Micro-Economics

Price and Output Determination (equilibrium - Under Different Markets

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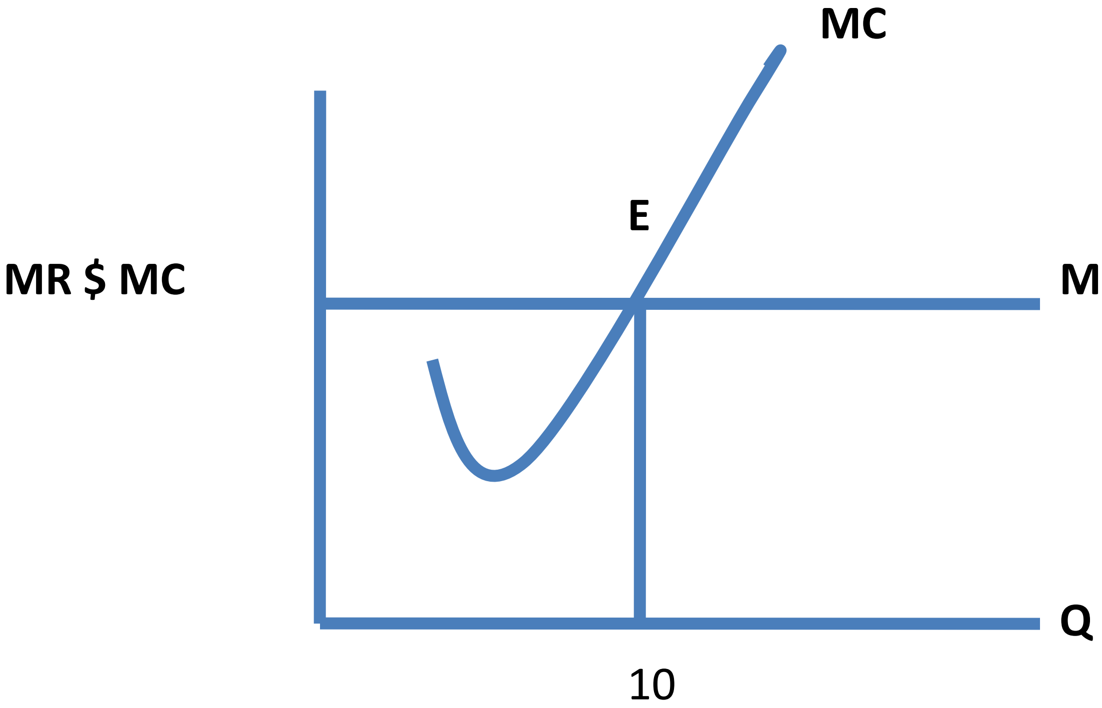
Meaning of firm’s equilibrium

1. MR= MC*

2. MC curve must be rising.

(MC curve must intersect MR curve from below)

Firm’s Equilibrium



Equilibrium of a firm

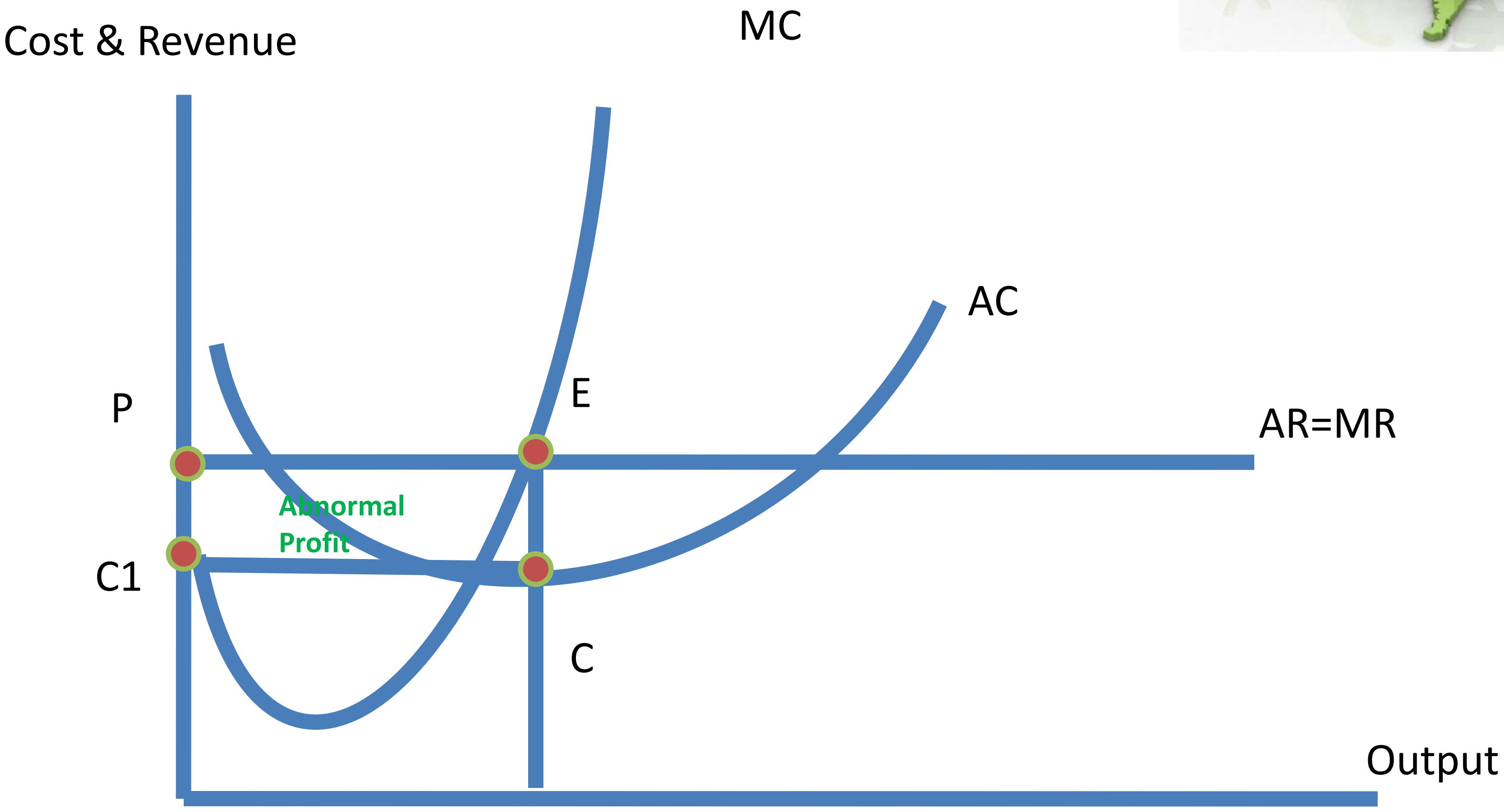
Eqm of a firm

- PC
  - SR
    1. Abnormal profit
    2. Loss
    3. Normal profit
  - LR
    Only Normal Profit
- MC
  - SR
    1. Abnormal profit
    2. Loss
    3. Normal Profit
  - LR
    Only Normal Profit
- Monopoly
  - SR
    1. Abnormal profit
    2. Loss
    3. Normal profit
  - LR
    1. Abnormal profit
    2. normal profit

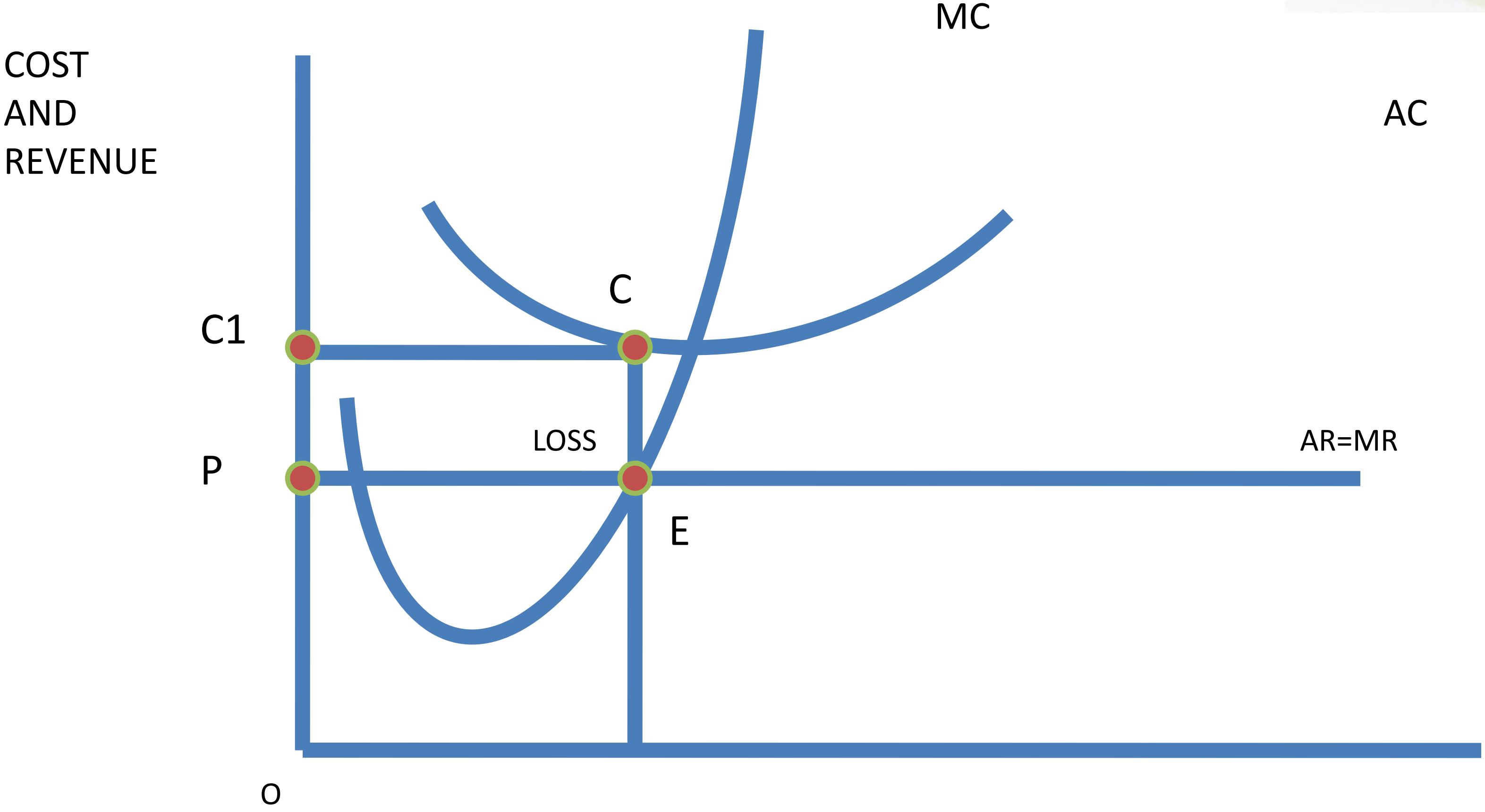
Explanation

- All the three possibilities of supernormal profit, loss and normal profit exist in short run in all the markets as the firms cant enter or exit the market.
- In the long run firms can make only normal profit due to the freedom of entry and exit. Only under monopoly firm makes super-normal profit in the long run due to barriers to entry.

Abnormal profit



LOSS

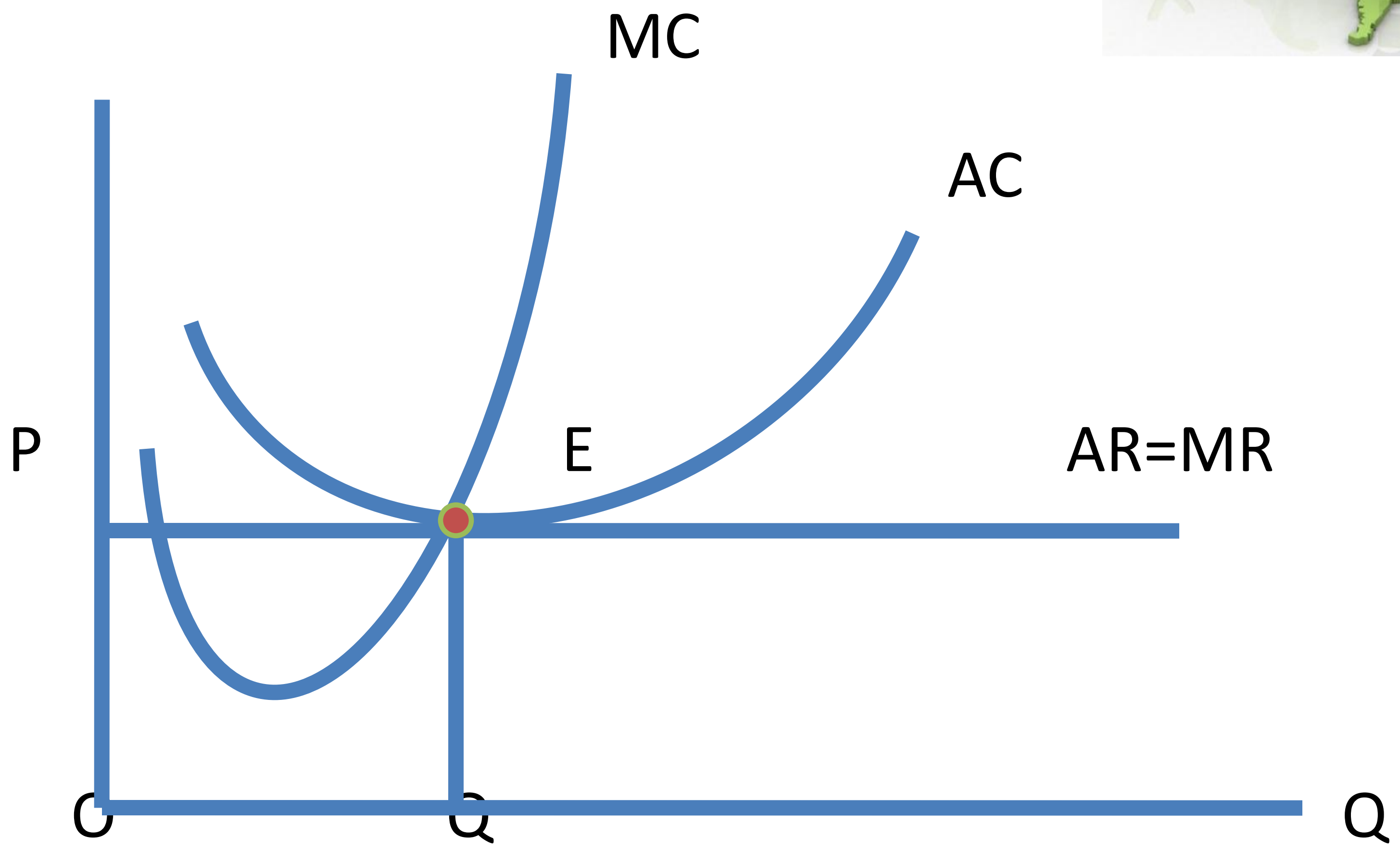


NORMAL PROFIT

COST

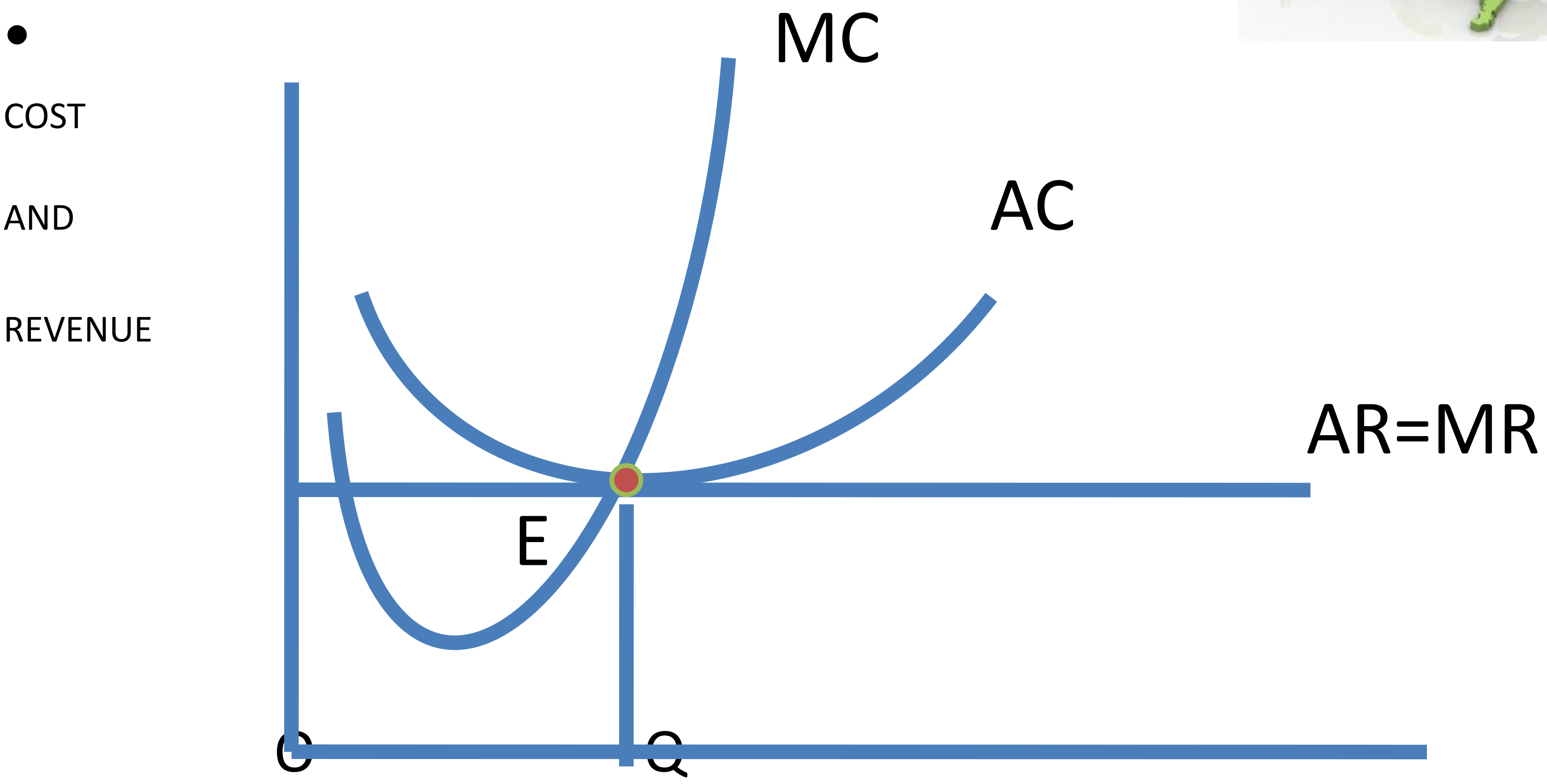
AND

REVENUE



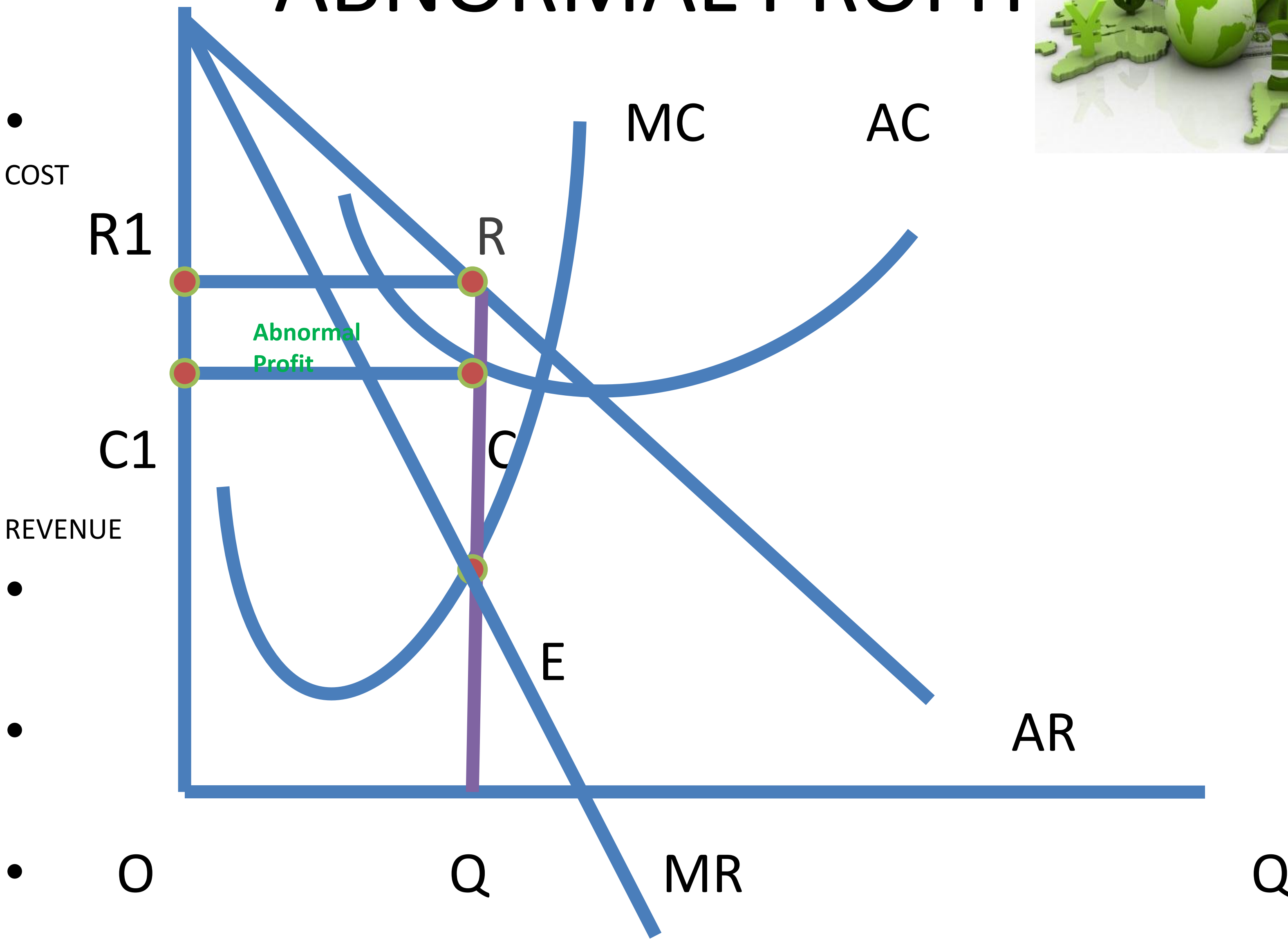
LR equilibrium of a firm under P.C.

NORMAL PROFIT



S R Eqm of a firm under MC

ABNORMAL PROFIT



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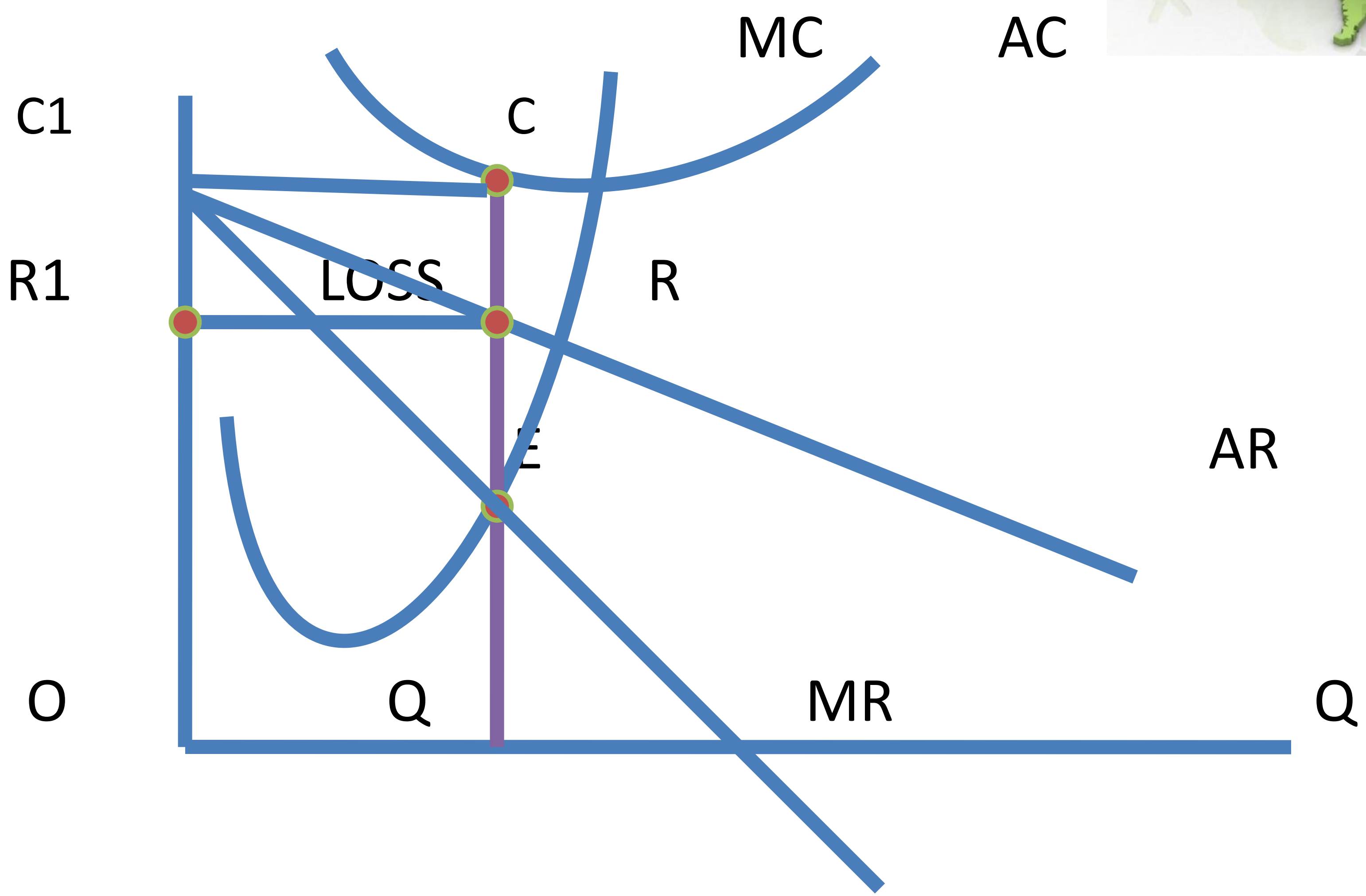
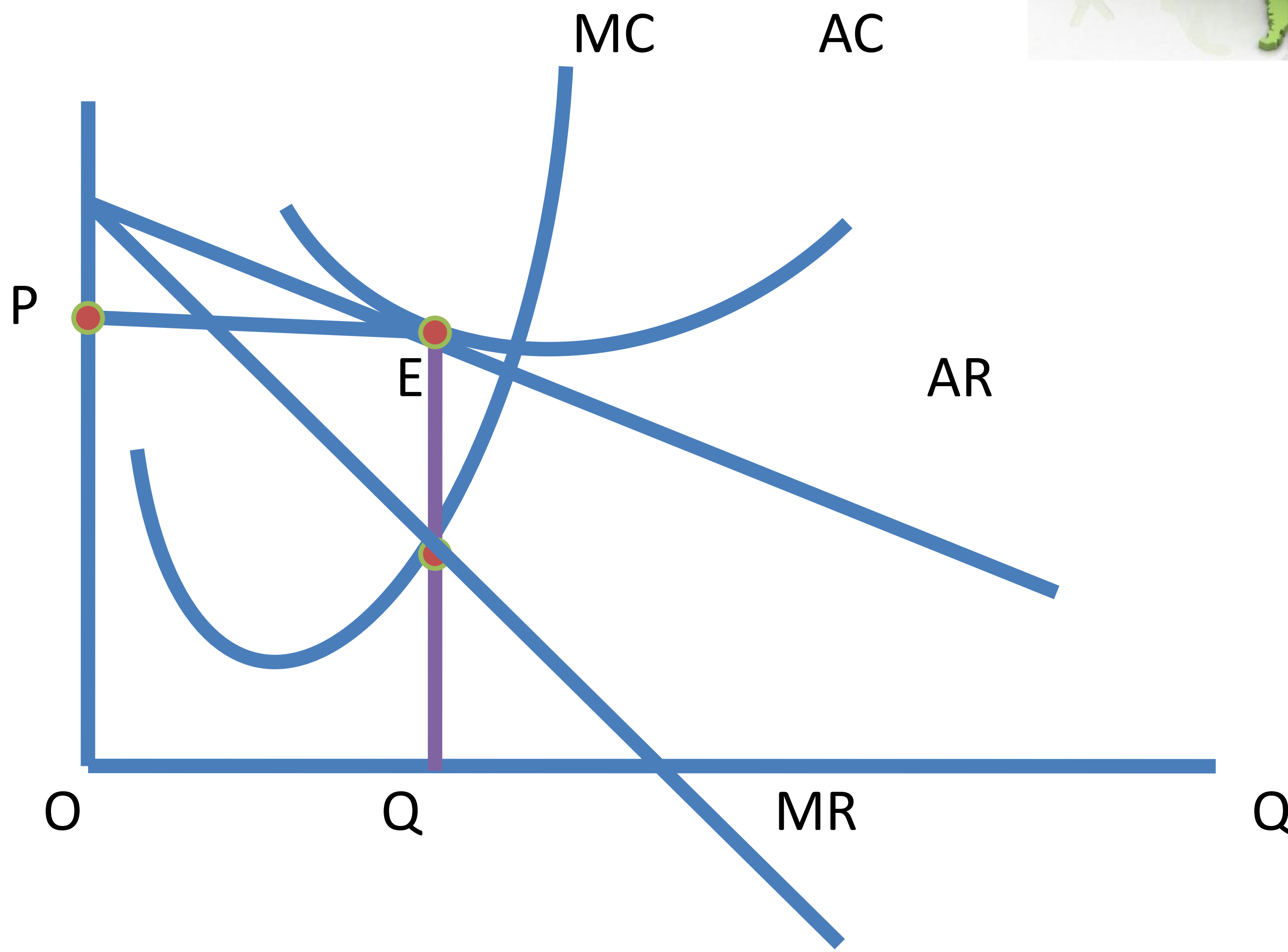


NORMAL PROFIT

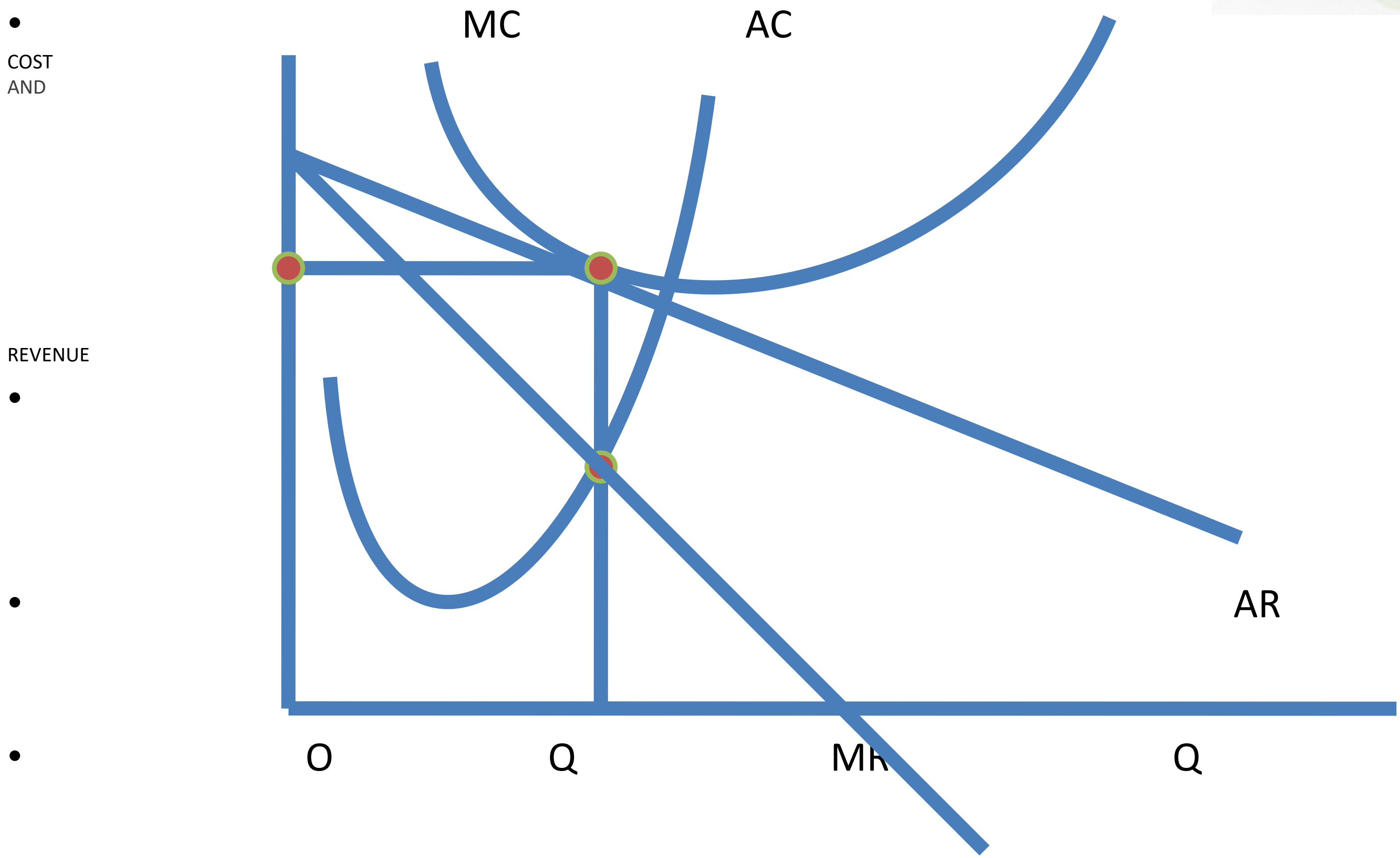
COST
AND

REVENUE



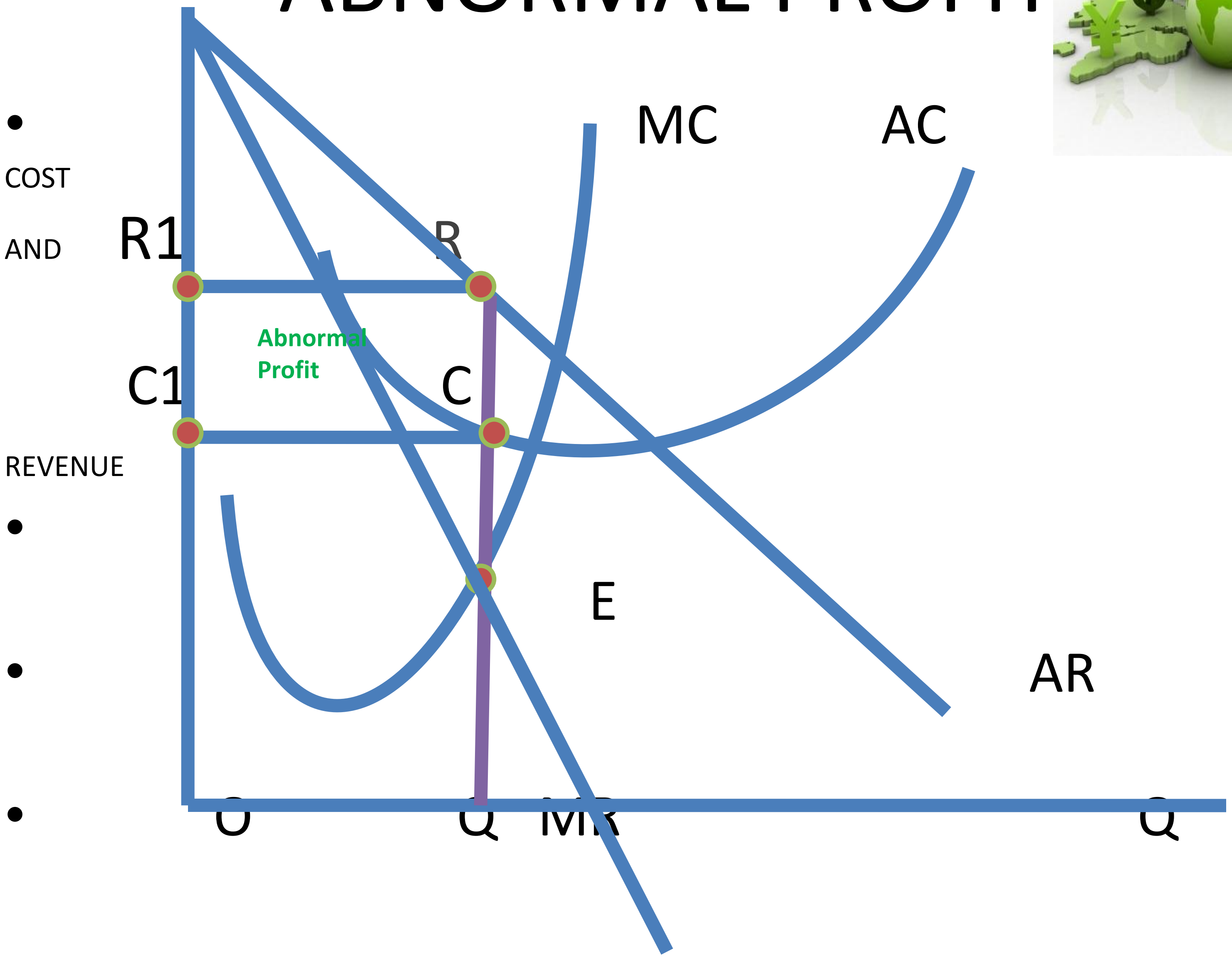
LR equilibrium of a firm under M.C.

NORMAL PROFIT



S R Eqm of a firm under Monopoly

ABNORMAL PROFIT



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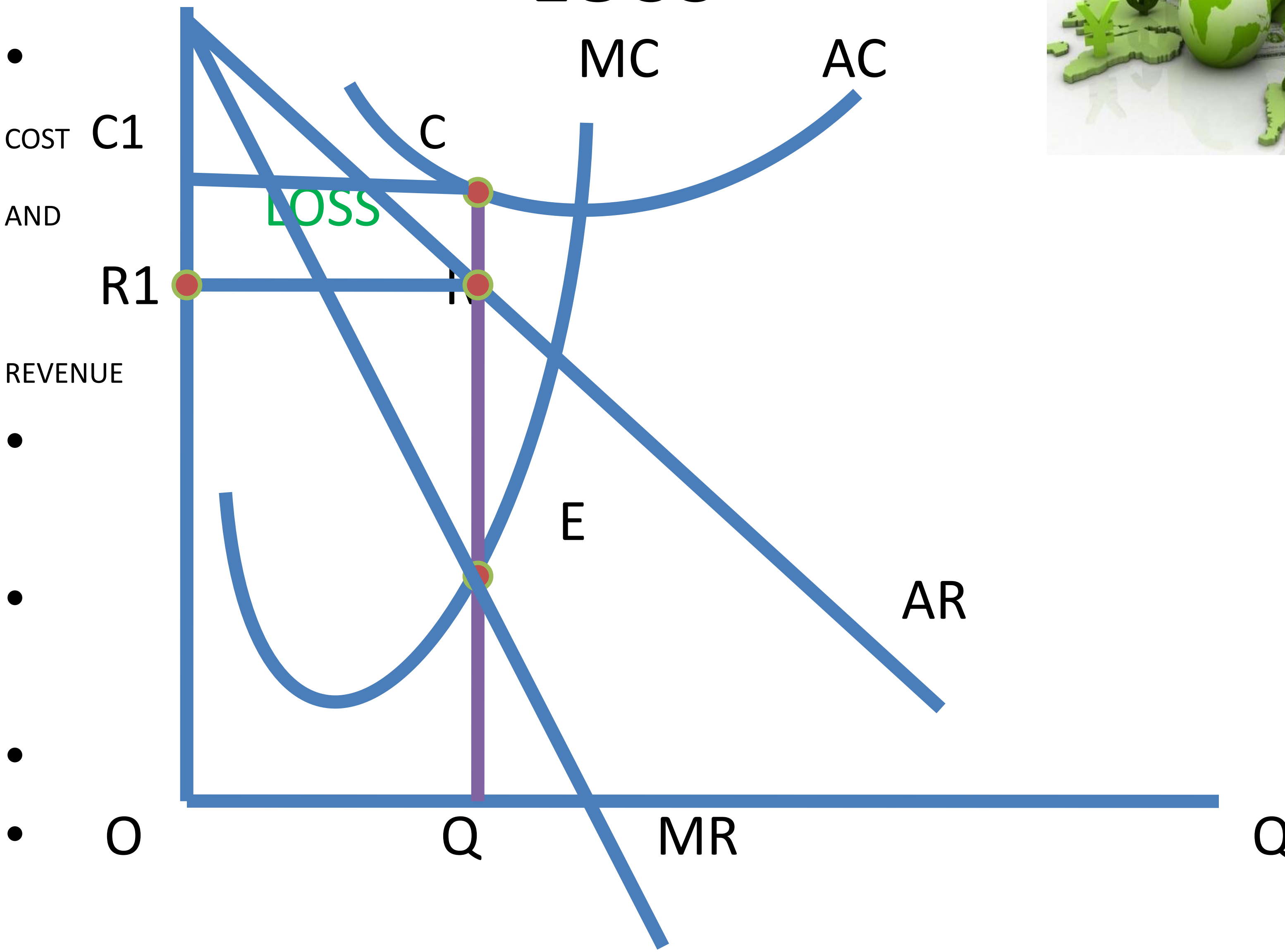
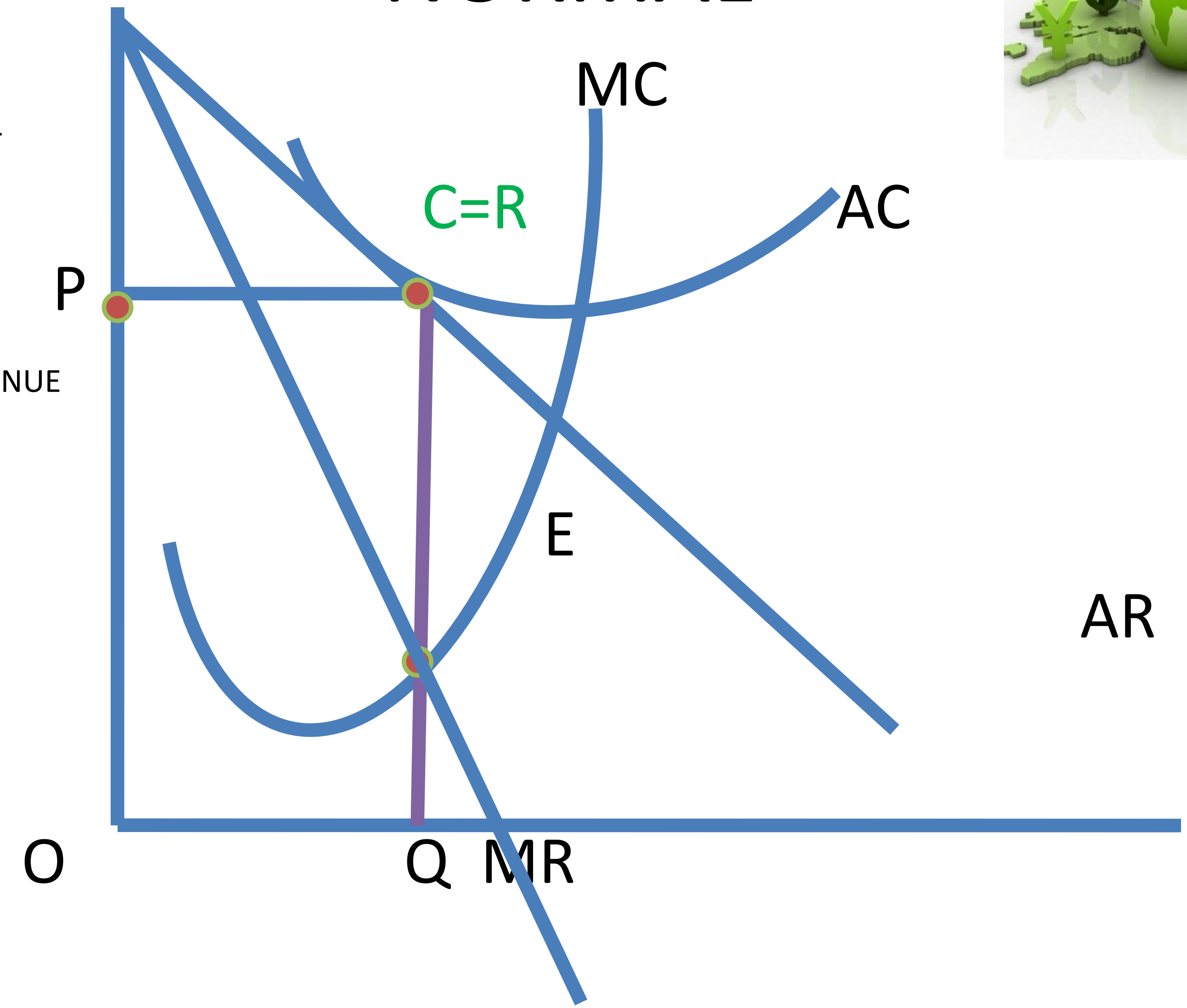


NORMAL

- COST

  AND

  REVENUE
-
-
-



LR equilibrium of a firm under Monopoly

ABNORMAL PROFIT