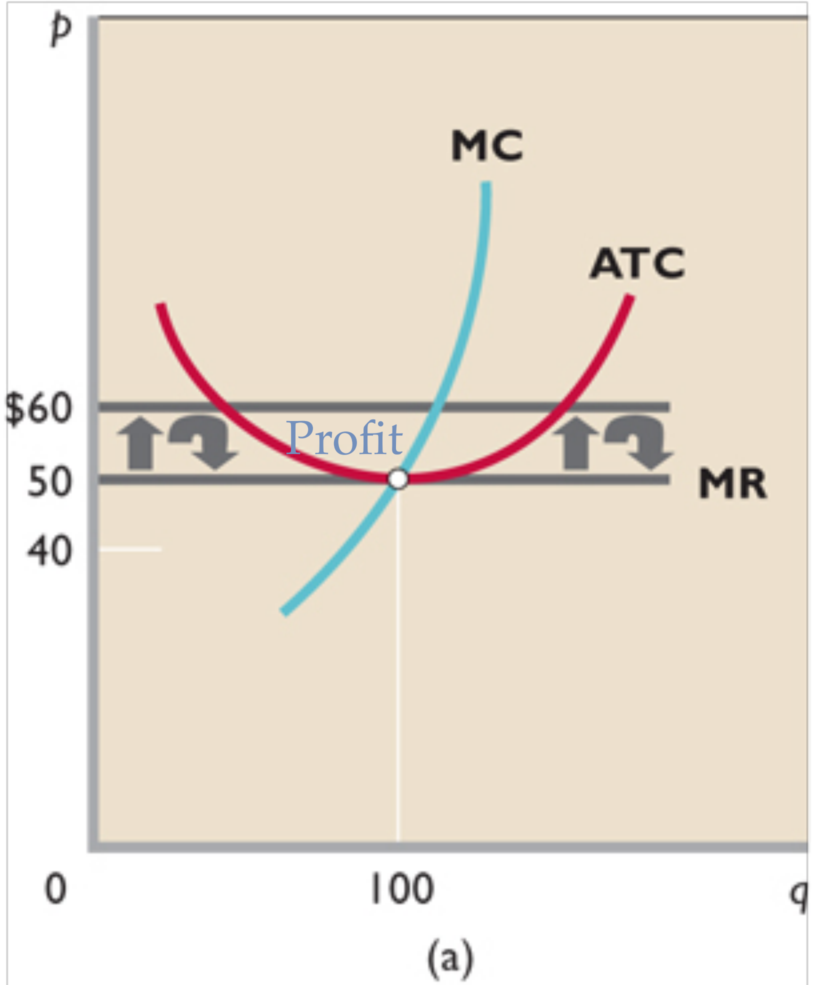
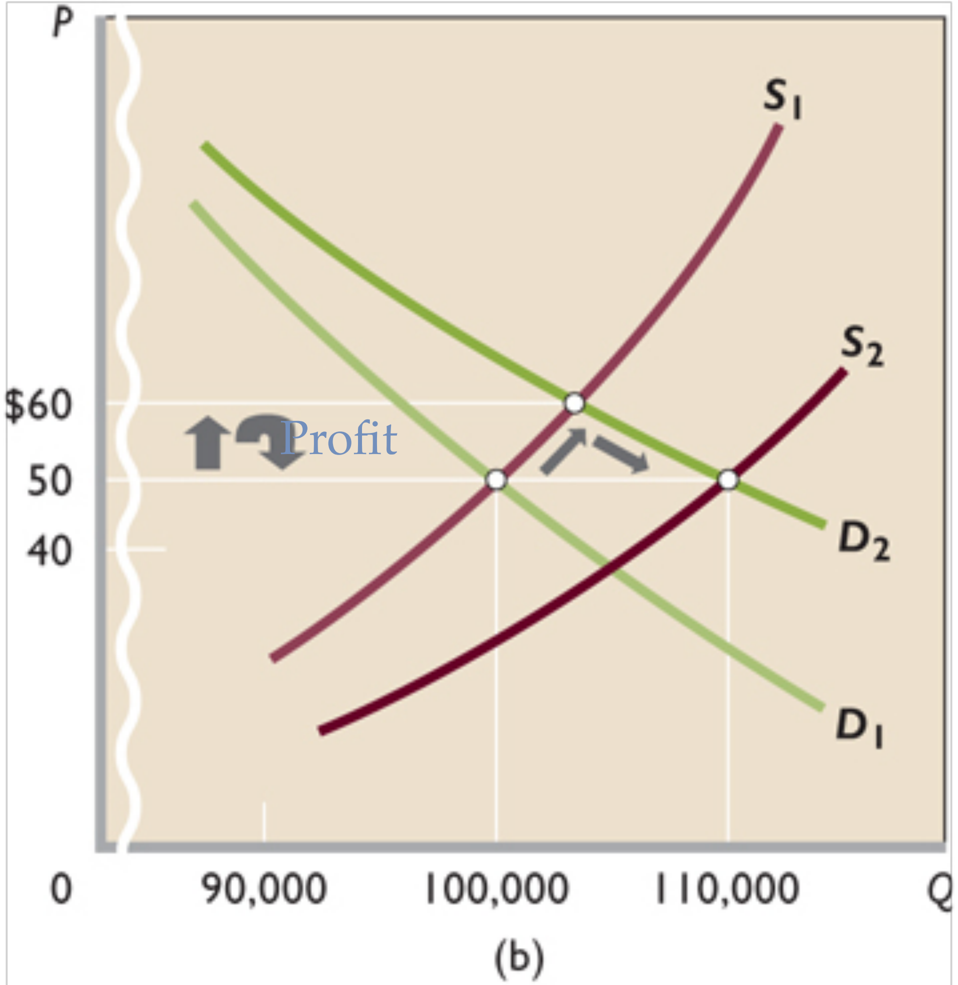
CHAPTER II

- ***Assumptions:***
  - *Easy entry and exit long run adjustment*
  - *Identical costs - constant cost industry*
- **Entry eliminates profit** - Consumer tastes go up



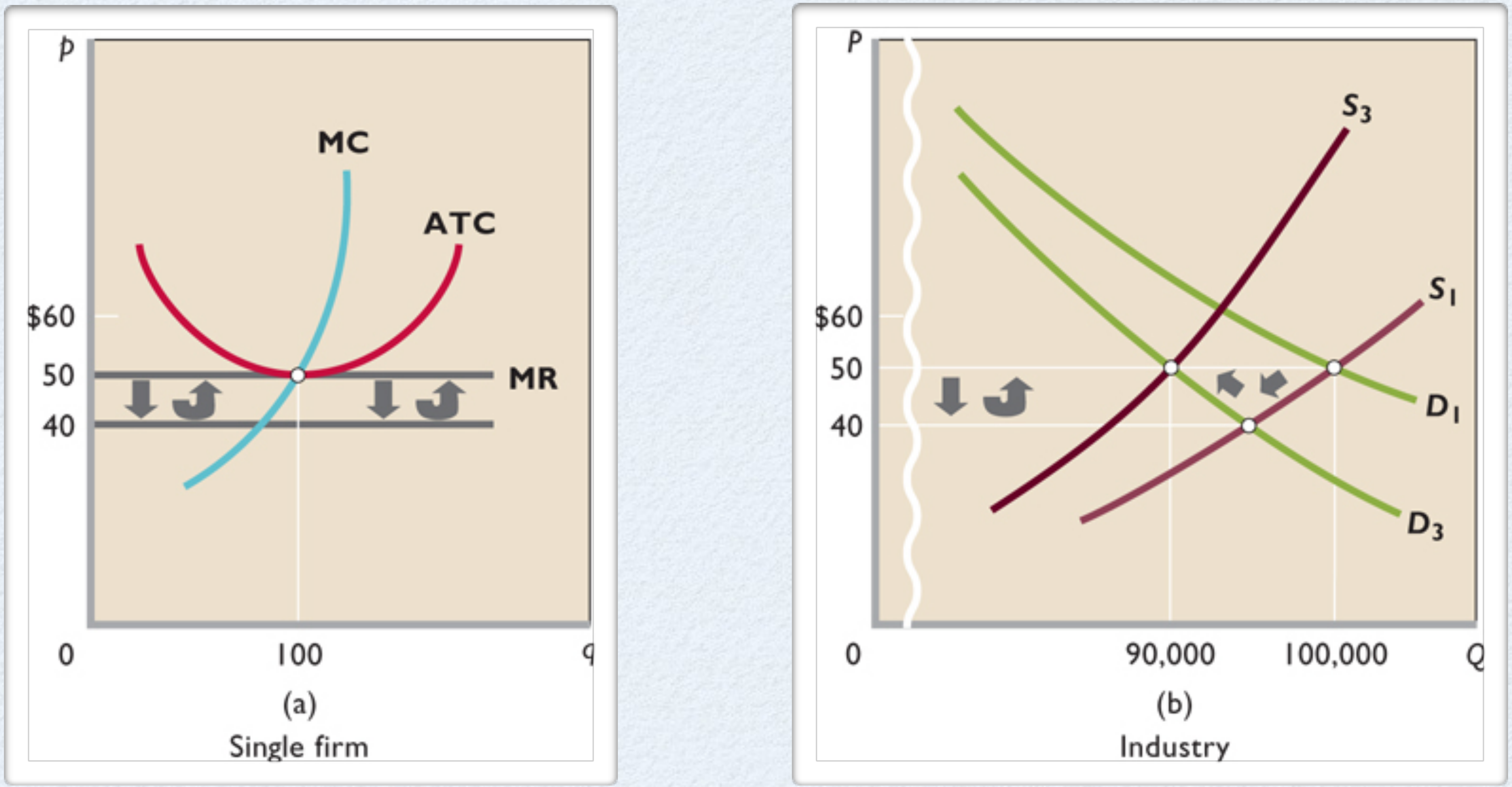
(a)
Single firm



(b)
Industry

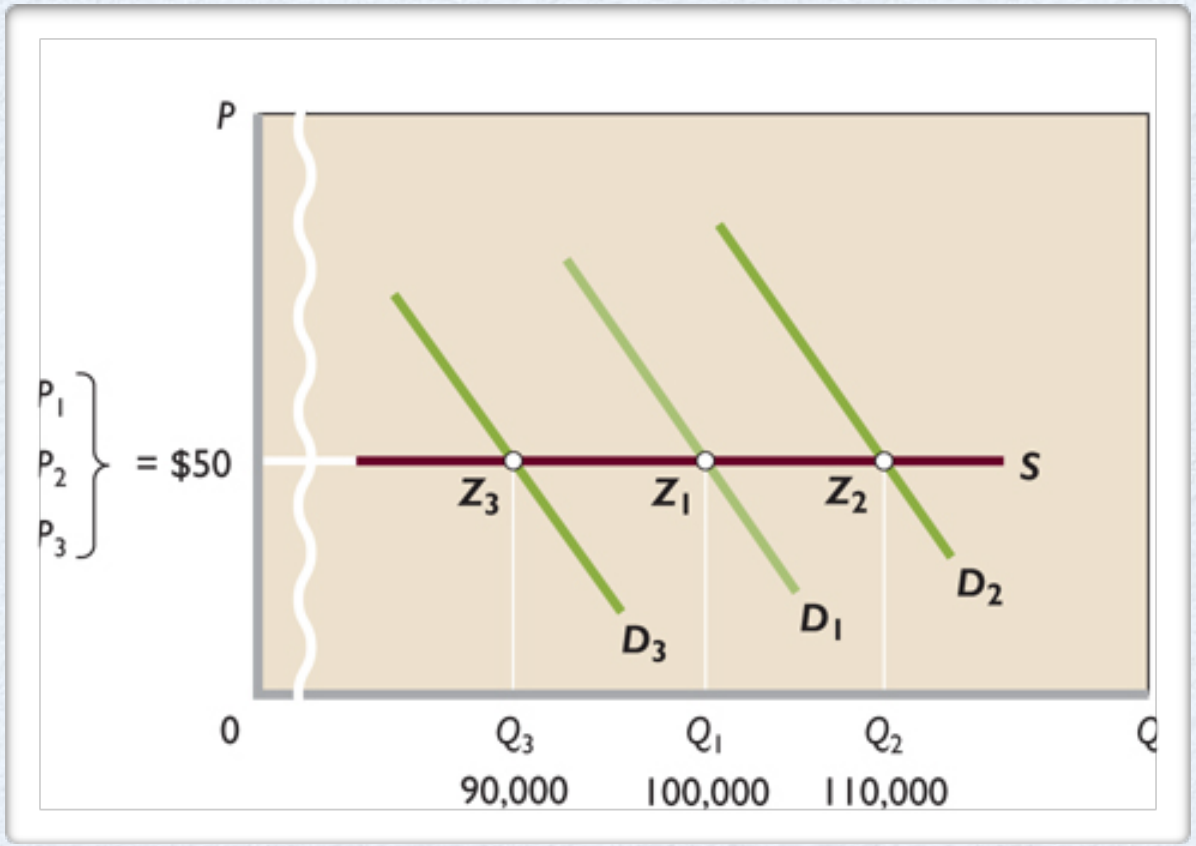
Profit Maximization in the Long Run

- *Assumptions:*
    - *Easy entry and exit long run adjustment*
    - *Identical costs - constant cost industry*
- **Exit eliminates losses** - Consumer demand goes down

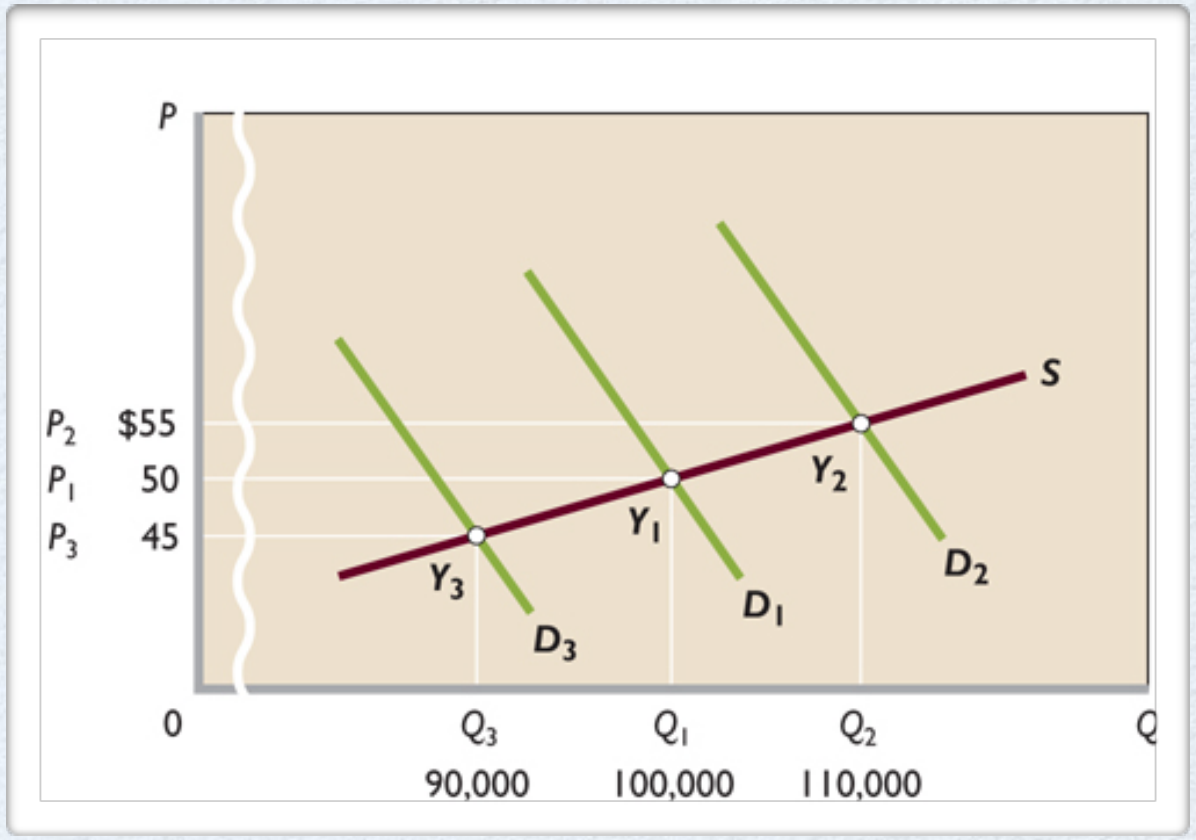


Long Run Supply Curve - Constant and Increasing Cost

Constant Cost

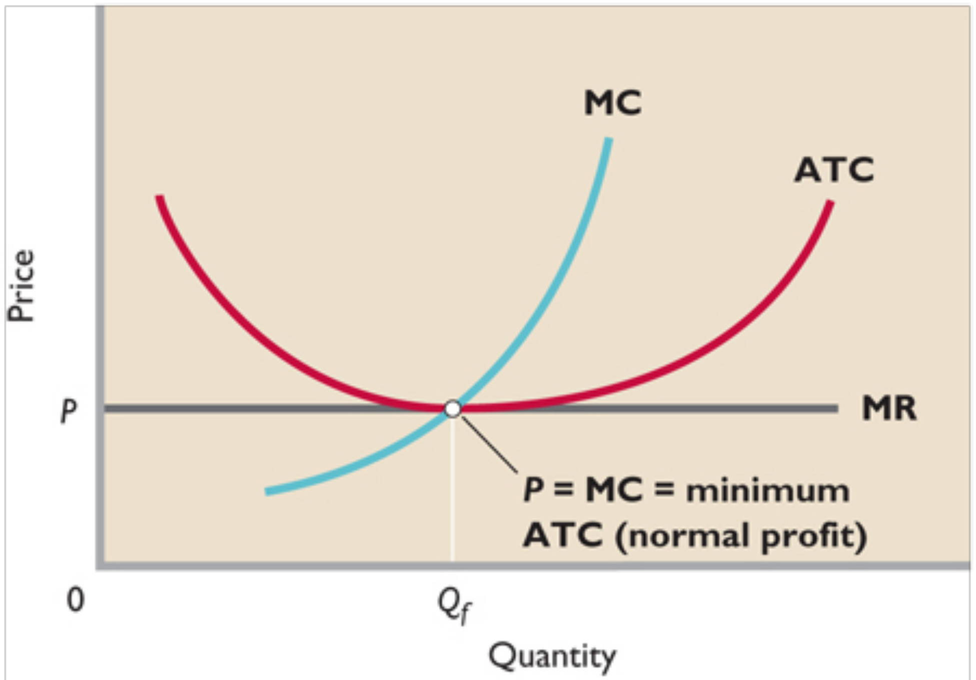


Increasing Cost

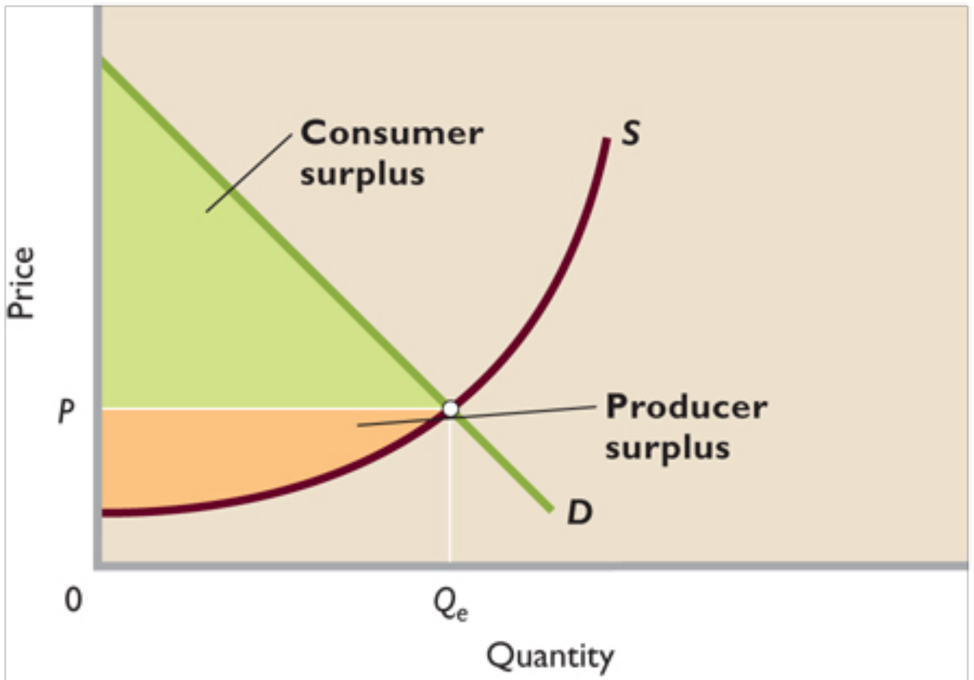


Pure Competition and Efficiency

- **Productive efficiency: P = Minimum ATC** - requires that goods be produced in the least cost way
- **Allocative efficiency: P = MC** - requires that resources be divided among irms and industries so they yield the mix of products and services that is most wanted by society - P > MC = under allocation of resources, P < MC = overallocation of resources
- **In a purely competitive market there is productive and allocative efficiency**



(a) Single firm



(b) Market