Review Notes – Perfect Competition

- The Market Environment
  - Define
  - Types of Markets
  - For competitive markets?
    - What is a price taker?

- Short-run profit maximization under competition
  - Max profit = PY – c(Y)
  - Results in MR = MC
    - Make sure you know the two conditions under which MR=MC does not result in maximizing profits.
    - Why does MR=MC result in profit maximization otherwise?
  - Under what conditions will a firm shut-down in the short-run and in the long-run?
  - What is the competitive firm's short-run supply curve?
  - What is the competitive firm's short-run inverse supply curve?
  - What is profit graphically?
    - Make sure you know others graphically as well (MR, MC, P, ATC, AVC, AFC, TR, TC, TVC, TFC, etc.)
    - What does it look like graphically when firm profits are positive, negative or equal to zero?
  - Producer Surplus
    - Definition (again)
    - Is producer surplus = profit?
    - Why is producer surplus important/relevant?

- Long-run in competitive firms
  - What is the firm's long-run supply curve?
    - What are profits in the long-run?

- Industry supply in competitive markets
  - What is the short-run industry supply curve (hint: what is short-run firm supply?)
    - How do we get from firm to industry supply?
      - With continuous plant size?
      - With discrete plant size?
  - What is the long-run equilibrium for a firm?
  - What is the long-run supply for a firm?
    - Are firms in long-run equilibrium when on long-run supply?

- Know the supply curve for constant cost, increasing cost, and decreasing cost industries.
- Who pays for taxes in the long-run in competitive firms?
- Economic rent – what is and who pays for it?

▪ Are competitive markets efficient?
