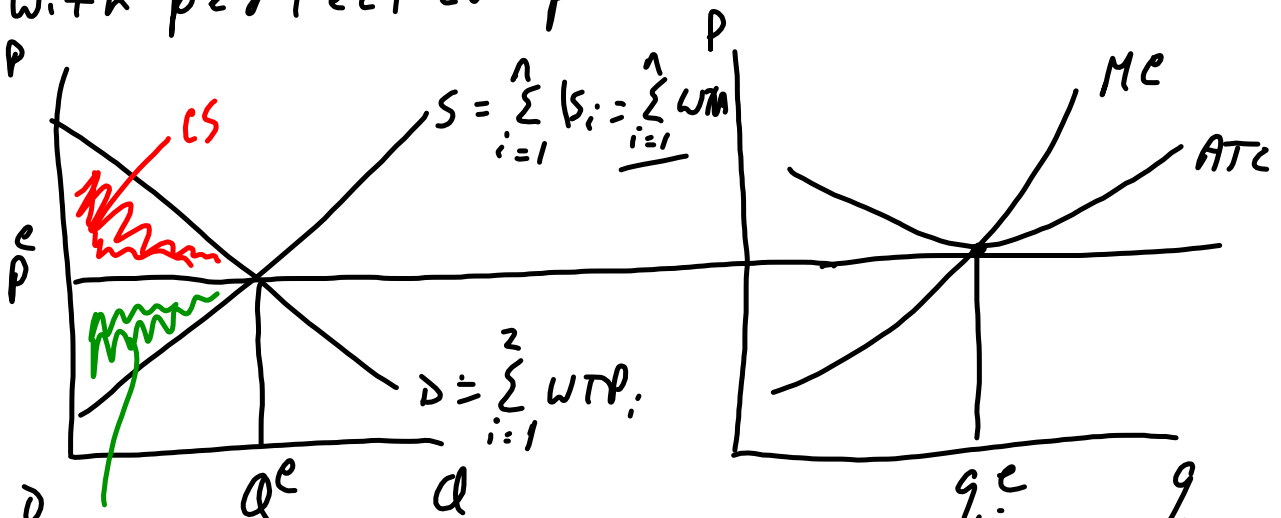


## Efficient Markets - Chapter 7?

- efficient allocation of resources
  - highest + best use
    - ↳ price - metric of value
    - signal to market
- eg price ↓ observed in market X
  - resources shifted from X → good Y
- prices reflect all values of resources
  - non-market goods
  - market failures -
    - property rights
    - externalities
    - public goods
    - information incomplete

non-competitive markets

with perfect comp



$Q^e = \sum_{i=1}^n q_i^e$

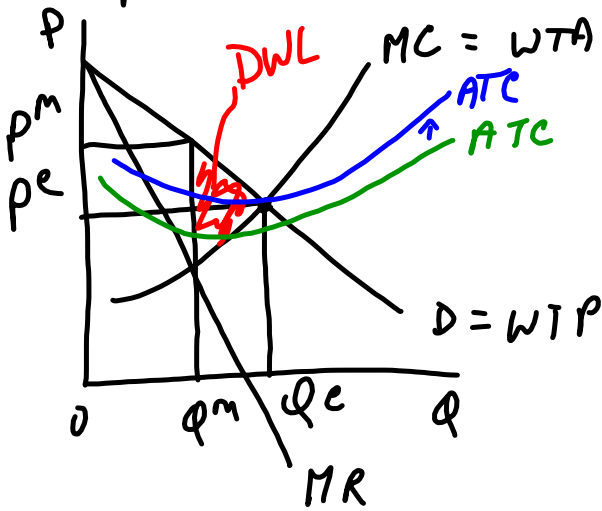
at  $q_i^e \rightarrow MC = MR$

allocative efficiency -  $opt Q = Q^e$   
technical efficiency -  $min ATC$

use Perf & Comp as benchmark

Monopoly

$$MC = MR$$



$Q^m < Q^e$  - allocative inefficiency

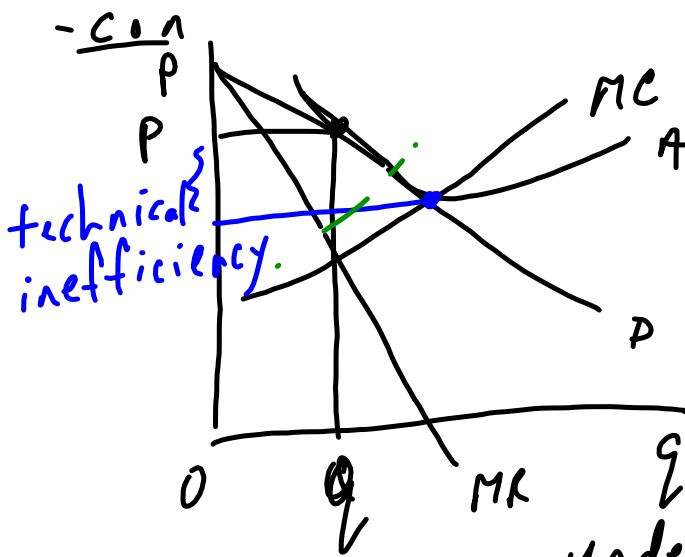
Dead Weight Loss  
potential technical inefficiency

$ATC^m$  may not be  
min  $ATC = ATC$ .

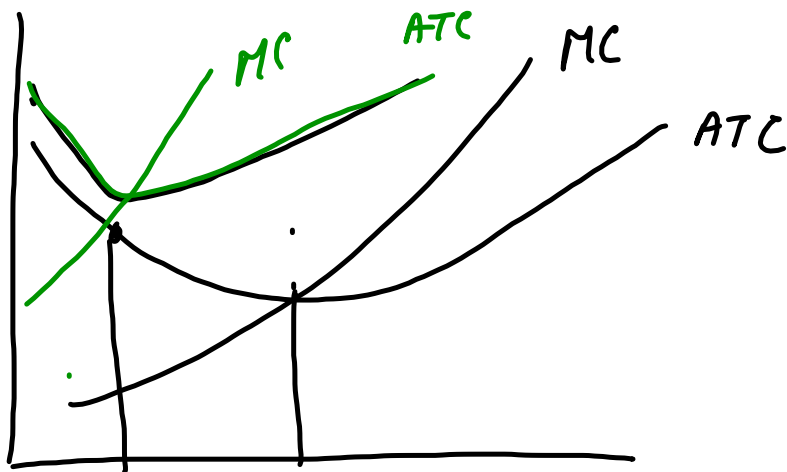
Sherman Act	1890	] amended
Clayton "	<u>1923</u> ?	

# Monopolistic competition

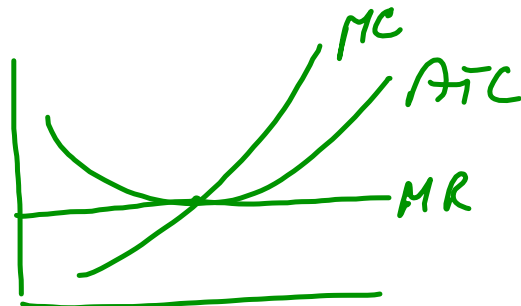
- pro → product choice - differentiate product
- brand name
- ↳ performance bond



$MR = MC$   
 but  $P = ATC$   
 $AR = ATC$  so  
 $\pi = 0$   
 not minimizing  
 ATC per unit  
 - excess capacity  
 underutilized resources



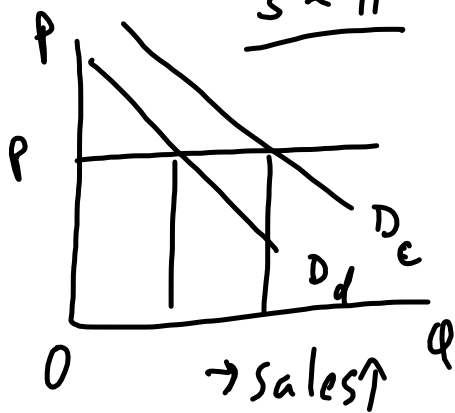
excess capacity  
min on ATC



Downward sloping D curve  $\rightarrow$  excess capacity

- enhance good elements of monop comp.
- regulate ads → avoid misleading  
→ max. information

mislead → higher sales → higher  $\Pi$ s  
 damage if found guilty of misleading  
 $3 \times \Pi$  - where  $\Pi$  from advertising



## Oligopoly vs Perf. Comp.

- extent collude to reduce Q - bid P↑
- legislation → control (eliminate)  
collusion
- illegal - price fix
- share market

collusion detected → cease & desist order

- est  $\pi$ s - fine  $3 \cdot \pi_2$