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?