Profit Maximization

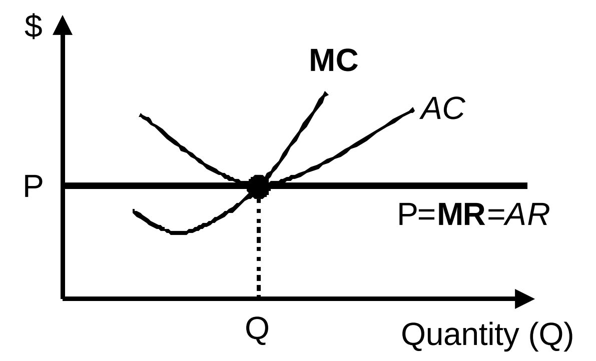
(Competition vs monopoly) (Long run)

1 Rules for profit maximization/loss minimization

① **Marginal condition**	**Marginal cost (MC) = Marginal revenue (MR)**	
② **Average condition**	Maximum profit if:	**Average cost (AC) < Average revenue (AR)**
	Minimum loss if:	**AC > AR**
	Only normal profit if:	**AC = AR**

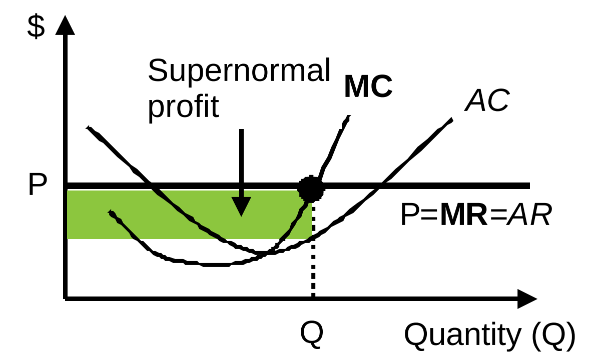
2 Competitive firm as a pricetaker [Price (P) = MC = MR]

21 Only normal profit



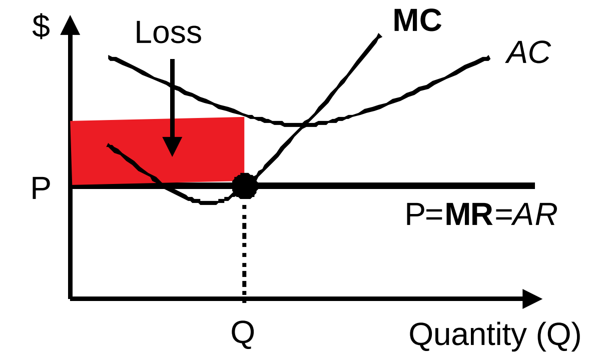
Normal profits are part of the costs.

22 **Super**normal profit



New firms will enter so that price falls and supernormal profit disappears.

13 *Loss*

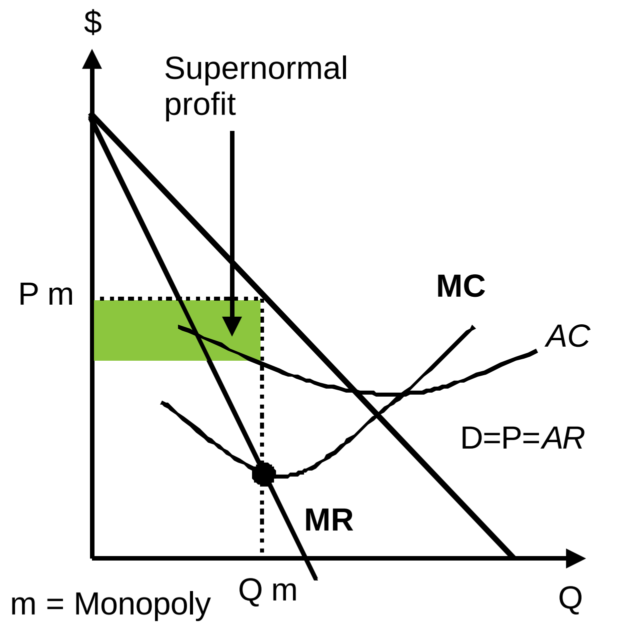


Firms will leave the market so that price rises and loss disappears.

3 Monopoly, facing the whole market demand

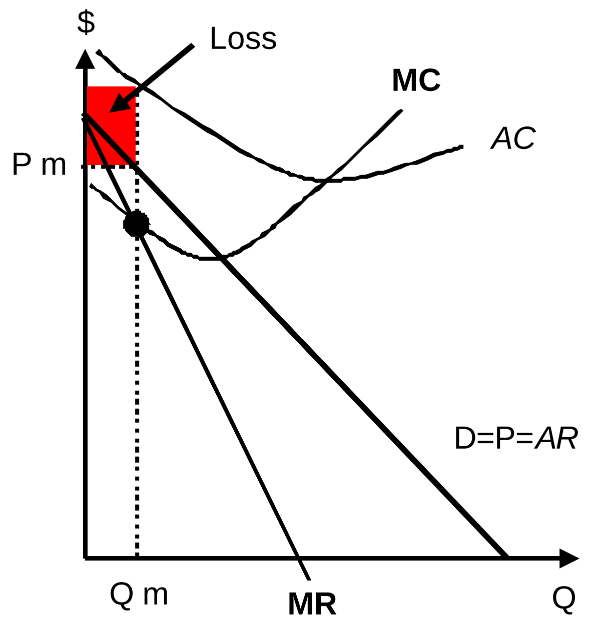
Rules according to 1, b u t P > MC

31 **Super**normal profit



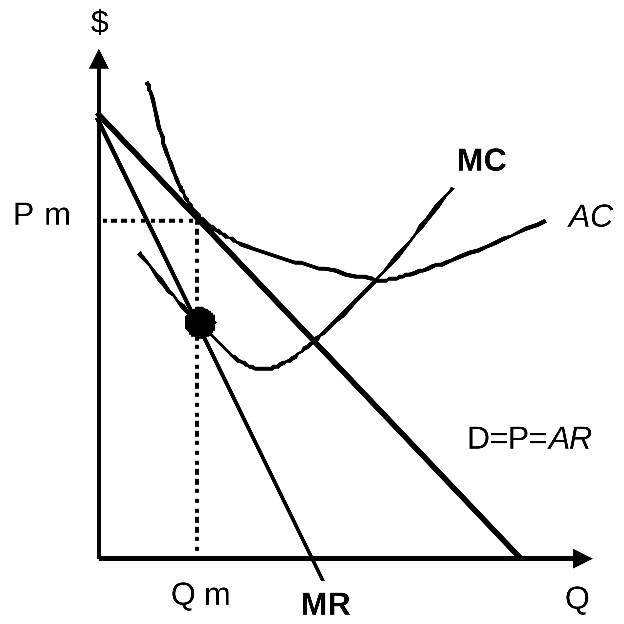
Frequent situation; monopolist sets price or quantity in order to maximize profits.

32 *Loss*



- If loss persists, monopoly will close down.
- In the case of monopolistic competition*, some firms will leave the market so that loss disappears.

33 Only normal profit



- Normal profits are part of the costs.
- In the case of monopolistic competition*, this situation may be the long run equilibrium.

* **Monopolistic competition:**

① Many sellers
② Differentiated products or services (for example clothes)
③ Free entry and exit