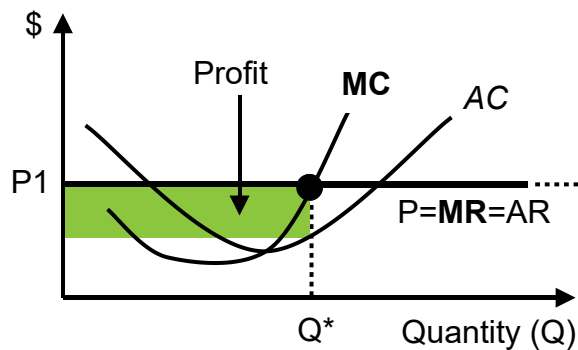


Market entry and exit of firms

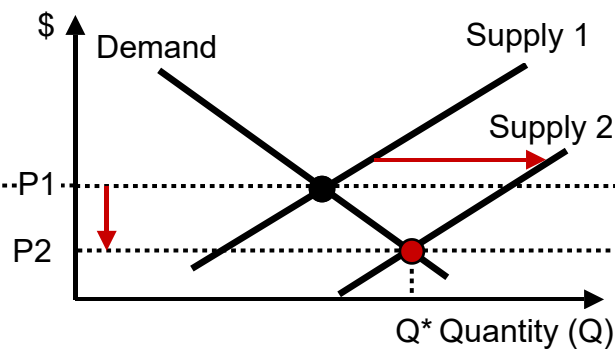
1 Market entry (perfect competition)

11 Profit of a typical firm



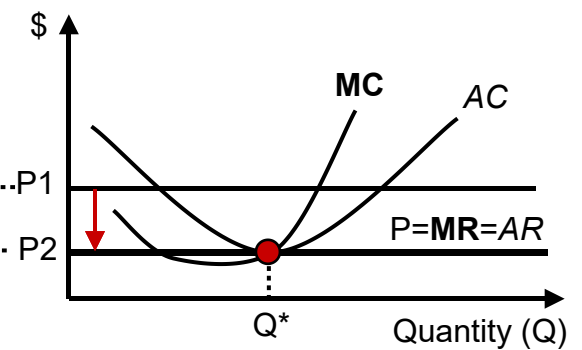
There is a profit of the typical firm because $P > AC$ (at the point $MC = MR$).

12 Market entry of new firms



New firms will enter the market, causing prices to fall (from P_1 to P_2), and the typical firm's profit will disappear. →

13 Typical firm (Profit = 0)

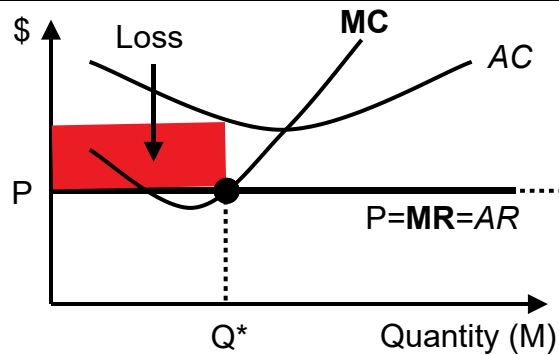


The profit of a typical firm is now 0 ($P_2 = AC$).

P = Price
 MC = Marginal cost
 AC = Average cost
 MR = Marginal revenue
 AR = Average revenue
 Q* = Optimal quantity

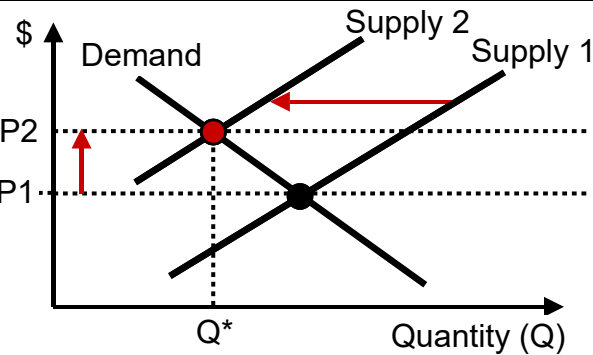
2 Market exit (perfect competition)

21 Loss of a typical firm



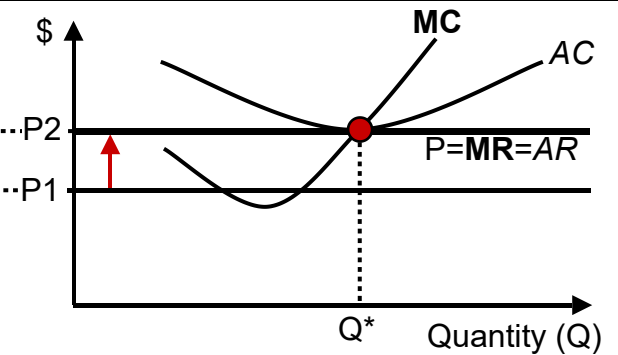
There is a loss of the typical firm because $P < AC$ (at the point $MC = MR$).

22 Market exit of firms



Firms will exit the market, causing prices to rise (from P_1 to P_2), and the typical firm's loss will disappear. →

23 Typical firm (Loss = 0)



The loss of a typical firm is now 0 ($P_2 = AC$).

P = Price
 MC = Marginal cost
 AC = Average cost
 MR = Marginal revenue
 AR = Average revenue
 Q* = Optimal quantity