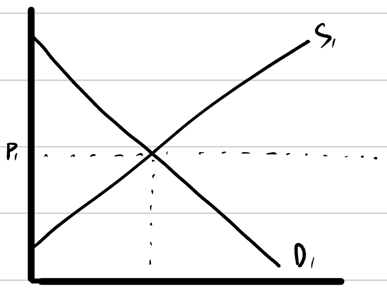
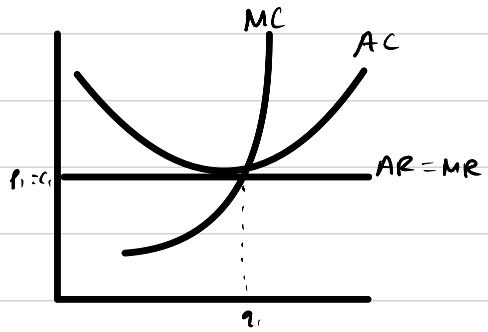
PERFECT COMPETITION

① identical products
② many buyers & sellers
③ perfect information
④ no barriers to entry
⑤ price takers (perfectly elastic AR curve)

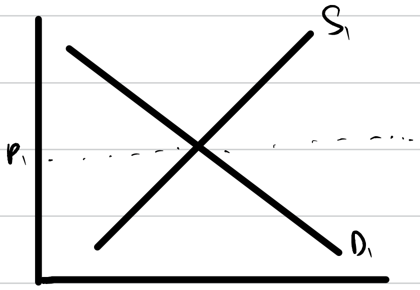
Efficiency	Quantity
Productive	MC = AC
Allocative	MC = AR
Dynamic	Supernormal profit in LR

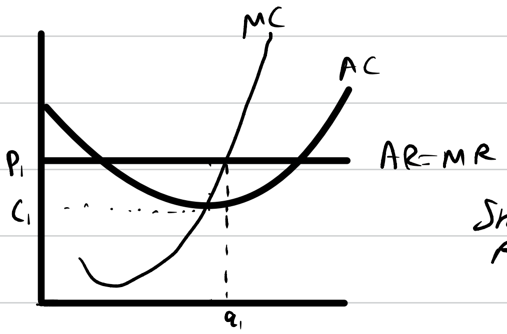
market





LONG-RUN





SHORT-RUN

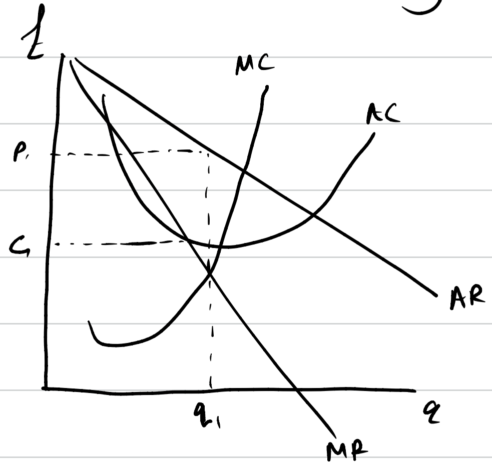
SHORT-RUN VS LONG-RUN

① In the SR, firms can make supernormal profits by lowering costs.
② As there is perfect information, and no barriers to entry, and supernormal profits, new firms ENTER
③ If new firms enter, market supply increases and each firms' demand (AR) decreases.
④ no supernormal profits in the LR.

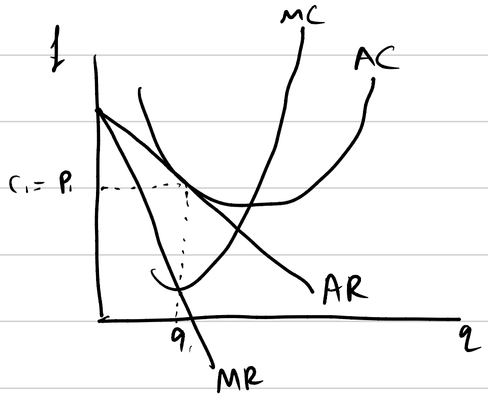
☺ a.e, p.e
☹ no d.e

MONOPOLISTIC COMPETITION

① Slight product differentiation
② no barriers to entry/exit



In the SR, same diagram as monopoly. AR more elastic as there are weak substitutes. Then, new firms enter as there are no barriers to entry so then each firm's AR shifts left.



No supernormal profits in the LR.

☺ contestability
☹ lack of p.e, a.e, d.e

OLIGOPOLY

Few firms in a market

Causes of collusion: game theory e.g. prisoner's dilemma teaches us that communication leads to better outcomes

		person 2	
		confess	deny
person 1	confess	(5, 5)	(0, 20)
	deny	(20, 0)	(1, 1)

Collusion outcome: firms act like a monopoly & set high prices & low output. (OPEC)

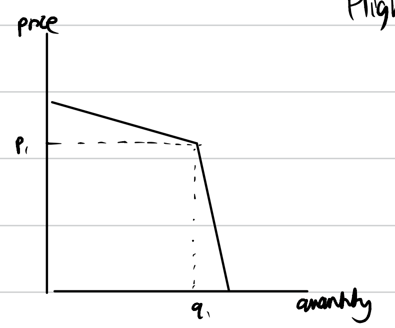
Draw a monopoly diagram

Causes of competitive oligopoly: competition policy → CMA and laws preventing mergers etc. and few firms competing on NON-PRICE.

outcome: kinked demand curve

firms can't raise prices because they would lose most sales.

firms can't lower prices as other firms would also reduce prices/ undercut.



If prices are rigid, non-price competition!
- customer service
- taste
- quality
- brand loyalty

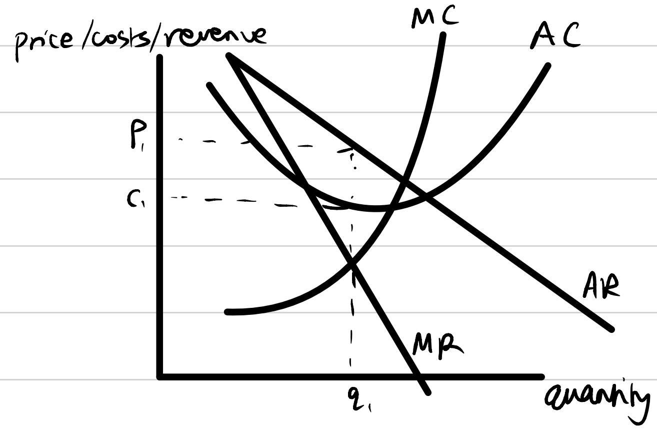
☹ local monopolies!

☺/☹ depends on if competitive or collusive.

MONOPOLY

- sole seller
- 25% + market share

① imperfect info
② product differentiation
③ high barriers to entry
④ price makers



Profit maximisation: MC = MR
High price, low quantity

☺ dynamic efficiency

☹ lack of p.e, a.e

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