Managing Financial Resources
Business economics
Competitive market (16)
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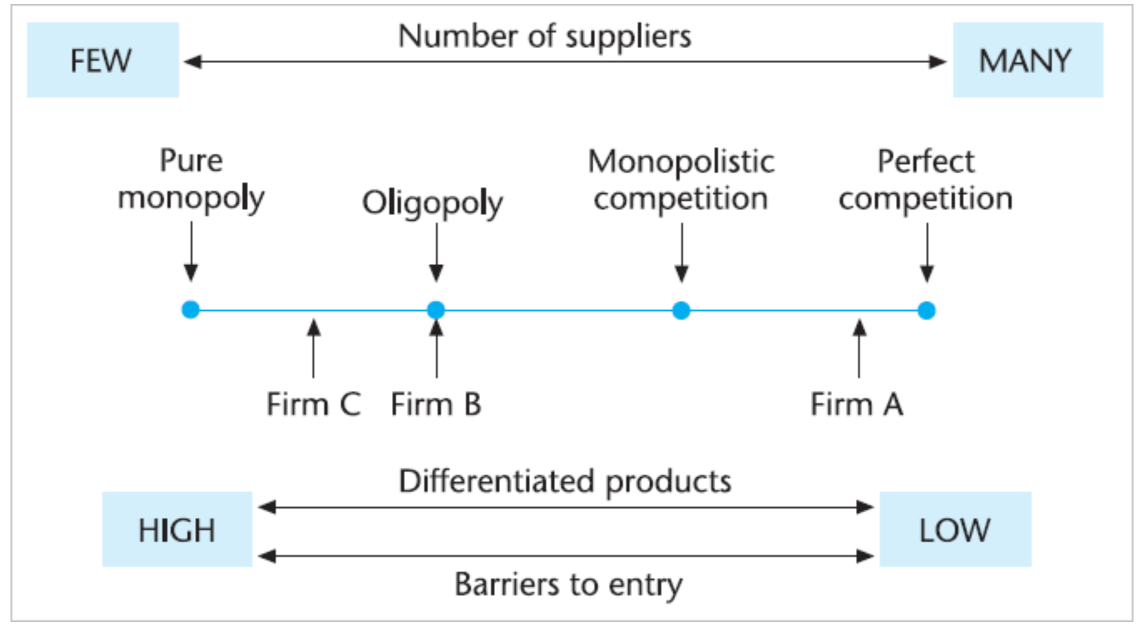


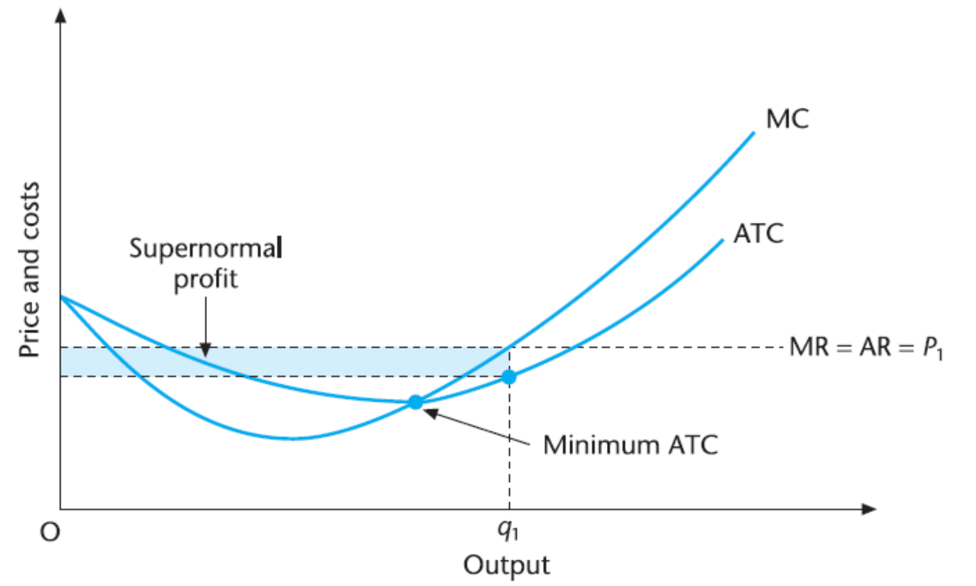
Perfectly Competitive markets

Economic efficiency = Productive eff x Allocative eff

Short run & long run equilibrium

short run

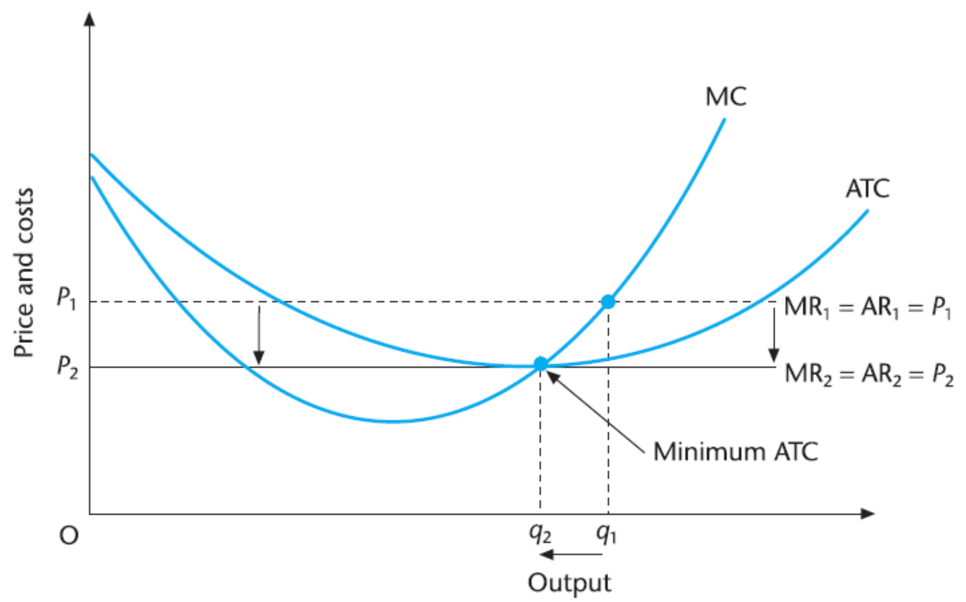
- MR = AR = P
- market sets price
- Supplier wants to achieve maximum profit where short run MC = MR
- Firm is a price taker
- **Supernormal profit can be achieved**



(b) The individual firm

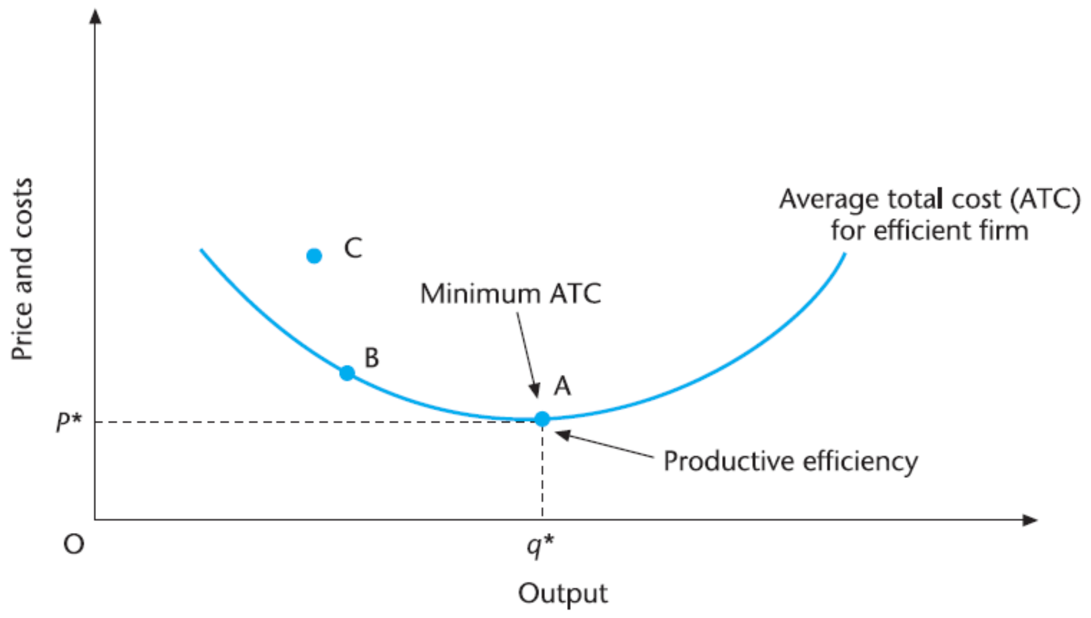
long run

- Firm is price taker
- MR = AR = P
- Profit maximised where long run MC = MR
- **Supernormal profits disappear, only normal profits exists**



(b) The individual firm

Productive efficiency



- 2 forces
  - Technical efficiency — Input combined for maximal output
  - Price efficiency — Input optimally employed

Allocative efficiency

- Optimal allocation of scarce resources to produce a combination of outputs wich best suits customer demand
- P = MC
- Pareto optimum — Resources cannot be reallocated so as to make one person better off without making someone else worse off