ECN 221 In-class Group Work: CH 8: “Moving towards Long Run Competitive Equilibrium”

A Long Run Competitive Equilibrium (LRCE) exists when there is no tendency for existing firms in a PC market to expand or contract production, and there is no tendency for firms to enter or leave the industry.

1. Under what circumstances would existing firms want to leave an industry in the long run?

2. Under what circumstances would new firms want to enter an industry in the long run?

3. If positive economic profits exist for firms in a perfectly competitive industry, can that industry be in long run competitive equilibrium? Explain.

4. If economic profits exist for firms in a perfectly competitive industry in the short run, what do you think will happen to the market price of that product in the long run? Why? Explain in the context of your answer to question 2 using basic supply and demand concepts.

5. If economic losses exist for firms in a perfectly competitive industry in the short run, what do you think will happen to the market price of that product in the long run? Why? Explain in the context of your answer to question 1 using basic supply and demand concepts.
6. (a) On a separate sheet of paper, set up two short-run graphs (use notes from the first chapter 9 handout). One graph should illustrate the market level representation of a PC market and the resulting equilibrium price. The other should illustrate a single firm operating in this market and earning an economic profit > 0. Show the area of profit on your graph. *Hint: Where does price have to be relative to min ATC for economic profit to be > 0?*

(b) What are other firms not currently in this market going to do in the long run? How will this affect market supply and price? Show these changes in your graph.

(c) When will the changes in part (b) stop occurring? Explain.

(d) What has happened to the quantity of this good produced by the market as a whole? What has happened to the quantity of this good produced by each individual firm?

7. (a) What can you say about long-run equilibrium market price in a PC market?

(b) What is the maximum economic profit each firm can earn when an industry is in long run competitive equilibrium?

(c) Why do firms stay in business when this is the case?

**Do for discussion for next time:**

Starting from a point of long run competitive equilibrium, show the effects of a *decrease in market demand* on: (a) market price  
(b) profit per firm  
(c) the number of firms in the market  
(d) the quantity supplied by each firm
(e) market quantity supplied