

Cost Curve Summary: Perfect Competition

Firm Produces where $MR=MC$. If...

price is	firm will	because	Acct Profit?	Excess Profit?	Industry
$> ATC$	produce	rectangle showing total revenue is greater than that showing total cost	yes	>0	attracting new entrants (will drive P down)
$= ATC$	produce	rectangle showing total revenue is same size as that showing total cost	yes	0	stable
$<ATC, >AVC$	produce now, shut down in l.r.	rectangle showing total revenue is smaller than rectangle showing total cost, but larger than that showing total variable cost (i.e, some of the fixed costs are being covered)	maybe	<0	firms eventually leaving (will force P up)
$<ATC, =AVC$	indifferent now, shut down in l.r.	rectangle showing total revenue is smaller than rectangle showing total cost, and it is the same size as that showing total variable cost (i.e, will lose all fixed costs regardless of whether they produce or not)	maybe	<0	firms eventually leaving (will force P up)
$<AVC$	shut down now	rectangle showing total revenue is smaller than rectangle showing total cost, and it is smaller than that showing total variable cost (i.e, if produce, losses exceed fixed costs; if don't produce, losses equal fixed costs)	maybe	<0	firms immediately leaving (will force P up)

Allocative Efficiency? Yes, since firm is a price taker and can therefore has no power over Q or P.

Productive Efficiency? Yes, since in the long run production must come to rest at point where ATC is minimum.