**RWS13: Perfect Competition Model**

**Due for: First lesson – w/b 02nd October 2017**

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| **GENERAL INSTRUCTIONS:**  *Please complete a revision worksheet summarizing the work from the last two to three weeks. The work should be taking you* ***up to 2 hours*** *to complete and should consist of a 1 A4 double paged summary based on the questions below. Please print out a double sided version to be handed in and marked on the date above (emails will not be accepted so make sure you are printing off your sheet before the lesson).*  *Remember to use all of the space over your two sides of A4 and make sure the ‘margins’ in Word are put as ‘narrow’. Feel free to reduce the size of the font if you are running out of space but nothing less than size 10. A better way to reduce would be to reread what you have written and try to be more succinct; it must fit onto two sides of A4 only!*  *You should be reading and using all the compulsory resources below (remember you will have already read an awful lot of these for homework and in class but there are a few extras I want you to read.*  *This revision worksheet should be taking you 2.25 to 3 hours…I suggest you spend 45 minutes writing up all your notes from class into a rough draft. Then, spend the next 45m-1.5hrs reading the compulsory resources and any extra information or clarifying concepts if you do not understand them. Then use the final 30-45 minutes to edit the work, make it look pretty and print it off.*  *When you hand in these revision worksheets, they are not speculative attempts to see if you understand the material; I am expecting you to have spent the time in and out of the classroom learning it. Thereforeo make use of the extra support available to you: (1) emails to Olly to seek clarification on specific points (2) Economics lunchtime workshop drop ins on Mondays, Wednesdays and Fridays in room 206 (3) 1-2-1 15 minute slot outside of lessons.*  *REMEMBER THAT IF YOU DO NOT HAVE A PRINTER AT HOME YOU MUST FIND TIME BEFORE THE LESSON TO PRINT IT OFF AT COLLEGE*  *ALSO MAKE SURE THAT AS WELL AS STORING A COPY ON A MEMORY STICK, YOU ALSO EMAIL YOURSELF SO THERE CAN BE NO COMPUTER ISSUES WHEN IT COMES TO PRINTING OFF YOUR WORK* |
| **SOURCES**  **Compulsory**   1. **TEXTBOOK (see GOL Library Page to download for free or buy online - £20-25):** pp 24-66 (possibly skim read through or look at areas you are unsure of…through the worksheets and class discussions we have covered the material in the textbook). 2. **NOTES:** Class and PREP homework notes (in your bag!) including department worksheets issued in class (available on GOL). Remember to include the PREP work as well! This is important for context and case studies. 3. **POWERPOINT:** See the powerpoint slides on GOL for access to my notes.   **EXTENSION (IF YOU HAVE TIME, TRY TO READ OR WATCH THESE)**   1. Recommended Websites:    1. Economics Help Website    2. Tutor2U Website 2. Other specific resources?   **ALL OF THESE RESOURCES CAN BE FOUND ON GODALMING ONLINE – ANY ISSUES, EMAIL OLLY on** [**ods@godalming.ac.uk**](mailto:ods@godalming.ac.uk) |

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| **SPECIFIC INSTRUCTIONS:**  **TITLE: RWS13 – Perfect Competition Model**   1. **Production Theory: Costs, Revenue, Profit and Marginal Analysis. (1/2 side of A4)**     * Distinguish between variable and fixed costs which make up total costs using an example. How would you calculate average cost?    * Draw a curve for average cost and marginal cost. Explain the law of ‘marginal returns’ (including increasing and decreasing marginal returns) in the short run and it’s effect on the average and marginal cost.    * What are ‘returns to scale’ (including economies of scale and diseconomies of scale) and why are they different from increasing or diminishing marginal returns? What impact do economies of scale have on ‘barriers to entry’ into a market? Explain the possible sources of economies of scale    * Draw a MR, AR and TR curve and explain the relationship between them. Draw a MC, AC and TC curve and explain the relationship between them.    * Emphasise that the AR curve is just the Demand curve and the MC curve is the supply curve.    * Distinguish between normal and abnormal (or supernormal) profits. 2. **Introduction to market structures and revenue curve elasticities (also costs are the same) (1/4 side of A4)**    * Provide the conditions of perfect competition, pure monopoly, monopolistic competition and oligopoly using examples for each    * Explain whether firms in these markets are likely to make abnormal or normal profit in the short run and long run (table).    * What is the difference between firms who are ‘price takers’ and firms who are ‘price makers’?    * Why might we argue that the demand curve (AR) facing a perfectly competitive firm might be perfectly elastic? In other words, why would a perfectly competitive firm not be able to either increase or decrease the price? 3. **Evaluating the dynamics of competition** **(1/4 side of A4)**    * What are the features of a market facing lots of competition and explain the effect on firms in a market: price, quality of products and costs of production.    * Explain the importance of technology and the concept of ‘creative destruction’ using examples 4. **Profit maximization and ‘static’ efficiency conditions under perfect competition. (1/2 side of A4)**    * Draw a MR and MC curve together and explain where the firm would produce up to and why (this is called the profit maximization condition)?    * What is the role of profit in the economy? (what can profit be used for which benefits the economy?)    * Draw an AC curve and explain the condition of productive efficiency    * Draw an AR and MC curve and explain the condition of allocative efficiency. 5. **Perfect competition model (1/2 side of A4)**    * Draw the AR,AC,MR,MC curves for a firm facing a perfectly competitive market where the firm is producing normal profit    * Indicate where the firm is producing and at what price.    * Explain why the perfectly competitive firm is arguably statically efficient (remember this is both productive and allocative efficiency)    * Would a firm in a perfectly competitive market EVER be able to earn abnormal profits? |