

Choosing output in the Long-run (Perfect competition)

Short-run

1. SAC \rightarrow Short run avg cost
2. SMC \rightarrow Short run marg cost
3. Super normal profit

$$\pi > 0$$

$$TR > TC$$

4. Equil Condition: $SMC = MR = AR = P$

Long-run

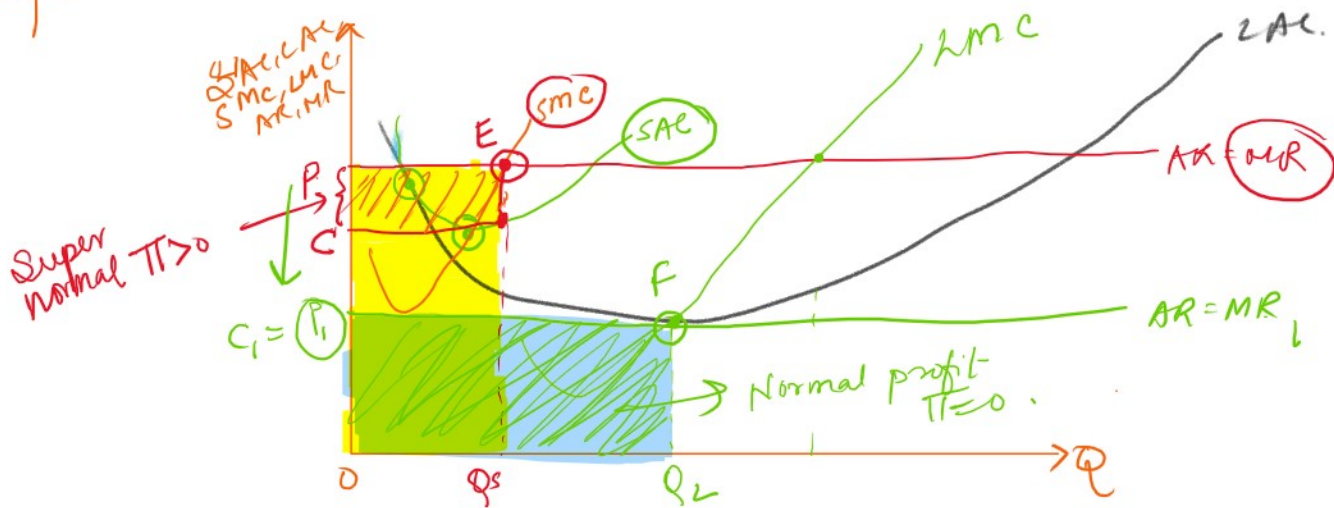
1. LAC \rightarrow Long run avg cost
2. LMC \rightarrow Long run marg cost
3. Normal profit

$$\pi = 0$$

$$TR = TC$$

4. Equil condition is $LMC = MR = AR = P$

Diagrammatic Presentation.



1. In short-run equilibrium is at point E where $SMC = MR = AR = P$
2. In " " quantity is Q_s and firm earns super normal profit $\pi > 0$ i.e. $TR > TC$

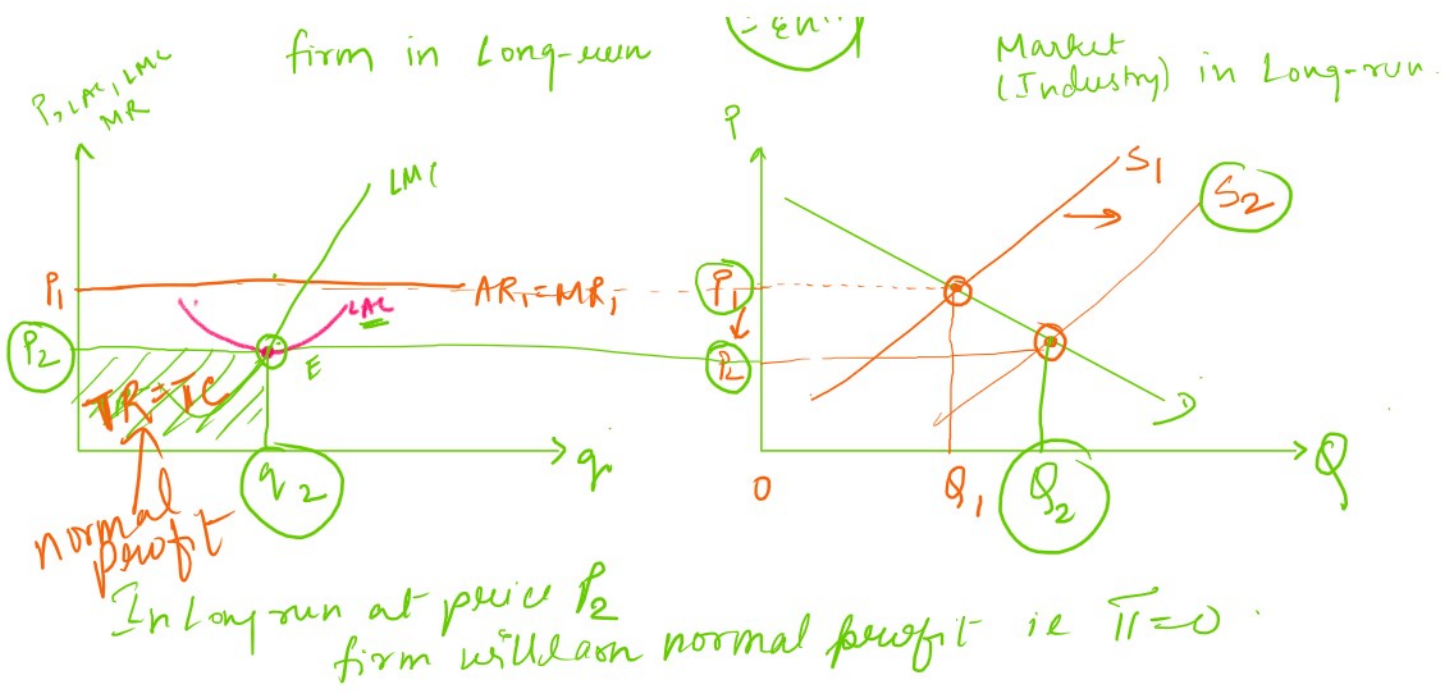
3. In long run equilibrium is at point F where $LAC = MR = AR = P$
4. " " Q_l is produced and firm earns normal profit i.e. $\pi = 0 \Rightarrow TR = TC$

Free Entry and Exit.

firm in Long-run

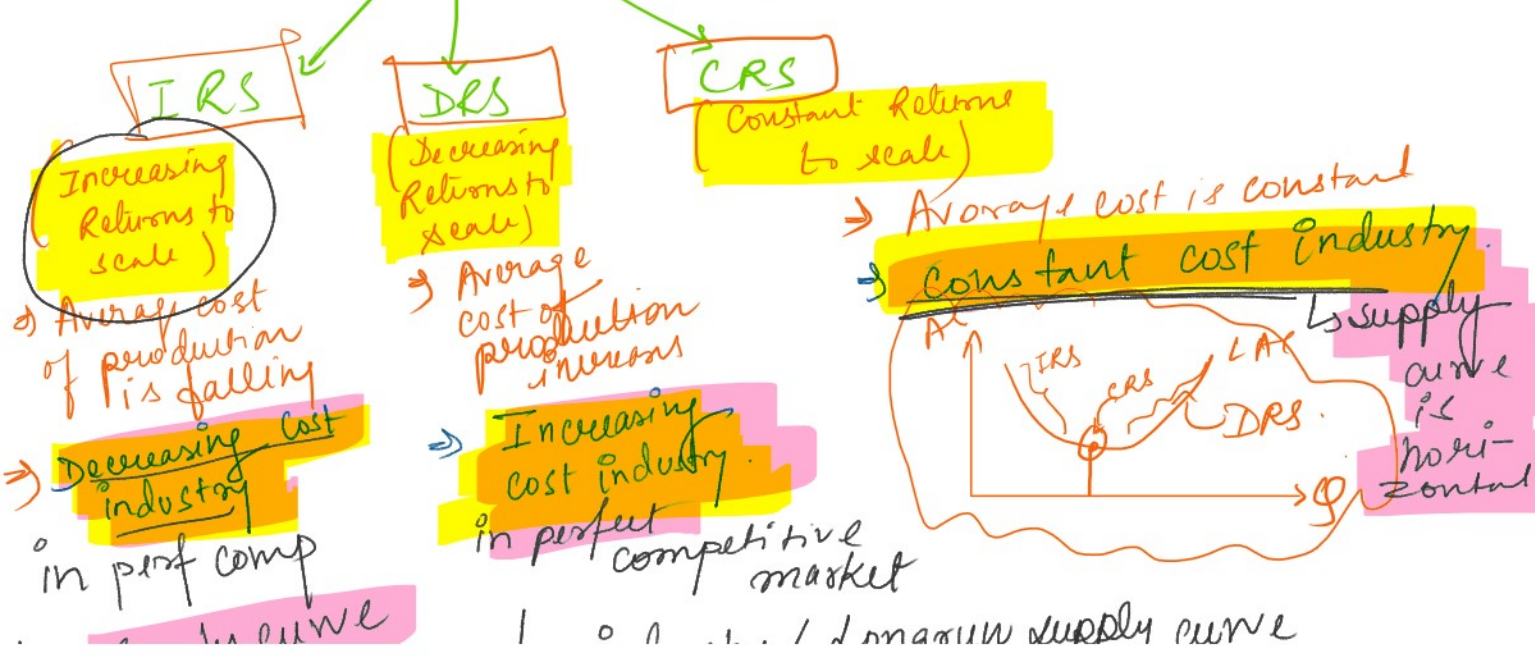
Market (Industry) in Long-run.

P, LAC, LMC, AR



* In short-run perfectly competitive market supply curve is that part of the short-run marginal cost curve which lies above the minimum AVC.

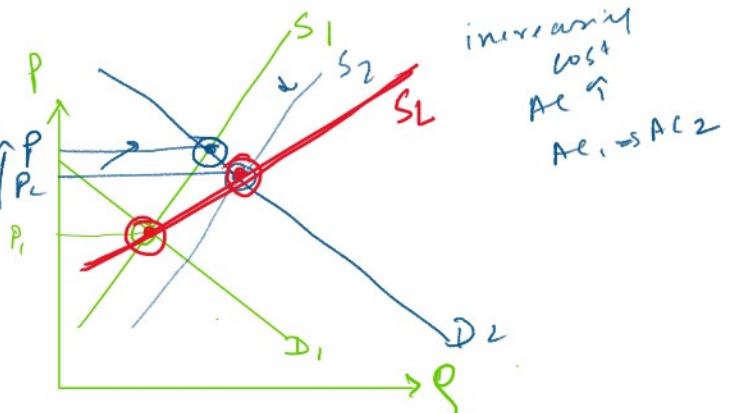
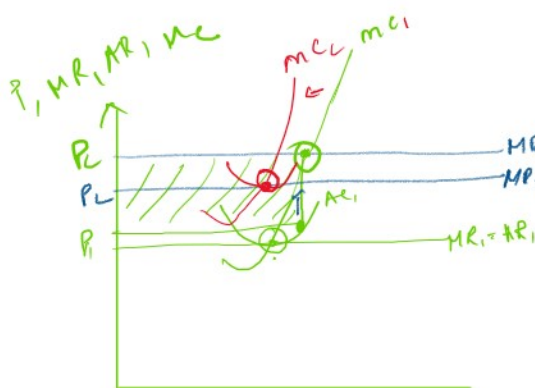
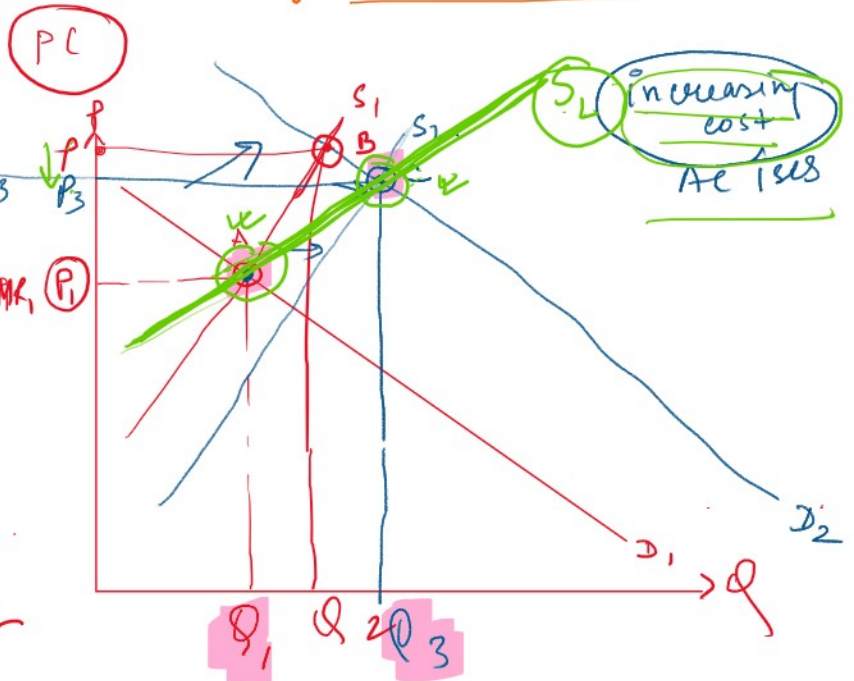
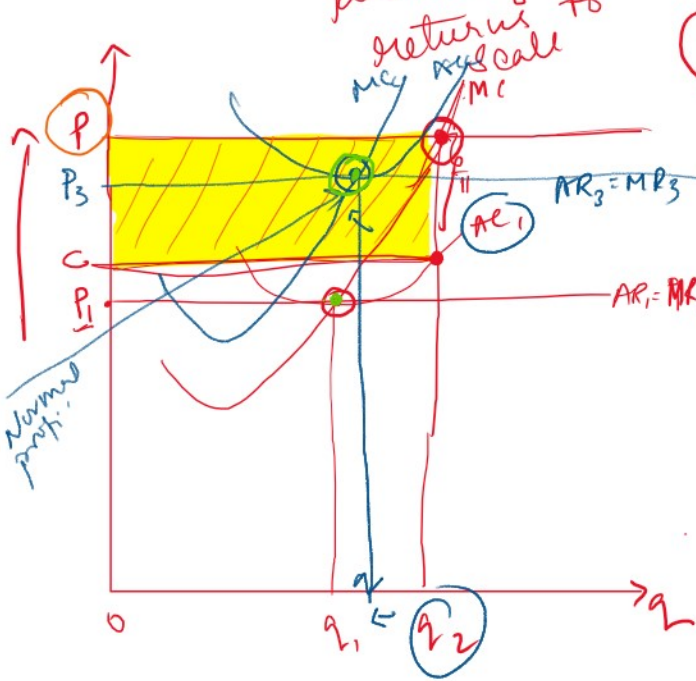
* Supply Curve in Longrun Perfect-Competition:



in prof comp
 ↳ Supply curve is falling.

comp market
 ↳ industry / long run supply curve will be upward sloping.

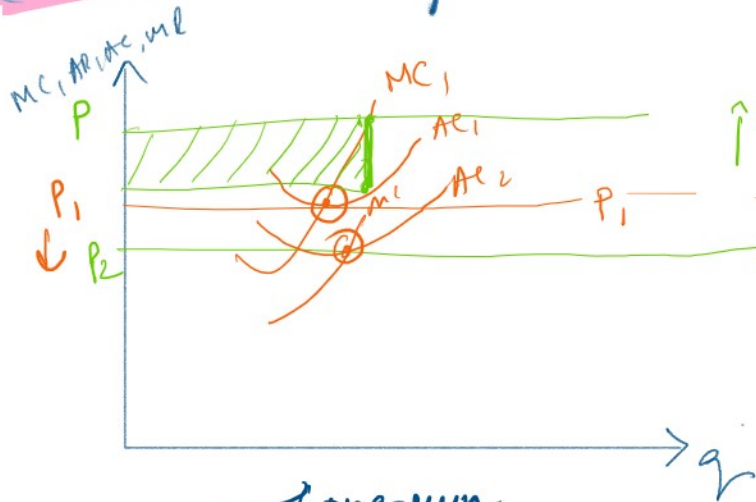
Type 4: long-run supply curve in case of increasing cost industry in a perfectly competitive market.



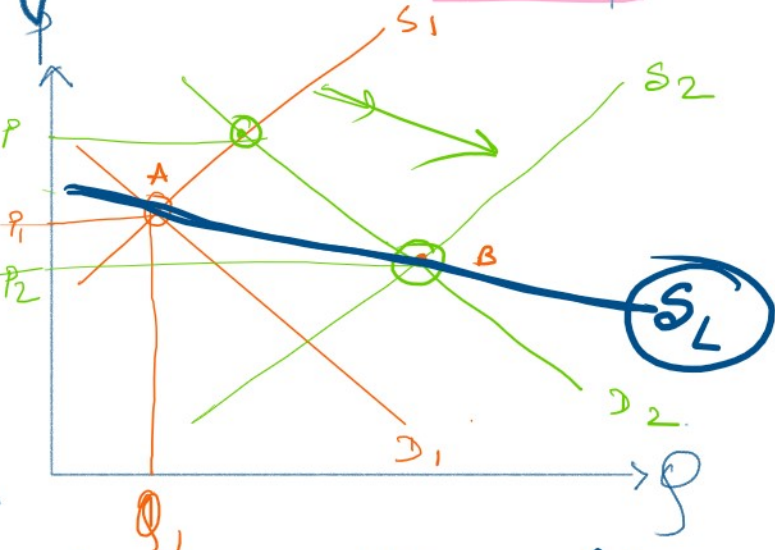
S_L \Rightarrow Long run supply curve of a perfectly competitive market
 \hookrightarrow It is upward sloping \Rightarrow because of increasing cost or Decreasing returns.

Q. Type 2: Decreasing Cost Industry.
 (Long run supply curve)

(a) firm



(b) industry

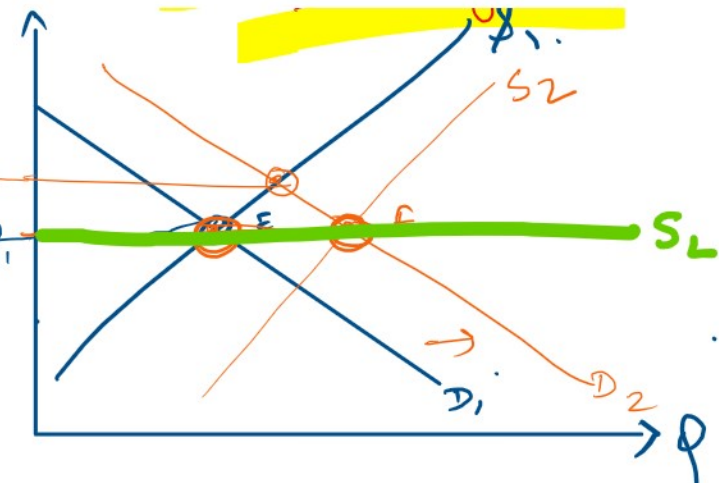
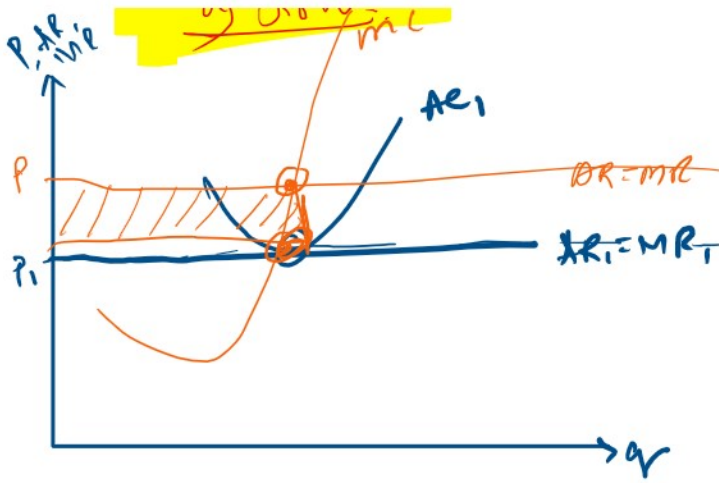


Long-run S_L \Rightarrow Supply curve of a perfectly competitive market.
 \hookrightarrow in case of decreasing cost industry S_L supply curve is downward sloping.

Case 3: Long-run supply curve in case of constant cost industry:

(a) firm

(b) industry



$S_2 \Rightarrow$ long run supply curve in a perfectly competitive market.
 constant cost type $\Rightarrow S_L$ is horizontal.

Short-run supply curve and long-run supply curve

- 1. Upward sloping.
- 2. It is position of MC above the min AVC.

- 1. Increasing cost type.
 - a) S_L (supply curve is upward sloping)
 - b) AC shifts upward.

- 2. Decreasing cost type
 - a) AC decreases & shifts downwards.
 - b) $S_L \Rightarrow$ supply curve is downward sloping.

3. Constant cost type

- a) AC is constant



The End.

a) AC is constant
hence no shift in
the curve.

b) $S_L \Rightarrow$ the supply
curve is
horizontal.