

Competition and the Market

Chapter 7 - Agricultural Economics & Agribusiness by Cramer et al.

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Introduction to Agricultural Economics
AGEC 2003



Dept. of Ag. Economics & Agribusiness
Louisiana State University A&M
October 29th 2010



Outline

- The function of Price
- Market classification
 - Pure competition
 - Pure monopoly
- Efficiency of Pure Competition
 - Normal profits
 - Economic rent
- Changes by Economic Rent
 - Adjustment to losses
 - Longer run market supply curves

The Function of Price

- Scarce Resources
- Consumption makes us happier
 - Utility
- More is always better
 - Prices distribute goods
 - Defines the level of consumption by individuals
 - Individuals have income to distribute among goods to be consumed.

Market classification

- Number of firms
- Product differentiation
- Freedom of entry and exit

- Pure competition
 - Farm products
- Pure monopoly
 - Utilities
 - NFL

Efficiency of Pure Competition

- Normal profits
 - Resources are optimally allocated
- Economic rent
 - Positive
 - Firms enter the market
 - Negative
 - Firms exit the market
- Monopoly power

Supply Curves

- Perfectly inelastic
- Perfectly elastic
- Relatively inelastic
- Relatively elastic

Summary

- Price
 - Searcher
 - Taker
- Economic efficiency
- Pure competition
- Pure monopoly
- Normal profits
- Economic rent

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