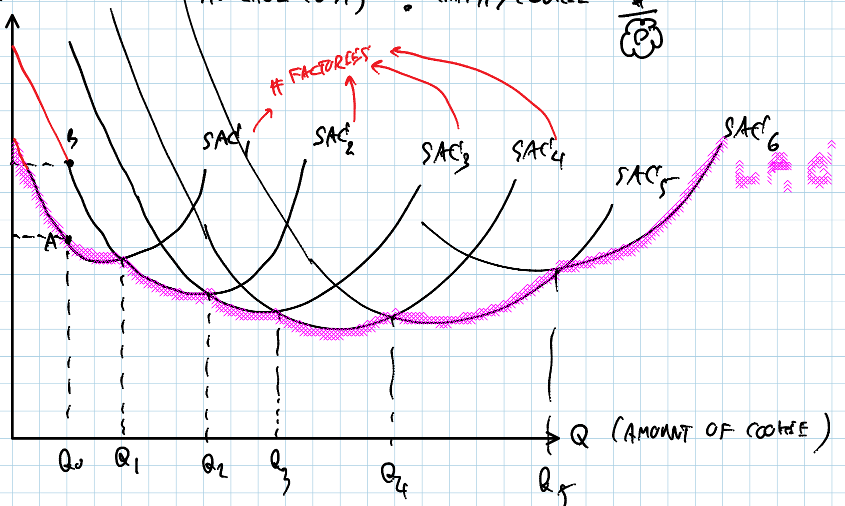
Thursday, November 28, 2013
9:36 AM

LONG RUN AVERAGE COST CURVE (LAC OR LRAC OR LRATC)

IN THE LONG RUN, WHEN FIXED COST BECOMES A VARIABLE THAT A FIRM CAN CHOOSE, THE FIRM WILL TRY TO CHOOSE AN APPROPRIATE LEVEL OF FIXED COST THAT "MINIMIZES" ITS LONG RUN UNIT COST OF PRODUCTION (i.e., ฿/🍪)
BAHT COOKIE

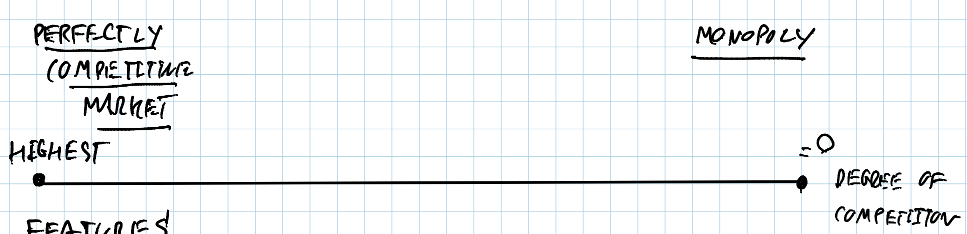
LAC (LONG RUN AVERAGE COST) : BAHT/COOKIE ฿/🍪



EX: IF THE FIRM DESIRES TO PRODUCE $Q < Q_1$: IT SHOULD USE A FIRM W/ 1 FACTORY (SAC_1).

IF $Q_3 < Q < Q_4$, SAC_4 MINIMIZES UNIT-COST IN THE LONG RUN.

• MARKET STRUCTURE



FEATURES

1. LARGE NUMBER OF BUYERS & SELLERS
2. NON-DIFFERENTIATED PRODUCT (HOMOGENEOUS PRODUCT)
3. FREE ENTRY & FREE EXIT
4. PERFECT INFORMATION:
   • BUYERS KNOW THE QUALITY & PRICES CHARGED BY FIRMS
   • SELLERS KNOW THAT THEIR RIVALS ARE SELLING EXACTLY THE SAME PRODUCTS

1. ONE SELLER & MANY BUYERS
2. PRODUCT W/ NO CLOSE SUBSTITUTES
3. BARRIERS TO ENTRY

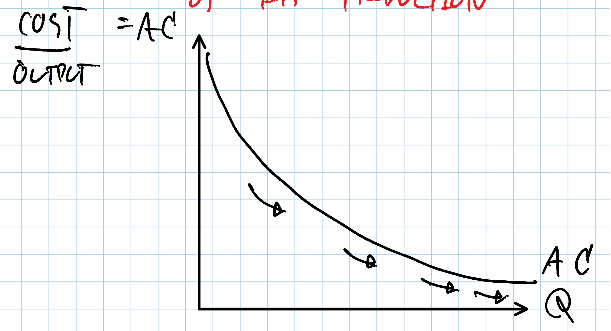
• CONCESSION
• COPYRIGHTS
• PATENTS
• NATURAL MONOPOLY

• SELLERS KNOW THAT THEIR RIVALS ARE SELLING EXACTLY THE SAME PRODUCTS

• PATENTS

• NATURAL MONOPOLY

OR MONOPOLY BY NATURE OF ITS PRODUCTION



ELECTRICITY OR WATER

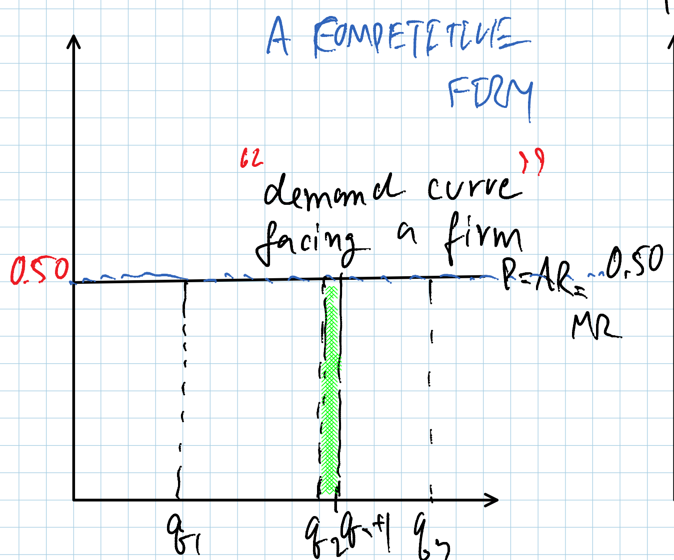
IN PERFECTLY COMPETITIVE MARKET,

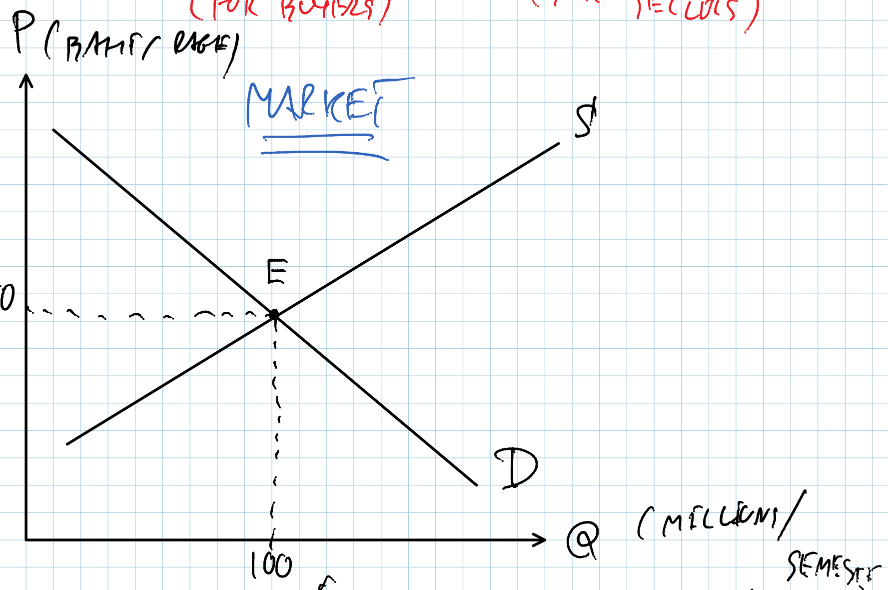
BUYERS AND SELLERS ARE "PRICE TAKERS"

=

TAKES PRICE AS GIVEN AND MAKES A DECISION TO BUY / TO PRODUCE

(FOR BUYERS) (FOR SELLERS)





ASSUME THAT PHOTO-COPY MARKET IS "PERFECTLY COMPETITIVE"

DEMAND FACING A FIRM IS PERFECTLY ELASTIC!

∵ STUDENTS (BUYERS) ARE EXTREMELY SENSITIVE

TO A PRICE CHANGE.

P	Q	TR (TOTAL REVENUE)	(AVERAGE REVENUE) $AR = \frac{TR}{Q}$	(MARGINAL REVENUE) $MR = \Delta TR / \Delta Q$
0.5	1	0.5	$\frac{0.5}{1} = 0.5$	–
0.5	2	1	$\frac{1}{2} = 0.5$	0.5
0.5	3	1.5	$\frac{1.5}{3} = 0.5$	0.5
0.5	4	2	$\frac{2}{4} = 0.5$	0.5
0.5	5	2.5	$\frac{2.5}{5} = 0.5$	0.5

BAHT/DAY

$$\boxed{\begin{array}{ccc} P = & AR & = MR \\ 0.5 & 0.5 & 0.5 \end{array} \text{ IN PERFECTLY COMPETITIVE MARKET}}$$