

Dynamic efficiency – changes in a firm's efficiency over time – dynamically efficient firms keep introducing new processes and methods to decrease AC – considers trade off of long vs short run objectives - monopolies are not dynamically efficient, due to complacency

Market Structures:

Imperfect market – any structure that isn't perfect competition

In imperfect markets, as output increases, price is reduced to sell those goods – MR falls – TR rises whilst MR positive, and falls when it is negative

Perfect competition:

Conditions:

- No monopolies (dominant seller) or monopsony's (dominant buyer) – lots of buyers and sellers
- No product differentiation – homogeneity
- No barriers to entry or exit – brand loyalty, start-up costs, sunk costs
- Perfect, symmetric knowledge between consumers and producers – profits of all firms in all industries known to all
- Firms are short run profit maximisers

In short run, firms make abnormal profit – other firms in other industries + consumers know about this – enter market to gain abnormal profit – long run firms make normal profits as AR falls to AC
Every unit sold for same price (no product differentiation) – TR has constant gradient as MR unchanged for every unit sold

Productively and allocatively efficient – due to high competition and perfect knowledge
Shutdown price – where $AR=AVC$ – no surplus revenue received from producing and selling goods, so firm may as well shut down as no excess revenue over AVC to reduce fixed costs which would otherwise be incurred in full

Monopolistic competition:

Closest to perfect competition, except:

- Product differentiation
- Some limited barriers to entry and exit

More likely than perfect competition

E.g. Hair dressers – easy to swap firms

Short and long run, productively and allocatively inefficient

In the long run, AR becomes more elastic + output falls whilst AC remains in same place

Oligopoly:

Where a few firms dominate the market

E.g. fast food, groceries – can have monopoly and oligopoly

Features:

- Price stickiness – Paul Sweezy's Kinked Demand Curve – ev price leaders in market may collude, making it redundant
- Non-price competition – due to price stickiness e.g. advertising, loyalty cards, customer service
- Interdependence – action taken by a firm affects other firms – game theory

Monopoly:

When a firm has at least 25% market share (monopoly power)

E.g. Tesco 30% groceries

Price setter – has power to determine market prices

Reasons they form: