Big Ideas:

1. Price taker
2. Profit maximisation
3. Supernormal profit
4. Normal profit
5. Supernormal profits result in entry into the market of new firms and therefore more competition

Webnote 244
Syllabus: Items 40-45

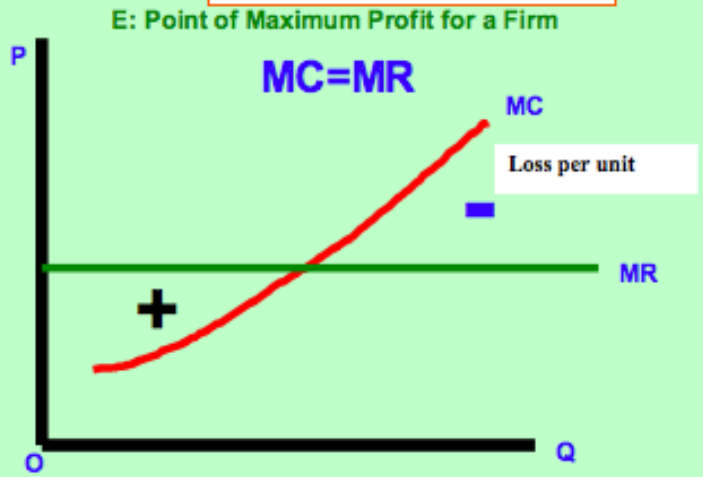
FIG 1: PROFIT- BIG IDEA 1 : MAXIMUM PROFIT

Webnote 1593; Syllabus: item 50

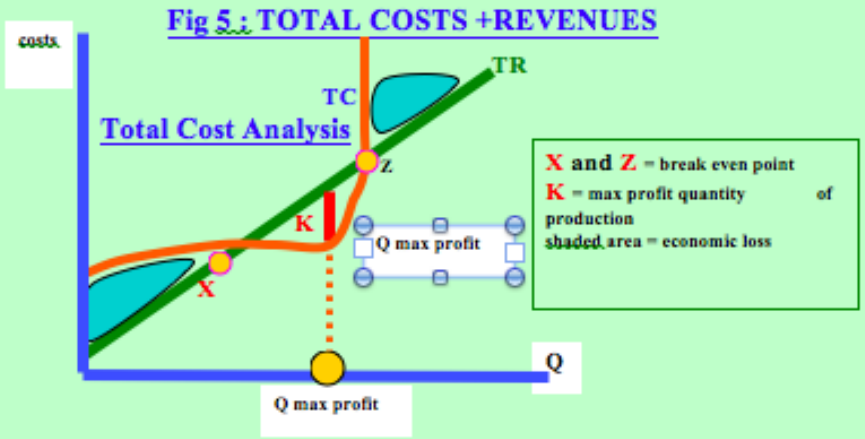
fig 4 Profit Maximisation

Profit Maximisation occurs where:

MR=MC see in fig 2



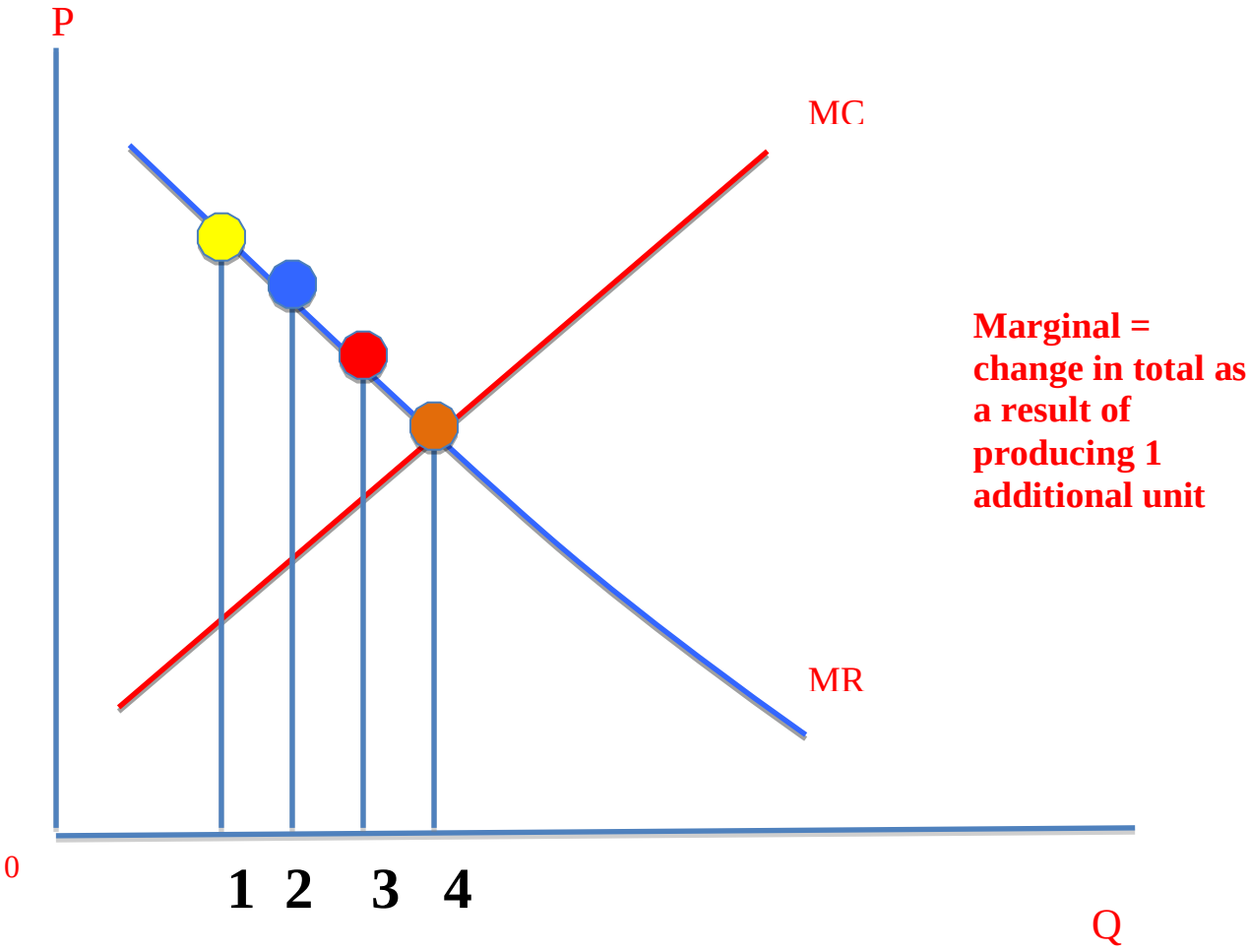
Or Total cost/revenue Analysis to determine maximum profit



Why produce where MC = MR? Some level of profit is the goal of every firm. Why MR=MC? Remember that if a firm produces 10 units. It is only at the 10th that MR =MC. For all other units MR>MC. Firms benefit from output 1-9 and the 10th is the cut off point. It may be of benefit to the firm in the context of economies of scale i.e. larger factory, larger output. Make sense?

Why MR = MC? Zero profit?

The Prouction of 200.000 tonne oil tankers



Marginal = change in total as a result of producing 1 additional unit

- 4th Oil tanker produced: MR = MC. Why produce the 4th? Because it might allow the firm to benefit from economies of scale and produce nearer to the lowest point on the LRAC
- 3rd Oil Tanker: MR>MC. Firm benefits
- 2nd Oil Tanker: MR>MC. Firm benefits
- 1st Oil Tanker: MR>MC. Firm benefits

Webnote 1592
Syllabus: Items 49-56

FIG 2: PROFIT- BIG IDEA 2 : NORMAL PROFIT+Supernormal Profit

Syllabus Reference 2.2: Profit HL[1]

Task:

Draw s/n profits for the following models:
1. perfect
2. monopolistic
3. monopoly

(draw short run and long run curves)

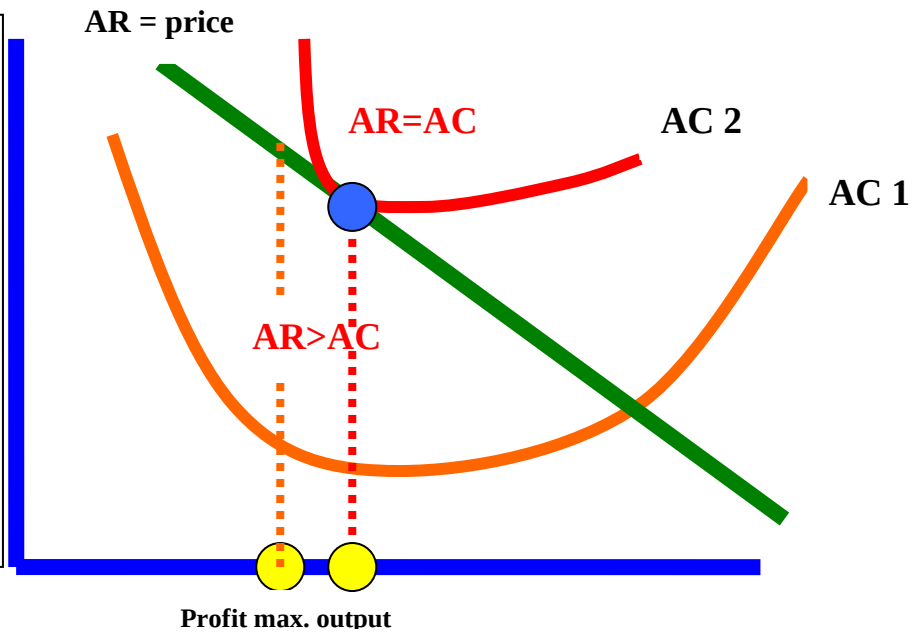
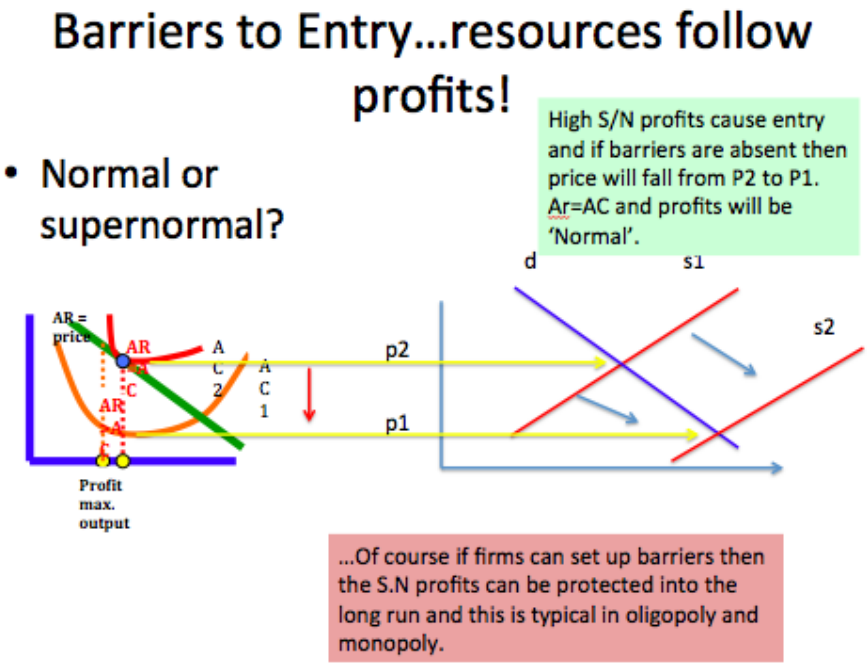


FIG 3: Supernormal profits will result in 'Entry' into the industry forcing price down:



Industry increases in size as output increases shown by S1 shifting to S2 resulting from new firms entering the market / industry.

[1] See Glanville p161. See also Webnote 242

Webnote 1592
Syllabus: Items 49-56

PROFIT- BIG IDEA 2 : SUPERNORMAL PROFIT

Key Terms:

- **Max Profit occurs where MR = MC**
  - **Normal** profit see in Fig. 2 
    AR=AC
    (at this point economic profit = Zero)
  - **Economic profit =**
  - **Abnormal =**
  - **Excess =**
  - **supernormal** profit see in Fig 2 where AR> AC 
    Ar> Ac

Profit maximisation is the key goal for many firms but there are other goals that influence firms

Goals of firms:

1. **maximum profit (tr-tc or mr=mc)**
   see webnote **1593**

Other goals for firms:

1. growth based strategies:
2. sales volume/growth maximisation
3. sales revenue maximisation

note: environmental

4 'Windows' to explain and evaluate competitive firm and how they behave:

1. **Size: Price and output** of 4 models in the SR + LR
2. **Profit Maximisation:** 'profit finder' where MR=MC Supernormal/abnormal profits?
3. **Efficiency** (AC) (lowest point)
4. **Barriers** to Entry (anti - competitive)

Others focus points include: economies of scale, non profit maximisation goals + price discrimination

1. Size
2. Profit
3. Efficiency
4. barriers