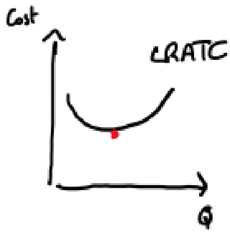

MES

The LRATC is eventually upward sloping due to diseconomies of scale : Overlap / Duplication
Hard to manage
Higher resource prices due to large purchases

Firm and Market Structures

Perfect comp.

↳ Many sellers, homogeneous product

→ Low barriers to entry

→ Firms are price takers

→ P = MR → Price remains constant when quantity sold changes (AR = MR)

→ In the short-run, a firm will keep producing if its variable costs are covered

Profit max : MR = MC

Industry supply curve : Sum of individual firm's supply curves across a range of prices (where the quantities supplied by the firms remains constant)

→ Speculation

→ Hedging

↗ i.e. £0.85 = €1

Direct quote : Expressed as domestic currency units per foreign currency units

Indirect quote : Expressed as foreign currency units per domestic unit

↘ i.e. £1 = $1.40

Bid $\quad$ Offer

$1.4000 $\quad$ $1.4010 = £1.00

Selling Sterling $\quad$ Buying Sterling as customer

Cross currency rate is derived from two other rates → i.e. £/€ , €/$ gives $/£

Forward market quoted in pips (0.0001)

Interest rate parity relates the forward discount/premium to the risk free interest rate differential → Arbitrage should close opportunity

$$\text{Forward Rate} = \text{Spot rate} \times \frac{(1 + r_{\text{variable}})}{(1 + r_{\text{base}})}$$

Pegged rate : fixed with range

Dollarisation → Use currency of another country

Currency board : Monetary authority but not lender of last resort

Passive Crawl → Peg adjusted frequently to keep pace with inflation

Active Crawl → Exchange rate is pre-announced with changes taking place after announcement