Perfect Competition Long Run

Chapter 10-2

The Long Run

- The short run is a timeframe in which at least one of the resources used in production cannot be changed.
- Exit and entry are long-run phenomena.
- In the long run, all quantities of resources can be changed.

An Increase in Demand

- An increase in demand leads to higher prices and higher profits.
  - Existing firms increase output.
  - New firms enter the market, increasing output still more.
  - Price falls until all profit is competed away.

An Increase in Demand

- If input prices remain constant, the new equilibrium will be at the original price but with a higher output.

An Increase in Demand

- The original firms return to their original output but since there are more firms in the market, the total market output increases.

An Increase in Demand

- In the short run, the price does more of the adjusting.
  - In the long run, more of the adjustment is done by quantity.
Market Response to an Increase in Demand

Normal Profit in the Long Run
- Entry and exit occur whenever firms are earning more or less than "normal profit" (zero economic profit).
  - If firms are earning more than normal profit, other firms will have an incentive to enter the market.
  - If firms are earning less than normal profit, firms in the industry will have an incentive to exit the market.

Economic Profit in the Long Run
- A zero economic profit is a normal accounting profit, or just normal profit.
- Firms produce where marginal cost equals price.
- No one could be made better off without making someone else worse off. Economists refer to this result as economic efficiency.

Who is Better Off?
- Lower labor costs mean Chinese firms can charge 30% to 50% less than their U.S. competitors for the same product.
- Makers of apparel, electric appliances, and plastics have been shutting U.S. factories for decades, resulting in the loss of 2.7 million manufacturing jobs since 2000.
- Meanwhile, America’s deficit with China is likely to pass $150 billion this year.

The Predictions of the Model of Perfect Competition
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Consumer and Producer Surplus
- **Producer surplus**: the difference between the price firms would have been willing and able to accept for their products and the price they actually receive for them.
- **Consumer surplus**: the difference between what the consumers would have been willing and able to pay for a product and the price they actually have to pay to buy the product.
Producer and Consumer Surplus

![Producer and Consumer Surplus Diagram]

Rent Control and Market Efficiency

![Rent Control and Market Efficiency Diagram]