3.4 Lecture 8: Competition II

3.4.1 Long run competition

- In the long run, there will be entry and exit in a perfectly competitive market until all firms make zero profit.
- Free entry/exit with identical firms implies the long-run supply price equals the minimum of the long-run average cost curve.
- Long run supply curve is only flat under very restrictive conditions. It is flat only when firms are identical and input prices constant. It is upward-sloping if
  - Barriers to entry exist
  - Firms differ in efficiency
  - Input prices rise with industry expansion

  Long run supply curve is flatter than the short run supply curve due to the potential for entry and exit.

3.4.2 Agent problem

- Separation of ownership and control: ead managers to pursue personal perks over cost-minimization

3.4.3 TO KNOW – Graphical and Math Understanding

- Know the condition for long run equilibrium
- Show graphically that flat LR supply curve at min ATC, and LR supply is upward-sloping if input prices rise or firms differ