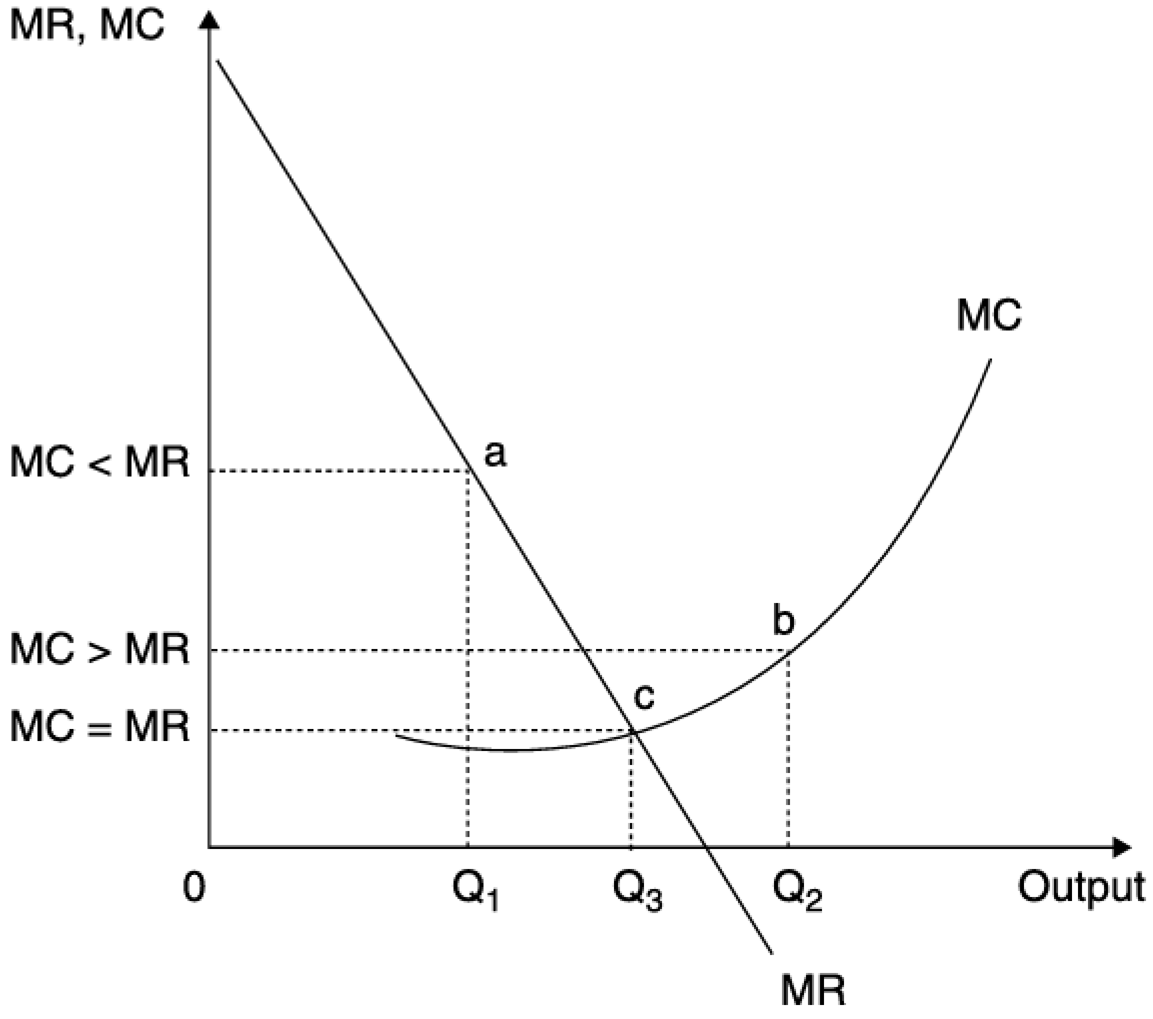
The Supply side

- Input → Output
- Fixed inputs does not change with quantity produced
- Variable inputs do change with quantity produced
- In the very long run, nothing is fixed
- Fixed and variable costs

Profit Maximization

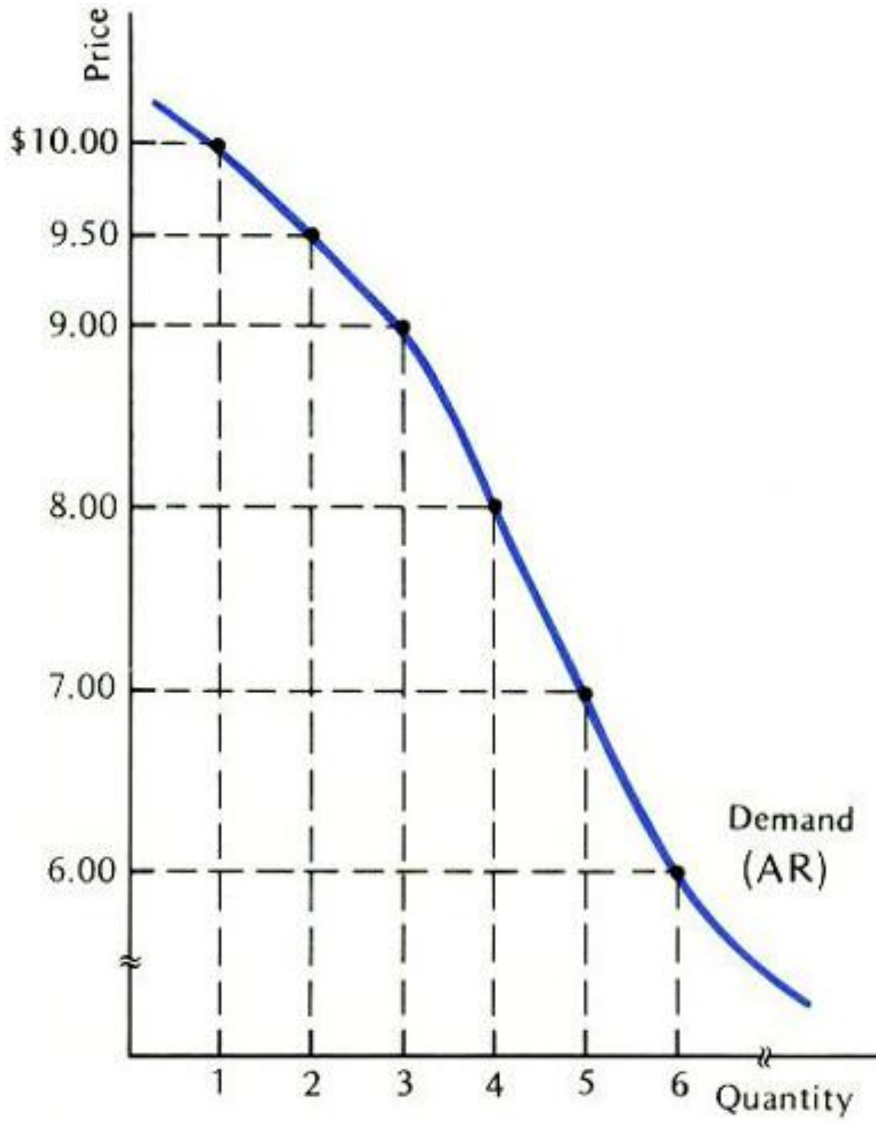
- Marginal Cost (MC)
- Marginal Revenue (MR)
- At MC < MR, can increase profits by selling more.
- At MC > MR, losing revenue on the last sales.
- At MR = MC, profits maximized.



Demand = Average Revenue (AR)

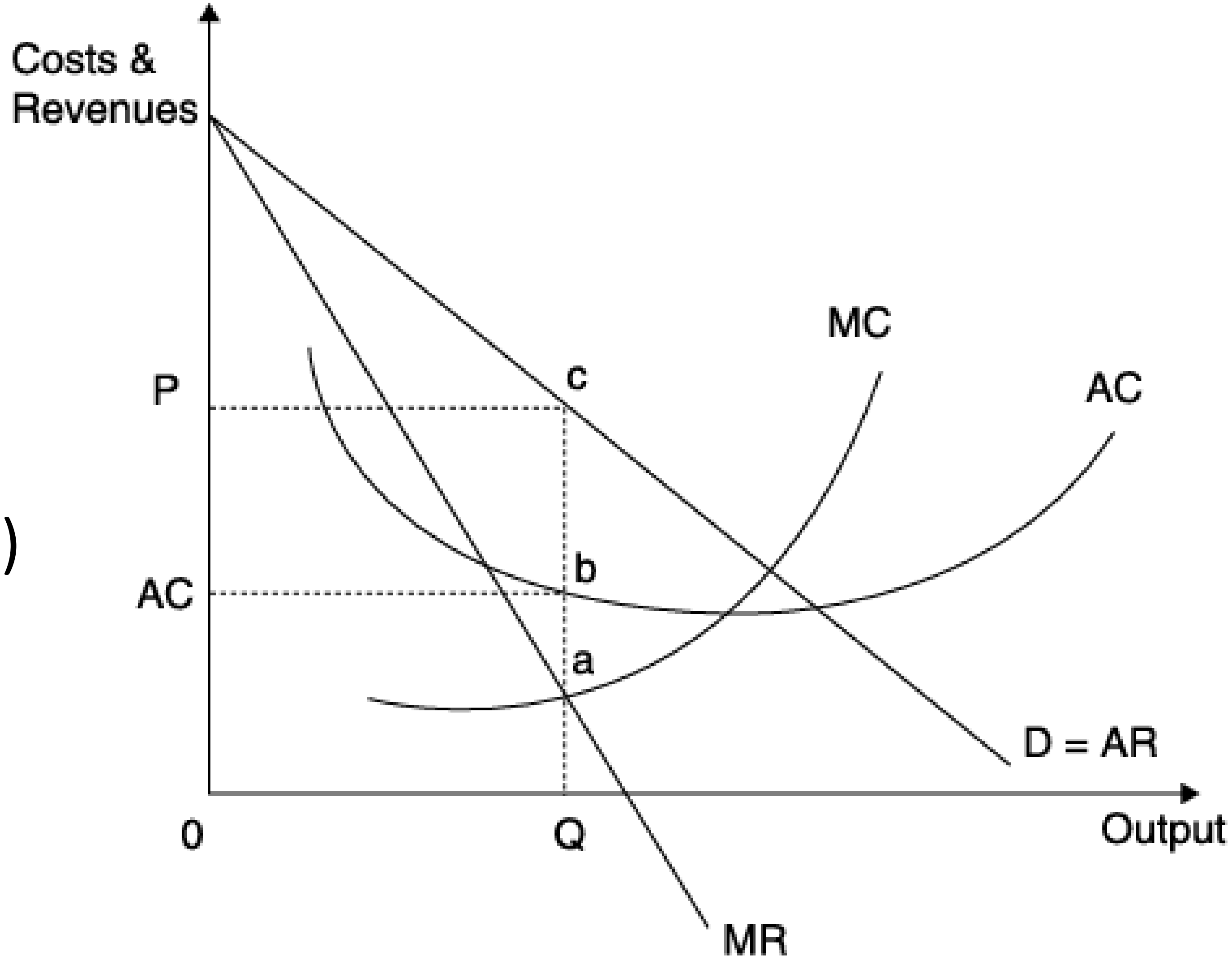
- AR = amount received per unit sold

- When all items are sold for the same price, AR = price



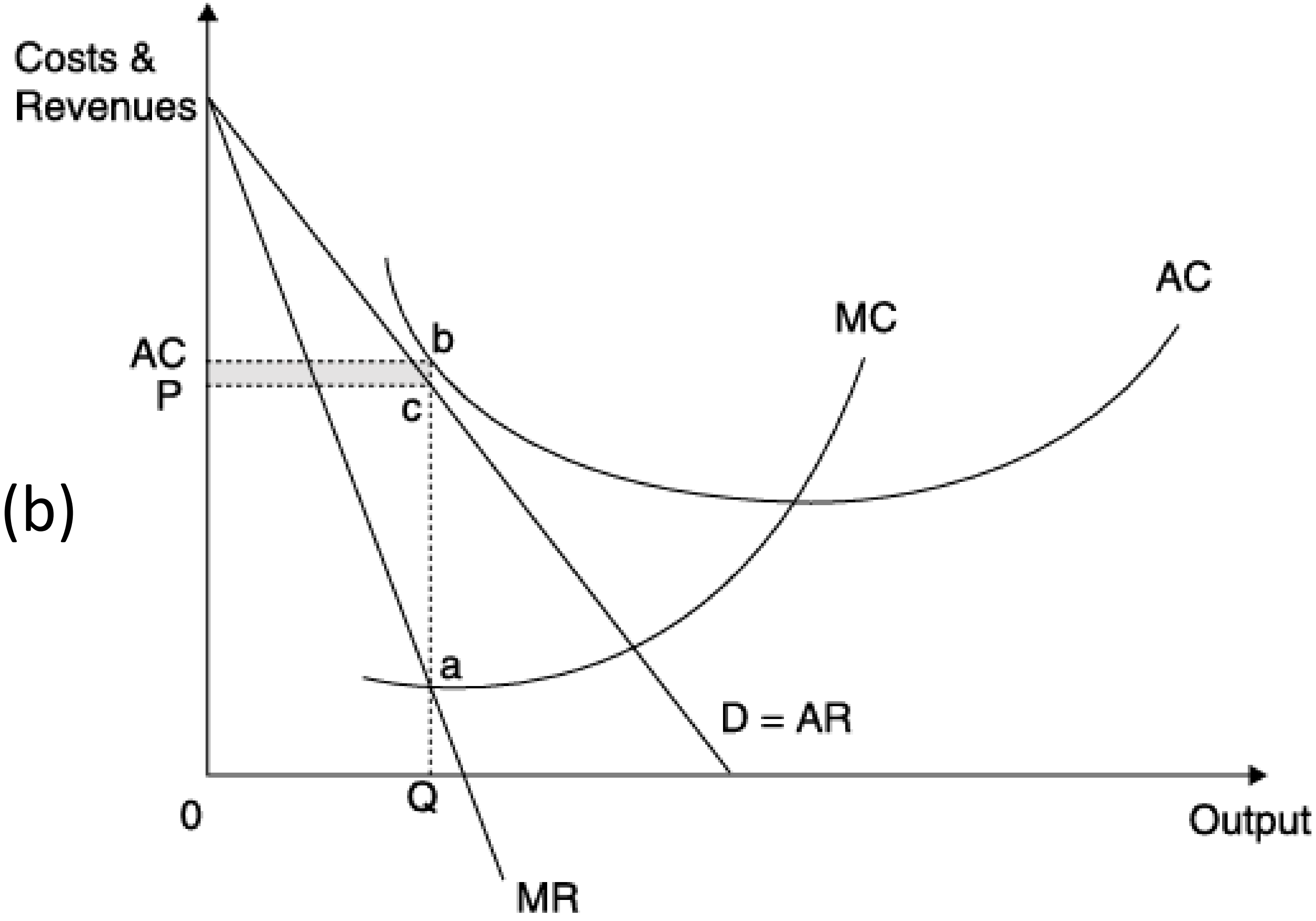
Profits

- Maximized at MR = MC (a)
- Difference between Average Revenue (c) and Average Cost (b)



Losses

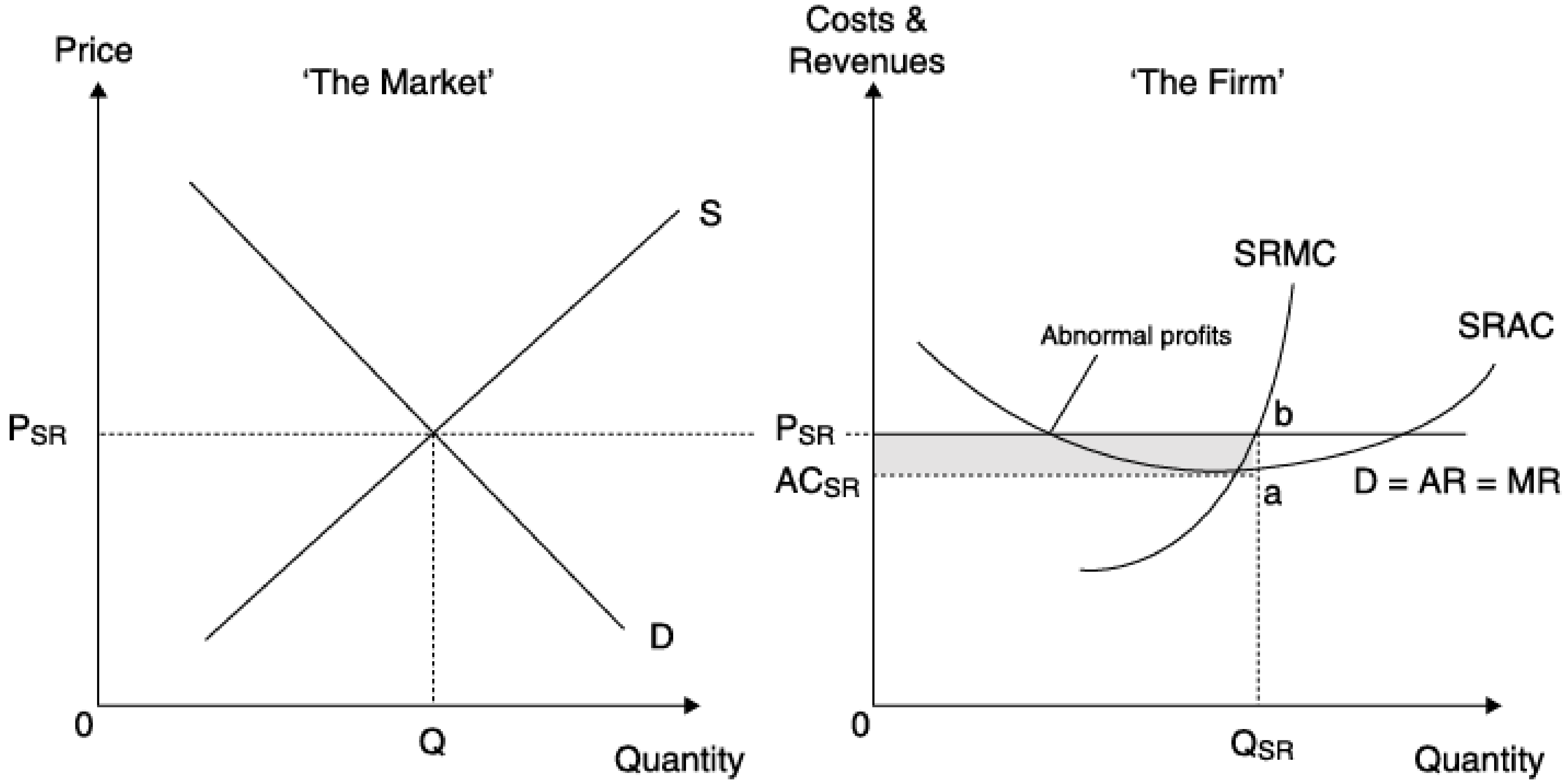
- Minimized at MR = MC (a)
- Difference between Average Revenue (c) and Average Cost (b)



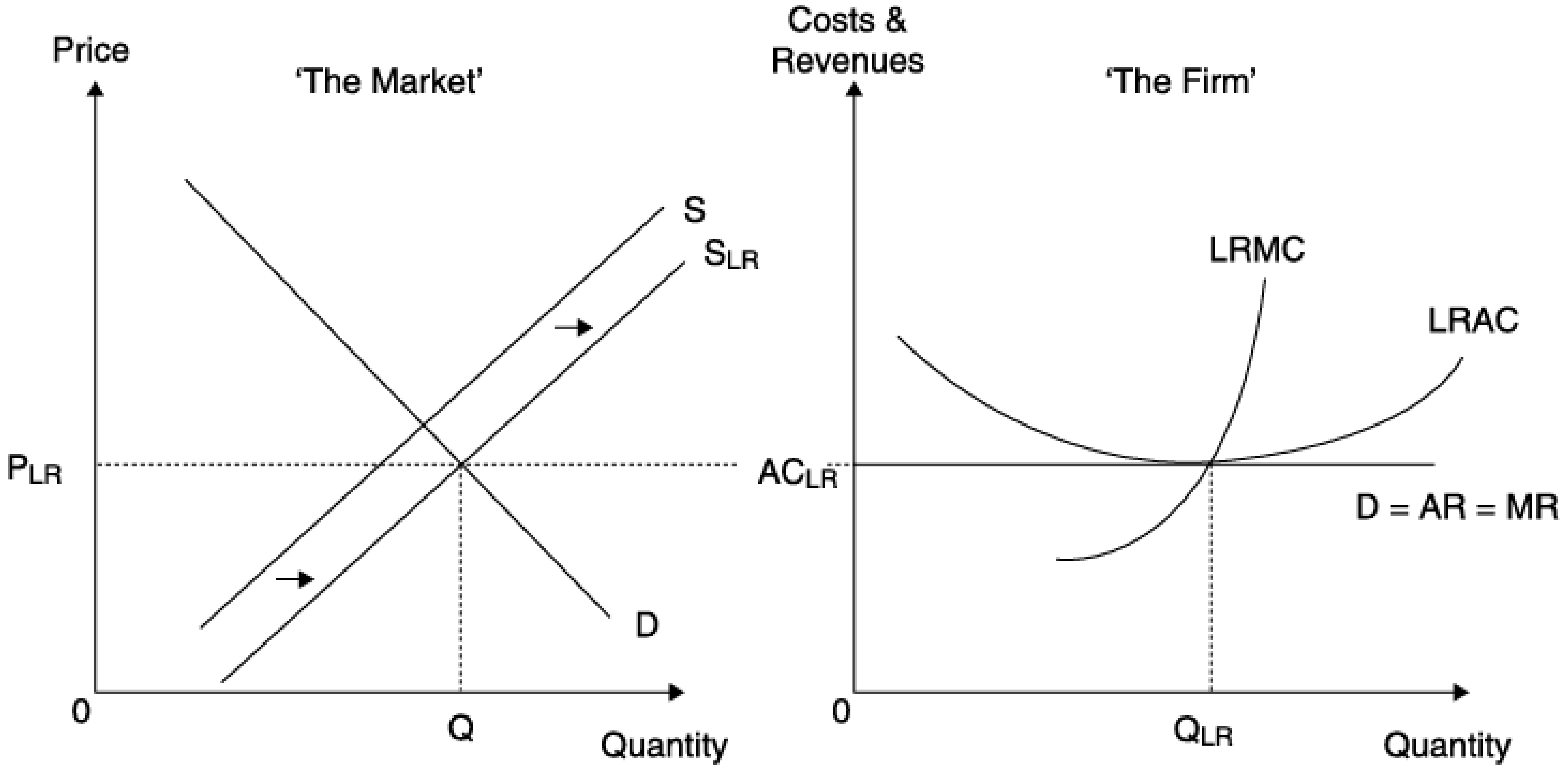
Perfect Competition

- Freedom of entry and exit
- Homogeneous product
- High number of buyers and sellers
- Perfect information

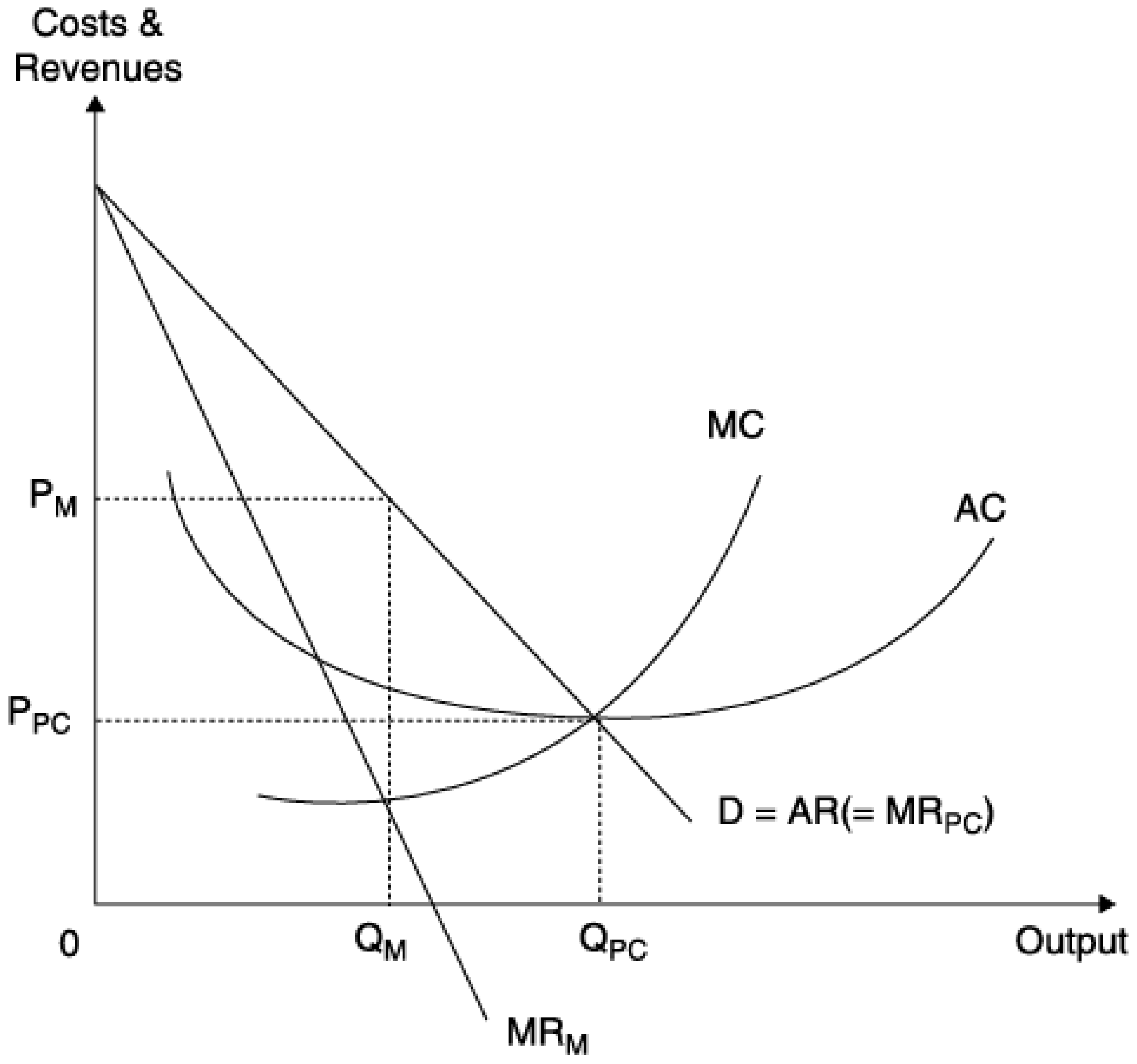
Perfect Competition (short run)



Perfect Competition (long run)



Disadvantages of monopoly



- Higher prices and lower output
- Production inefficiency
- Lower consumer surplus and more regressive
- Lower overall surplus

Advantages of monopoly

- Higher investment in R&D
- Market size
- Wasteful competition
- Hotelling’s law