

COMPETITIVE MARKETS

The Micro Economy Today, 11th Edition
By Bradley R. Schiller

Chapter 8

I. Investment Decisions in Perfectly Competitive Markets

A. What is an Investment Decision?

1. It's a _____ decision that must be made by all business owners.

2. It involves choosing:

a.

b.

c.

B. Investment Decisions are strongly influenced by TWO THINGS!

1. The _____ present in the market.

a. In these markets, we find _____
to both entry and exit.

b. What does THAT mean?

It's easy for MOST entrepreneurs to:

It's easy for MOST current business owners to:

2.

C. When Positive Economic Profit is earned in the Short Run

1.

2.

3. This process (1 & 2) will cause:

4. This process will continue until the _____
is driven down to _____.

5. Over time, positive economic profit is _____ and firms
earn only:

D. When Economic Losses are taken in the Short Run

1.

2.

3. This process (1 & 2) will cause:

4. This process will continue until the _____
rises high enough to equal _____ .

5. Over time, losses are _____ and firms
earn only:

II. What Does Society Gain from Competitive Markets?

A. Allocative Efficiency

1. High profit in a competitive market is a signal that:

2. Economic loss in a competitive market is a signal that:

3. The _____ means that
businesses WILL RESPOND to consumer desires!

4. Implication:

B. Productive Efficiency

1. In a competitive market, production costs are driven down to:

2. Implication:

C. Zero Economic Profit

1. The “early bird” catches the worm and:

2. The threat of potential entry and expansion keeps existing firms “ _____
_____ “
on their toes”.

3. To keep ahead of this “profit squeeze”, producers have the incentive to: