

Efficiency

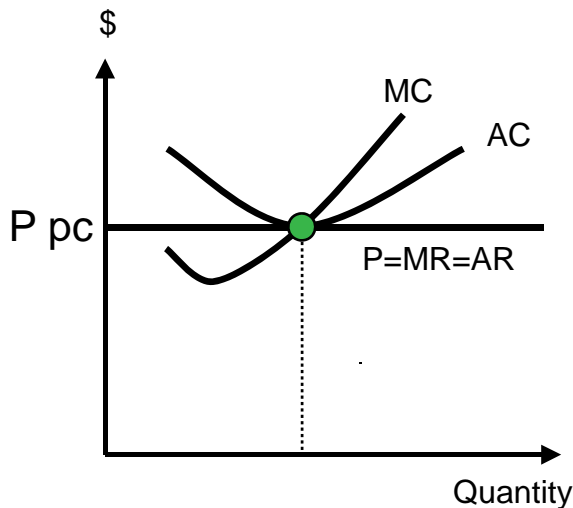
(Perfect Competition vs Monopoly)

1 Efficiency (Conditions)

11	Efficiency in Production:	if Price = Average Cost (Minimum)
12	Efficiency in Allocation:	if Price = Marginal Cost

2 Efficiency (Perfect competition vs monopoly)

21 Perfect competition (firm)

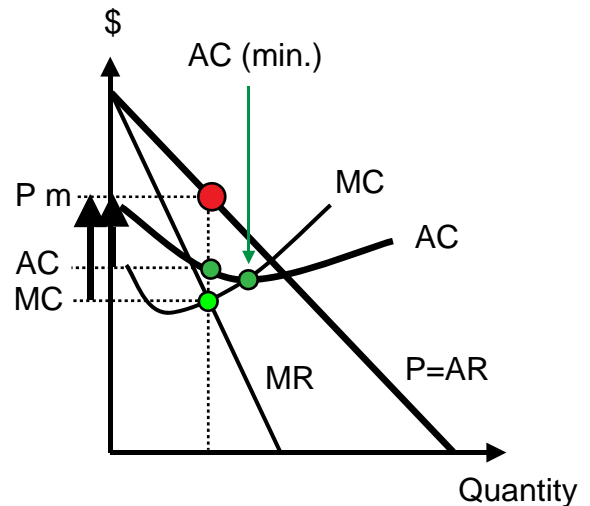


Abbreviations:
 MC = Marginal cost
 AC = Average cost
 MR = Marginal revenue
 AR = Average revenue
 P = Price P_{pc} = Price perfect competition

Result:

- In the **long run**, perfect competition is **efficient**, both in production and in allocation [$\rightarrow P = AC(\text{min.}) = MC$].
- In the **short run**, however, supernormal profits ($P > AC$) or losses ($P < AC$), that is inefficiency in production, can be observed. In the long run, this inefficiency will disappear because of entry and exits of firms.

22 Monopoly



Abbreviations:
 MC = Marginal cost
 AC = Average cost
 MR = Marginal revenue
 AR = Average revenue
 P = Price P_m = Price monopoly
 min. = Minimum

Result:

A monopoly is **inefficient**, both in production and in allocation [$\rightarrow P > AC(\text{min.})$] and [$\rightarrow P > MC$].