

Module 58
Introduction to Perfect Competition

MAIN IDEA(s)

Identify clear main ideas or purposes

1. How does a price-taking producer determine its profit maximizing quantity of output?
2. How can an economist assess whether or not a competitive producer is profitable?

SUPPORTING DETAILS

Locate and interpret details. Understand the function of a part of a passage.

Production & Profits

3. What is the rule for the profit maximizing output?
4. Evaluate Table 58.1: How many units should be produced? Why?
5. Why is marginal revenue equal to the market price?
6. Examine Figure 58.1: $MR=MC$ tells us THREE things. What are they?

When is Production Profitable

7. Examine Table 58.2 AND Figure 58.2: At the market price of \$14 what is the economic profit? What about if the price increased to \$18?
8. Explain how $P > ATC$ is profitable?
9. Why is there only a profit in the short run?

SEQUENTIAL, COMPARATIVE, & CAUSE-EFFECT RELATIONSHIPS

Order sequences of events. Understand the subtleties in relationships between people, ideas, and concepts. Understand implied, subtle, or complex cause-effect relationships.

10. The price-taking firm's optimal output rule says that a price-taking firm's profit is maximized by producing the quantity of output at which the market price is equal to the (a) _____ of the last unit produced. in the case of a price-taking firm,

(b)_____ is equal to the market price.

11. Accounting profit is calculated using only (c)_____ costs of the firm. Economic profit also considers (d)_____ costs. Whether or not a firm earns a profit or a loss depends on whether the market price is above or below the firm's (e)_____ cost. When a firm's total revenue is (f)_____ its total cost, the firm is earning a profit.

MEANING OF WORDS

Determine the appropriate meaning of context-dependent words, phrases, or statements.

12. Price taking firms optimal output rule

GENERALIZATIONS AND CONCLUSIONS

Draw generalizations and conclusions about people, ideas, and variables.

13. Profit is maximized when $MR=MC$ because...

14. A competitive producer does not make an economic profit in the long run because...