

# Market Structure

## 1. Perfect Competition

- Many firms
- Identical products
- No market power
- Firms are **price takers**

## 2. Monopoly

- One firm
- Unique product
- Huge market power
- Can set price

## 3. Oligopoly

- Few large firms
- Products may be identical or differentiated
- Firms are interdependent
- Potential for collusion

## 4. Monopolistic Competition

- Many firms
- Differentiated products
- Some market power
- Example: restaurants or clothing stores

## Economic Profit vs. Accounting Profit

- **Accounting profit** = revenue – *explicit* costs
- **Economic profit** = revenue – (explicit + *implicit* costs)
  - Includes opportunity costs
  - A firm can have positive accounting profit but **zero economic profit**  
Zero economic profit = you're earning what you could earn elsewhere → **not bad**.

## Costs and Firm Decisions

- **Total Cost = Fixed Cost + Variable Cost**
- **Marginal Cost (MC)** = cost of producing one more unit
  - Key to output decisions (MR = MC, or MB = MC)

## Long-Run Entry and Exit

### Entry

- If firms earn **positive economic profit**, new firms enter the industry.
- Entry shifts **supply right**, lowering price. May flatten the firm's (residual) demand and shift back.
- This continues until **profit = 0**.

### Exit

- If firms earn **negative economic profit**, firms leave the industry.
- Exit shifts **supply left**, raising price. May steepen the firm's (residual) demand and shift out.
- This also continues until **profit = 0**.

### Long-Run Equilibrium

With free entry and exit:

$$P = \text{Average Cost} \quad \text{and} \quad \text{Economic Profit} = 0$$