**Perfect Competition**

Assumptions

|  |  |
| --- | --- |
| Short run equilibrium under perfect competition  (industry diagram) | (firm diagram) |
| Long run equilibrium under perfect competition  (industry diagram) | (Firm diagram) |

Now draw a diagram which shows losses being made in a perfectly competitive industry in the short run . Explain how the industry will reach long run equilibrium from this position

|  |  |
| --- | --- |
| Industry | firm |

**Profit and efficiency**

|  |  |  |
| --- | --- | --- |
|  | Short run | Long run |
| Supernormal profit |  |  |
| Productively efficient |  |  |
| Allocatively efficient |  |  |