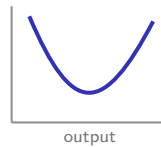


The Microeconomy

A-Level Economics ■ Topic 7

A-Level Economics



The Microeconomy

What we will cover

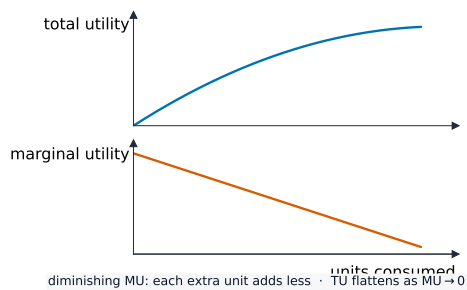
- 1 Utility & consumer choice
- 2 Efficiency & market failure
- 3 Costs & economies of scale
- 4 Revenue & profit
- 5 Market structures
- 6 Growth & objectives of firms



consumers maximise utility

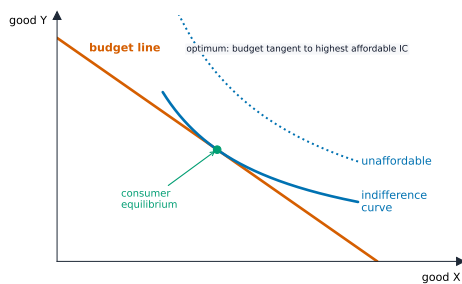
1 Consumer choice

Utility and consumer choice



- **total utility** 总效用 is the satisfaction from all the units consumed.
- **marginal utility** 边际效用 is the extra satisfaction from one more unit.

Indifference curves and budget lines



Consumer equilibrium 消费者均衡: the budget line touches the highest **indifference curve** 无差异曲线. A price fall has a **substitution effect** 替代效应 & **income effect** 收入效应; a rare **Giffen good** 吉芬品 even slopes **upward**.

2 Efficiency

Efficiency and market failure

productive 生产效率 – lowest cost

allocative 配置效率 – $P = MC$, what people want

dynamic 动态效率 – improves over time

Pareto 帕累托最优 – no gain without a loss



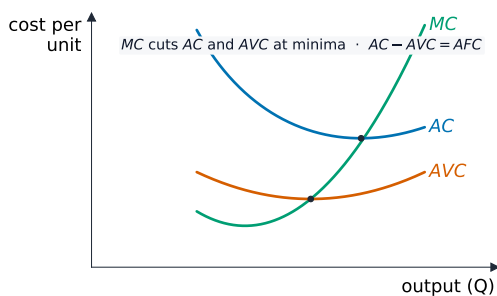
Externalities create market failure

Market failure 市场失灵 (inefficiency) from monopoly power, **externalities** 外部性, public goods, information failure & factor immobility.

3

Costs, revenue and profit

Costs in the short run



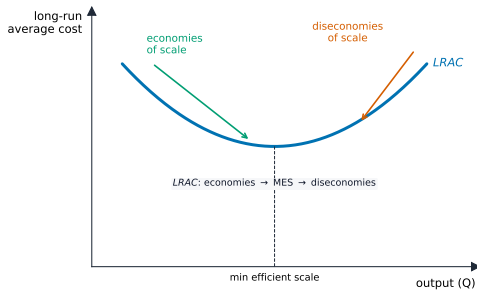
Total cost 总成本 =
fixed 固定成本 +
variable 可变成本.

- $AC = TC/Q$;
 $MC = \Delta TC / \Delta Q$

- **diminishing returns** 边际报酬递减 make MC rise

MC cuts AC at its lowest point.

Economies of scale



In the long run all factors vary, so we look at **returns to scale** 规模报酬.

- **economies of scale** 规模经济
– LRAC falls (bulk, big machines)
- **diseconomies** 规模不经济 –
LRAC rises (poor control)

Revenue and profit

normal 正常利润

just enough to stay – a cost

supernormal 超常利润

profit above normal

subnormal 次正常利润

below normal – may leave

A firm maximises profit at the output where $MR = MC$. (Revenue $TR = P \times Q$; $MR = \Delta TR / \Delta Q$.)

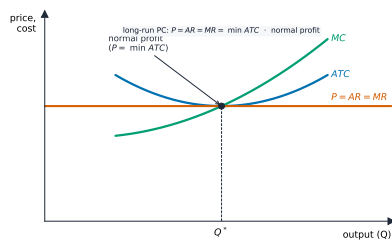
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Market structures

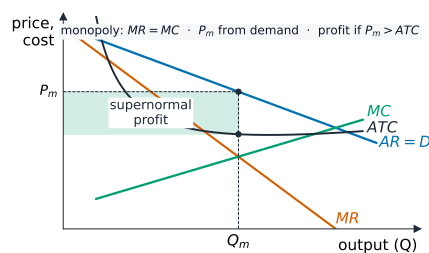
The four market structures

- **perfect competition** 完全竞争 – many **price takers** 价格接受者; normal profit
- **monopolistic competition** 垄断竞争 – **differentiation** 产品差异化
- **oligopoly** 寡头垄断 – a few; may form a **cartel** 卡特尔
- **monopoly** 垄断 – one; supernormal profit

Perfect competition vs monopoly



normal **profit** 利润, efficient



supernormal profit, dearer

Both produce where $MC = MR$, but a **monopoly** 垄断 then charges the higher **price** 价格 buyers will pay.

5

Firms

Growth and price discrimination

horizontal 横向一体化
same stage

vertical 纵向一体化
different stage

conglomerate 混合一体化
different industry

Price discrimination 价格歧视: charge groups different prices for the same good
– needs market power, different elasticities & no resale.

Objectives of firms

profit max
利润最大化
 $MR = MC$

revenue max
收益最大化
 $MR = 0$

sales max
销售最大化
most at
normal profit

satisficing
满意化
good enough

Divorce of ownership from control 所有权与控制权分离 creates the **principal-agent problem** 委托代理问题: managers may not chase the owners' profit.

6

Recap

Worked example – average and marginal cost

10 units cost £500 in total; 11 units cost £540. Find AC at 10 units and the MC of the 11th.

- $AC = \frac{TC}{Q} = \frac{500}{10} = £50$
- $MC = \Delta TC = 540 - 500 = £40$ (the cost of one more unit).
- $MC < AC$, so the 11th unit is cheaper than the current average.
- $\Rightarrow$ it pulls the average down: AC at 11 is $540/11 = £49.09$.

MC below AC drags AC down; MC above AC pushes it up. So MC always cuts AC at its minimum – that is the whole reason the curves are drawn that way.

Topic 7 – key takeaways

1 Consumer

diminishing utility; equi-marginal spending

2 Costs

U-shaped AC; economies then diseconomies

3 Profit

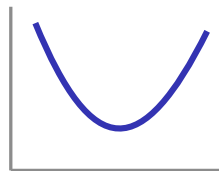
max at $MR = MC$; normal vs supernormal

4 Structures

perfect competition to monopoly

Check yourself

- 1 At what output is profit maximised?
- 2 Allocative efficiency needs price equals what?
- 3 How many firms in a monopoly?
- 4 A car maker buying a tyre maker is which integration?



Answers 1. where $MR = MC$ 2. marginal cost 3. one 4. vertical