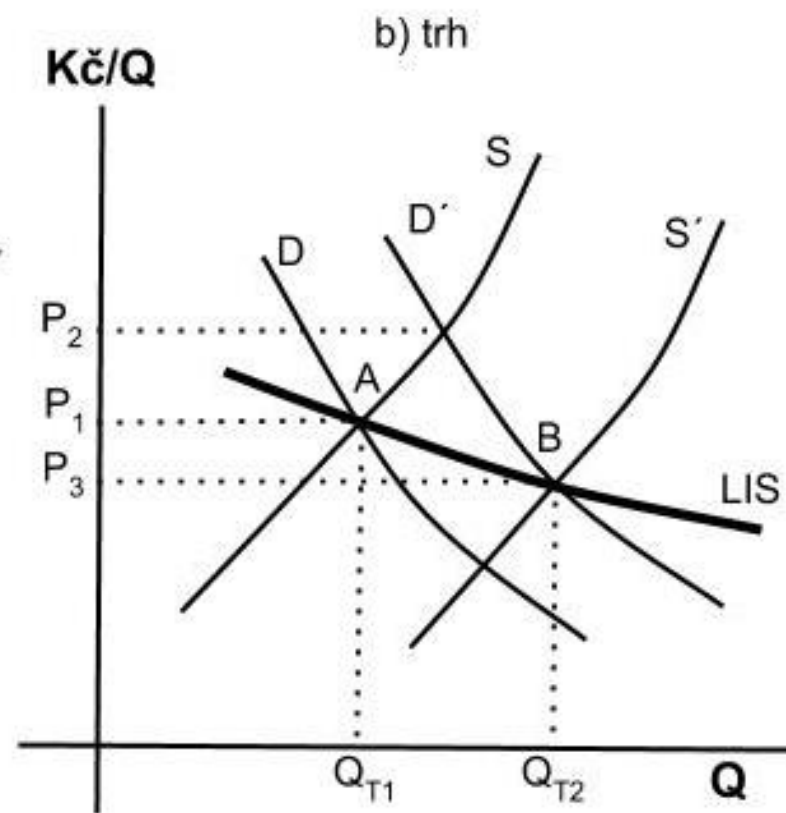
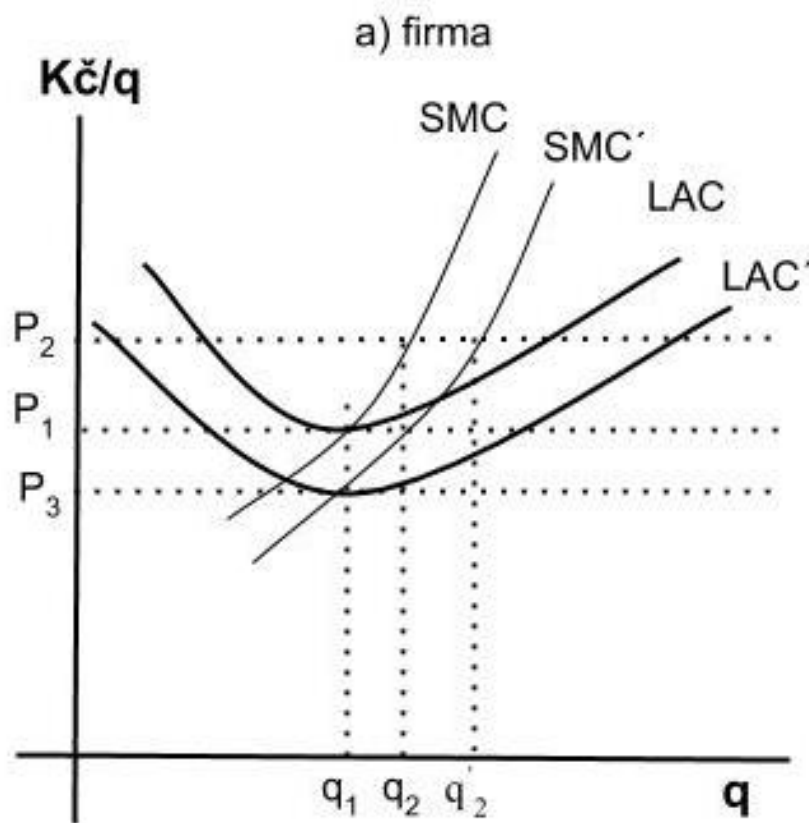
LIS curve in constant input prices



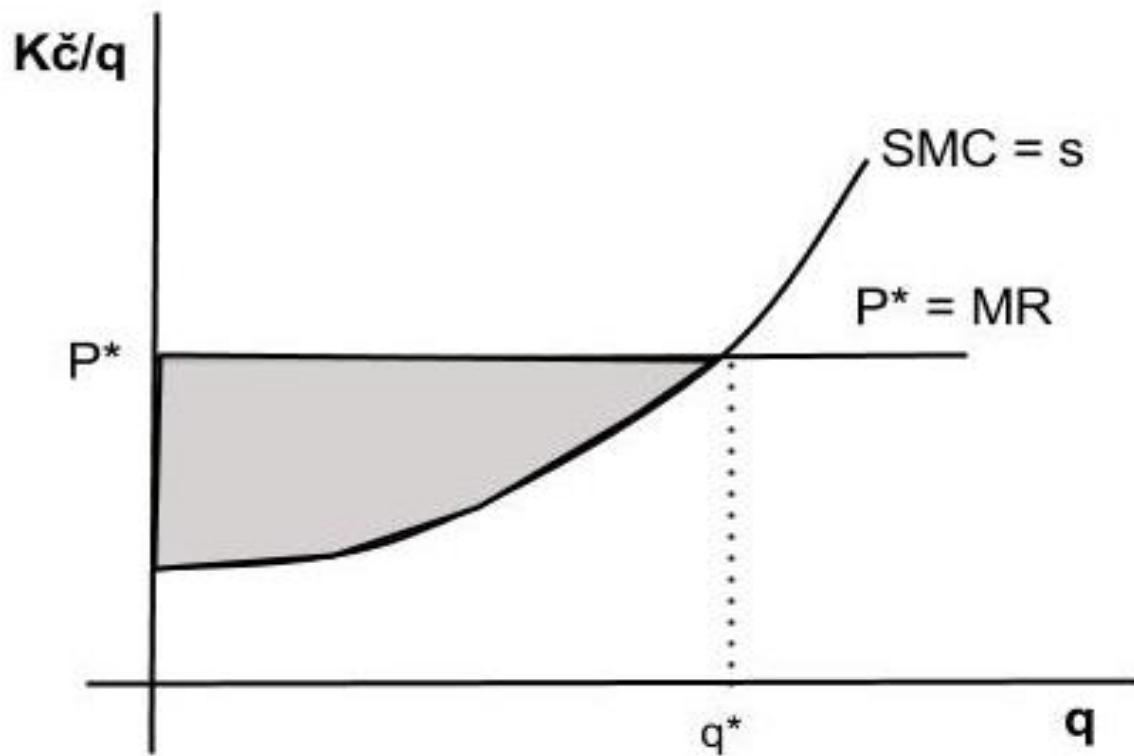
LIS curve in increasing input prices



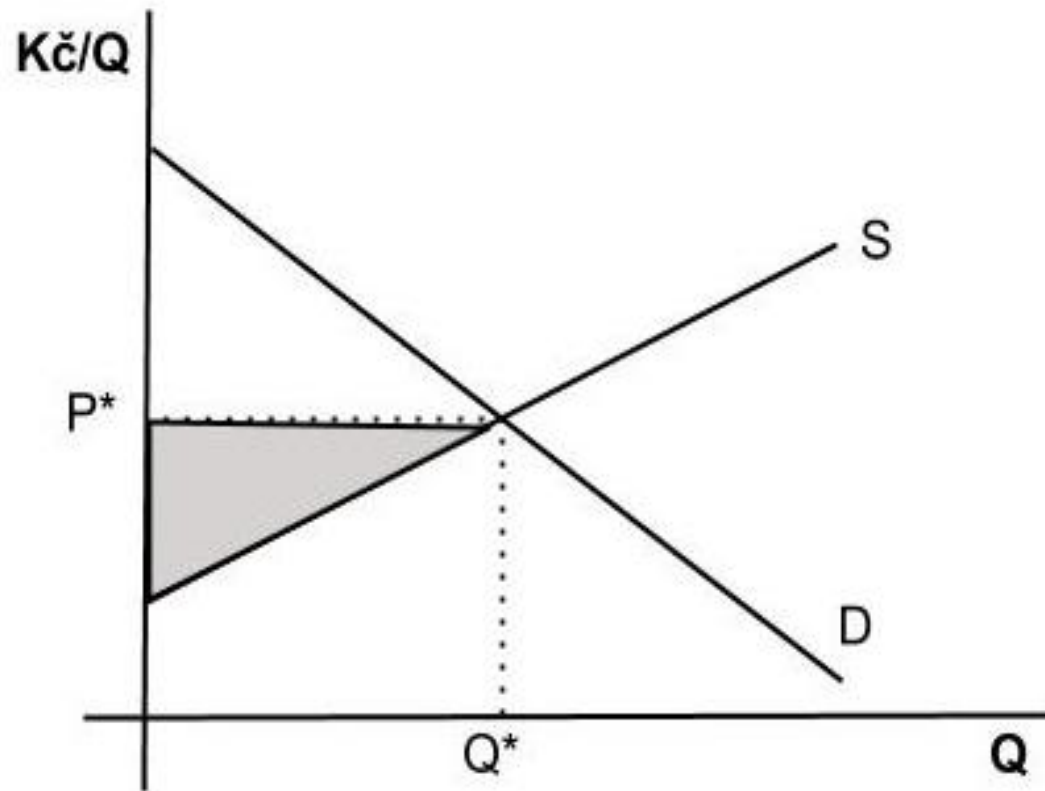
LIS curve in declining input prices



Producer surplus in the short run



All producers surplus in the short run



Thank you for your attention



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