

Test → Monday April 25

Sections VI, VII, VIII -

Chapters 13, 15, 16, 17, 14

- Review - MC questions at end of chapters
- (Answer sheet Friday)
- Sample Test (Friday)

Perfect Competition (Ch 14)

↳ price only - gasoline

- grocery products

- entry & exit free of barriers

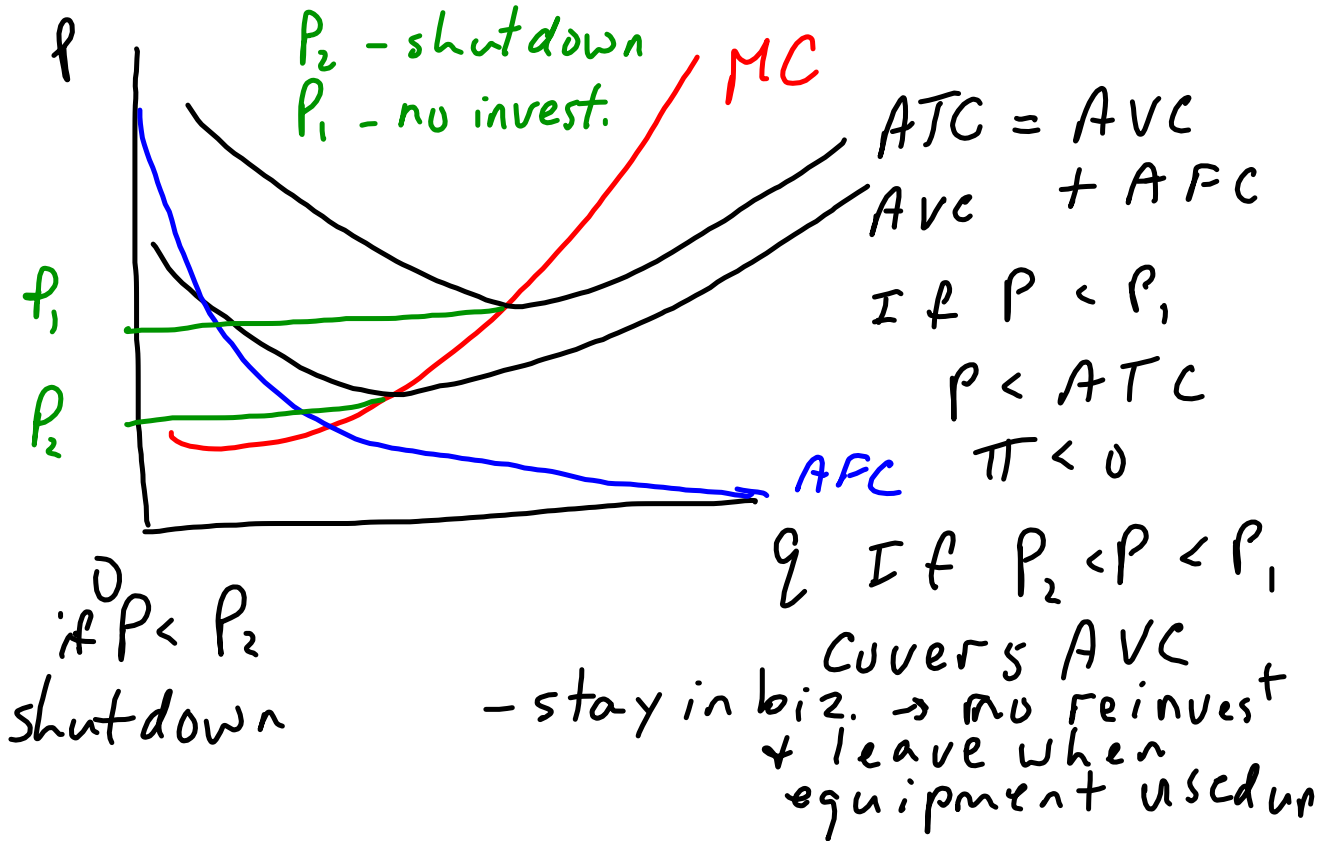
assures competitive price

- if $\pi > 0 \Rightarrow$ entry $P \downarrow \pi = 0$

$\pi < 0 \Rightarrow$ exit $P \uparrow \pi = 0$

When does firm exit?

- costs fixed vs avoidable

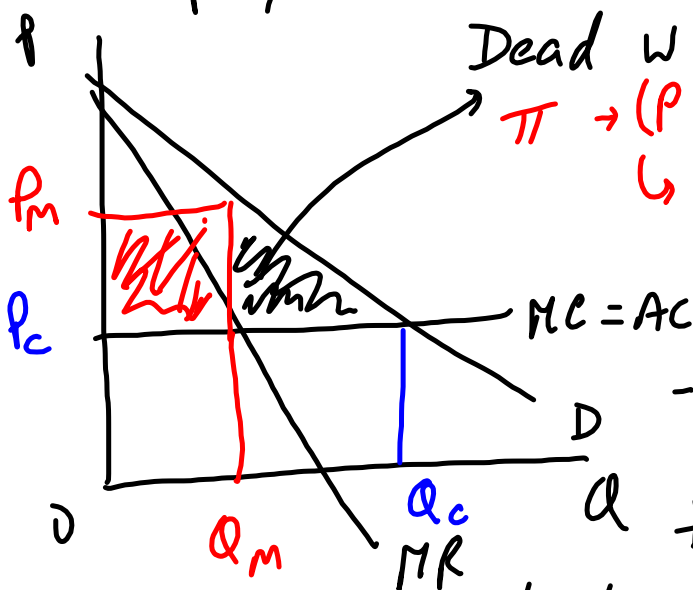


Why Perfect Comp benchmark?

- max. CS+PS - allocative efficiency
- min ATC
AVC - technical efficiency

WTP = WTA
marginal unit.

- Monopoly vs Perf Comp. allocative ineff.



Dead weight loss
 $\pi \rightarrow (P - AC) \cdot Q_m$
 ↳ transfer (not lost)

- but resources used up to get to be monopolist

- tournament - patent race

- $\pi = \$1 \text{ mill.}$ 10 competitors (R+D)

$\frac{1}{10}$ chance to win $EV = P_w \cdot \$1 \text{ mill} = \$100K$
 Total $\$1 \text{ mill.}$

spend total of \$1 mill
 winner nets \$900K
 losers spent \$900K on effort
 with no payoff - waste of
 resources (allocative
 inefficiency)

"Rent Seeking" Rent term for profit.

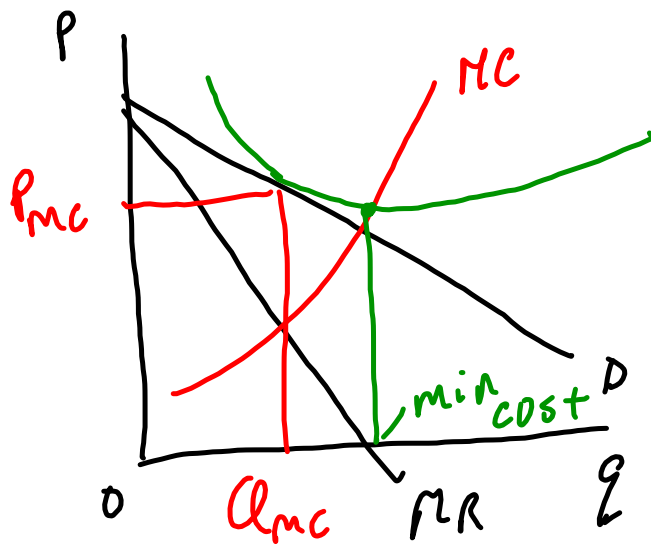
- directly unproductive activity
- loss from monopoly

DWL - after the fact
 + π - before " "

Total.

- as many ways to get to be a monopolist → as many ways to do rent seeking.

Perfect Comp vs Monopolistic Comp



- $P_{MC} = ATC$
 so $\pi = 0$
 - technical inefficient
 $ATC > \min ATC$

Oligopoly - react to interdependence

- collusion yields π

so monitoring required. to prevent that.

- enforce collusion may require

excess (unused) capacity
(same as in monopolistic comp)

Structure - # of firms

Conduct - pricing
- capacity
- advertising
- innovation

Performance $\pi > 0$ in long run.
absolute barrier
to entry

Conduct \rightarrow bundling - monopoly in
good A - may extend power
to B - set $P_B > ATC$

Chapter 21 :
Frontier Topics

Stiglitz }
Akerloff }
asymmetric

* Information economics - info

Behavioral economics -

interface - econ & }
psych. } *

↳ Individual - unit of
analysis

Sociology }
& poli-sci } group - organic agent