**A2 Economics Unit 3: Perfectly Competitive Markets**

You are an economist working on the advisory board at Morgan Stanley. You have been asked to advise the Managing Director of a large company which is facing adversity in the current financial crisis. Your recommendations and analysis could determine how the business is managed and if workers lose their jobs or keep them.

The price ruling in a perfectly competitive market is £40. The individual firm’s cost curves are shown between the output of 6 and 12 units. Plot the situation of the firm on graph paper. The marginal cost can be plotted on the outputs as shown.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Output** | **D=AR=MR=P** | **MC** | **ATC** | **AVC** |
|  |  | 20 |  |  |
| 6 | 40 |  | 65 | 38 |
|  |  | 25 |  |  |
| 7 | 40 |  | 59 | 34 |
|  |  | 30 |  |  |
| 8 | 40 |  | 54 | 30 |
|  |  | 40 |  |  |
| 9 | 40 |  | 52 | 32 |
|  |  | 45 |  |  |
| 10 | 40 |  | 50 | 35 |
|  |  | 50 |  |  |
| 11 | 40 |  | 52 | 40 |
|  |  | 55 |  |  |
| 12 | 40 |  | 55 | 43 |

1. **Explain what level of output the firm will produce and why.**
2. **What is the firms’ level of losses at this output level?**
3. **You have been called in to advise the managing director as to whether the firm should close immediately. Write a brief to explain the costs/benefits of the firm’s options.**