Unit 9: Imperfect Competition

Characteristics of the Four Market Structures

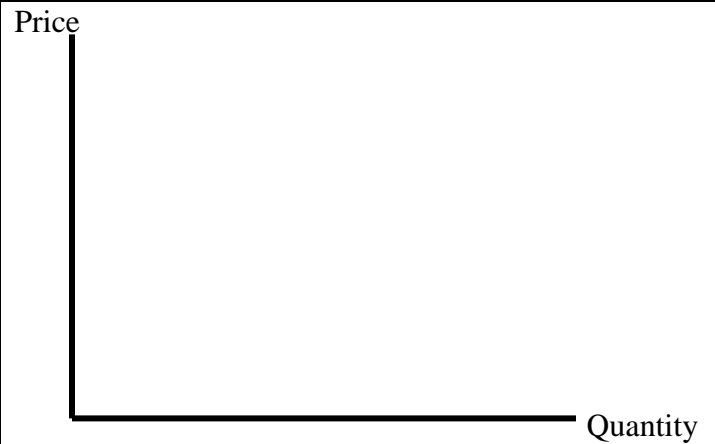| Perfect Competition	MonopolisticCompetition	Oligopoly	Monopoly

Demand and Marginal Revenue*

Why is demand greater than marginal revenue for all imperfectly competitive firms?
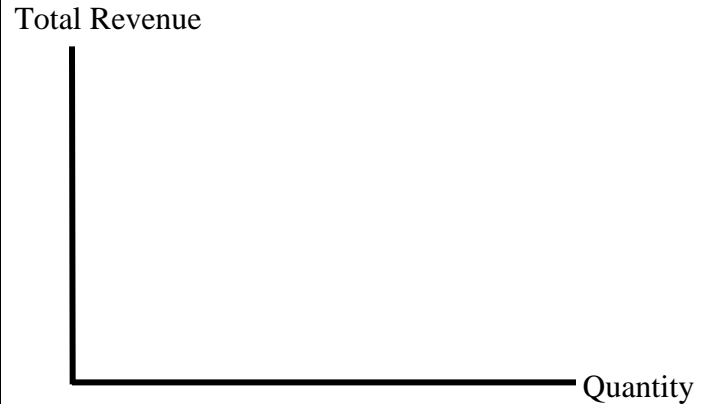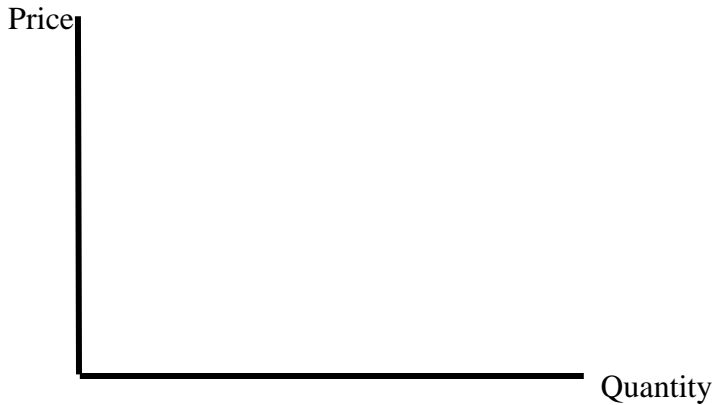

Why are monopolies inefficient?
1.
2.
3.

Monopoly Graph (profit)*

Draw and label a Monopoly making profit

Price

Quantity

Elastic and Inelastic Range*

Price

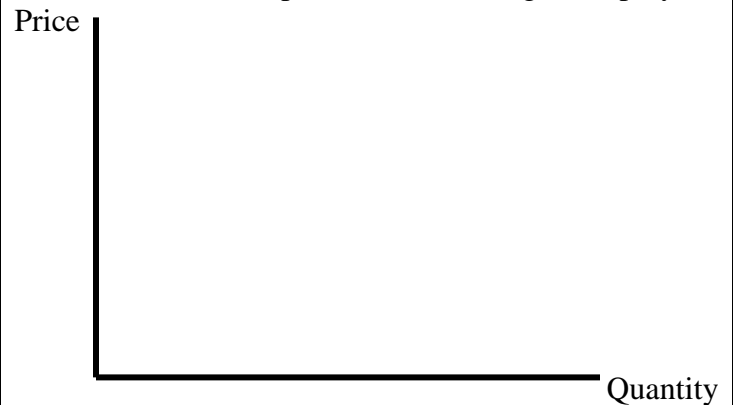Quantity

Total Revenue

Quantity

Monopoly Graph (loss)

Draw and label a Monopoly making profit

Price

Quantity
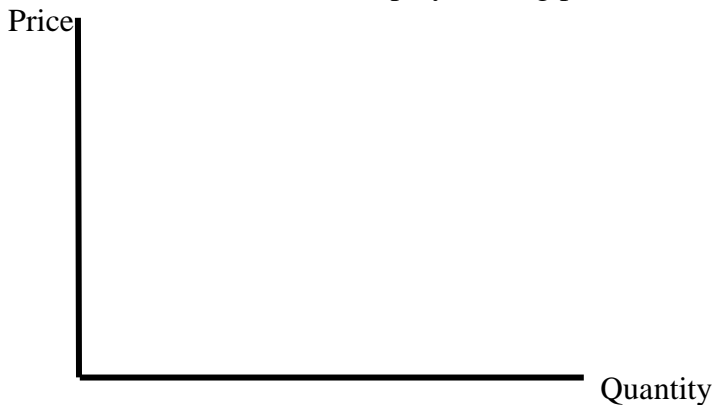
Price Discriminating Monopoly*

Draw and label a price discriminating monopoly

Price

Quantity
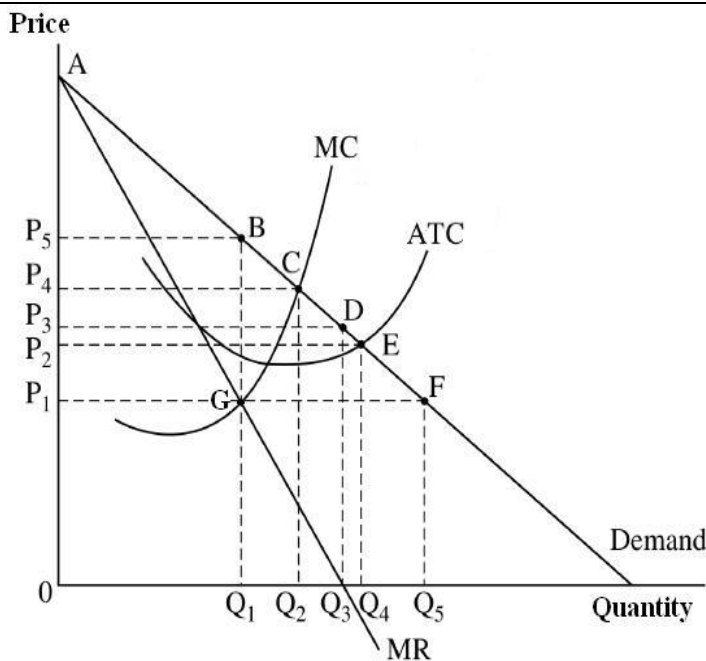
Price	Monopoly Practice*

For a Competitive Market
1. P and Q
2. Consumer Surplus

For a Monopoly
3. P and Q Unregulated
4. P and Q Socially Optimal
5. P and Q Fair Return
6. Consumer Surplus
7. Dead Weight Loss
8. Q where TR is Maximized
9. Q if it price discriminates
10. Elastic Range of the Demand Curve
11. Per unit tax causes P _____ and Q _____
12. Lump sum subsidy causes P _____ and Q _____

Monopolistic Competition*
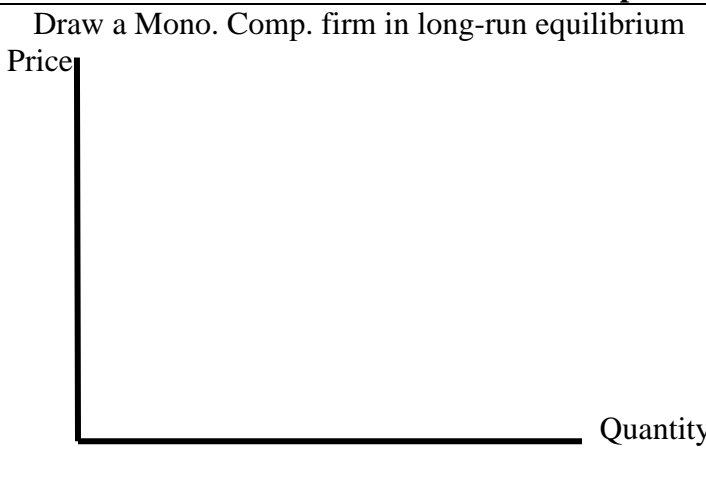
Draw a Mono. Comp. firm in long-run equilibrium	Excess Capacity (define below and label on graph)
Price Quantity	 If a monopolistically competitive firm is making a profit in the short-run, what will happen to the demand and number of firms in the long run?

Oligopoly

1. If David decides to advertise now and Lindsey decides to do it later, what is David's expected profit?
2. What is Lindsey's dominant strategy?
3. What is David's dominant strategy?
4. If both owners have the information but do not actively collude, what will be the outcome?

Assume the advertising company offers a deal that increases the profit for both owners by $2,000 but only if they advertise later. Based on these changes:
5. What is Lindsey's dominant strategy?
6. What is David's dominant strategy?

Assume that two business owners are deciding between advertising now and advertising later. The chart shows expected profit with Lindsey's on the left

		David	
		Now	Later
Lindsey	Now	$5,000, $4,000	$3,000, $3,500
	Later	$900, $1,000	$1,500, $1,800

Unit 9: The Resource Market

Key Terms	Resource Shifters
1. Derived Demand-	Shifters of Labor Demand-
2. Marginal Revenue Product (MRP)-	Shifters of Labor Supply-
3. Marginal Resource Cost (MRC)-	

Calculating MRP and MRC and Hiring Workers*

| Number of Workers	Total Product	Marginal Product	Marginal Revenue Product
0	0		
1	5		
2	13		
3	18		
4	21		
5	20		

1. Assume perfectly competitive product and labor markets. If the price of the product is $5 and the wage is $20, how many workers should be hired?
2. How much is the profit or loss?
3. Assume that this firm develops a process that makes only their workers more productive. The wage will _____ and the quantity will _____.

Plot the MRP and MRC for the firm

Wage

40

30

20

10

0   1   2   3   4   5 **Workers**
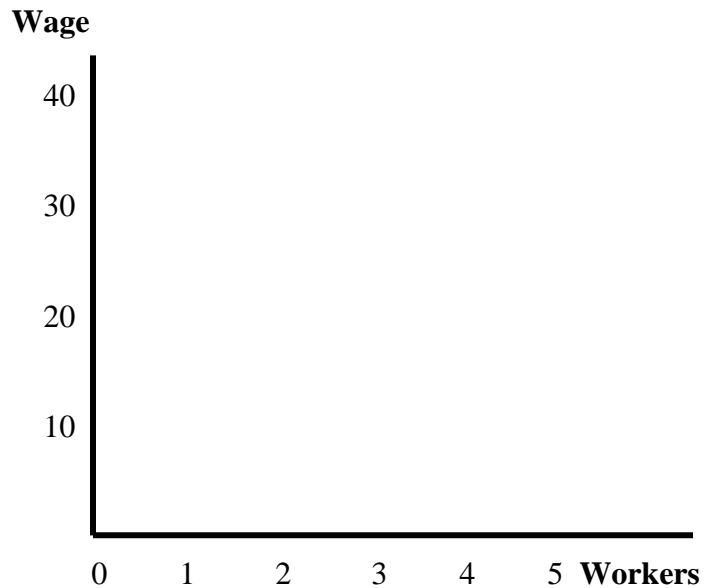
Minimum Wage*

Draw the results of a minimum wage. Label Qs & Qd

Wage

Quantity of Labor
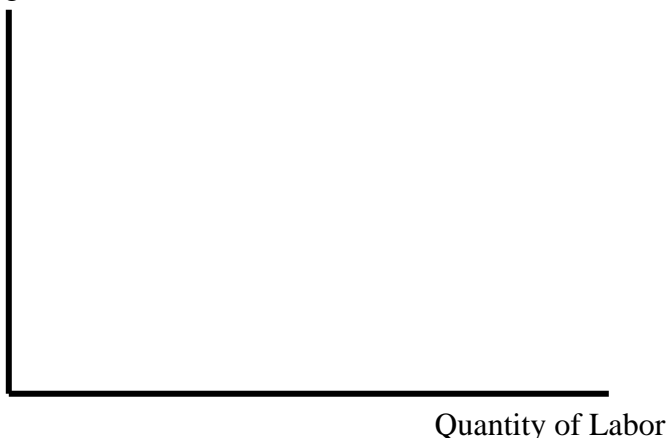
Labor Market Practice

1. If the demand for houses increases, the wage of carpenters will _____ and the quantity will _____.
2. Assume bricks and wood are substitute resources. If the price of bricks increases, the price of wood _____ and the quantity _____.
3. If the government removes all regulations for becoming a dentist. The wages for dentists will _____ and the quantity will _____.
4. Assume a company uses two resources, workers and robots, and the MRC for each is $20. Currently the MRP of the last worker hired is $30 and the MRP of the last robot is $10. The company should _____ the number of workers and _____ the number of robots.