

Econ 243 September 17, 2018

= **homework**: FC \Rightarrow doesn't affect decisions; profit margins amplify benefits of price increases: if you earn 1% on sales and prices jump 1%, you've just doubled your profits!

= **linear for convenience, but that simple model generalizes pretty well**

- excel estimates of $D - MR - \epsilon$ for various shapes: Excel is a useful tool to check intuition.
 - as long as D slopes down
 - » **MR lies below D**
 - » ϵ starts high and decreases in absolute value

= **(In)efficiency**

- market power D, MR, MC \rightarrow **DWL**.
 - DWL represents inefficiency. in our analysis there's a tradeoff between profits (Producer Surplus) and lower CS and higher DWL.
 - so **whenever** producers see that **D slopes down**, the **outcome is socially inefficient**
 - **we don't care**. we're out to line our own pockets, NOT maximize social welfare. for that we need a course in social policy including antitrust & regulation. that not us this term!
- min AC. in perfect competition, firms produce at the minimum point on the AC curve. as soon as D slopes down, firms cut production. that moves them left and up along the AC. they are now producing at a higher AC
 - » firms pursue **profits, not efficiency**. they pursue **profits, not lower costs**.

= **Barriers to entry**

- why does D slope down **for the producer**? there must have entry barriers of some sort
 - takes time to recognize new markets: **no inherent market power**.
 - organizing production requires marshaling a team and building capacity: **no inherent market power**
 - **scarce resources**: control of a physical resource
 - **scarce resources**: control of intellectual property (including trade secrets)
 - **scarce resources**: monopoly from government regulation of some sort
 - **small market**: economies of scale (include marketing costs) make widespread entry unprofitable
 - **externalities**: the final market benefits from a privately-created standard. most of the time we focus on "**network externalities**"
 - » Android \longleftrightarrow apps
 - » Windows \longleftrightarrow PC operating systems.
 - » Microsoft \longleftrightarrow Office interoperability.

no time this term: political economy: §2.5 rent-seeking. US fortunes from sectors with limited entry