

Learning Objectives

Chapter 14

In this chapter you will

- Learn the meaning of the term competition
- Learn what characteristics make a market competitive
- Examine how competitive firms decide how much output to produce
- Examine how competitive firms decide when to shut down production temporarily
- Learn at what level of output a competitive firm maximises profit
- Examine the relevance of sunk costs
- Examine how competitive firms decide whether to exit or enter a market
- See how firm behaviour determines a market's short-run and long-run supply curves

You should be able to

- List up to three conditions that characterize a competitive market
- Locate the supply curve for a competitive firm on a graph of its cost curves
- Demonstrate why profit maximisation occurs where marginal cost equals marginal revenue
- Demonstrate why firms temporarily shut down if the price they receive for their output is less than average variable cost
- Show why sunk costs are not a factor in decision making
- Demonstrate why firms exit a market permanently if the price they receive for their output is less than average total cost
- Show why the long-run supply curve in a competitive market is more elastic than the short-run supply curve