Chapter 3: Thinking Like a Seller

recall perfect competition : there are MANY buyers & sellers selling identical goods

$\Rightarrow$ firms are NOT setting price ... they SEE price & then determine QS ... firms are price - takers

$\Rightarrow$ price = marginal revenue

↓ the additional revenue from 1 additional good sold ; $MR = \frac{\Delta TR}{\Delta Q}$

total revenue := total amt of revenue earned from selling Q units of a good ; $TR = P \cdot Q$

Firm Strategy : recall the marginal principle ... make decisions about quantity incrementally

& the cost benefit principle

& the interdependence principle

$\Rightarrow$ RATIONAL RULE : produce 1 more unit if $MB \geq MC$

Note on MC:

> determine MC by comparing cost of producing 1 more unit to not
>
> $\Rightarrow$ MC includes variable costs (costs that vary w/ Q)
>
> MC does not include fixed costs (costs that don't vary w/ Q)

Law of Increasing Marginal Costs : Diminishing Marginal Product leads to increasing MC

↳ additional output that can be produced by adding 1 more unit of an input : $MP = \frac{\Delta Q}{\Delta I}$

marginal product is diminishing due to fixed constraints (size of shop, # of machines, etc)

Supply Curve = marginal cost curve

Supply := relationship between price & quantity a firm is willing & able to supply

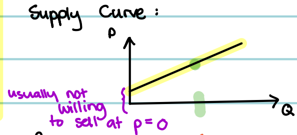
Quantity Supplied := amt of a particular product a firm is willing & able to supply at a particular price

Law of Supply := $p \uparrow \rightarrow QS \uparrow$

Supply Schedule :

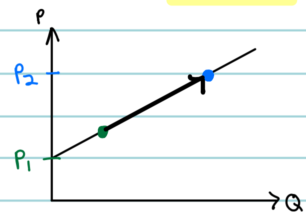
P	QS
1	2
2	4
3	6
4	8
5	10

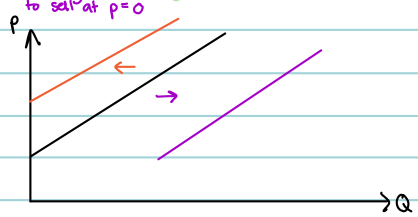
Supply Curve :



Supply Eq : $Q = -10 + P$

$P = Q + 10$





- input prices
- productivity
- prices of related products
- expectations
- type & number of sellers (shifts MARKET supply only)