**A2 Economics**

**Perfect Competition**

**Task:**

The market demand and supply curves for an industry in perfect competition give a market price of 60 and an output of 200 units. The supply increases such that the equilibrium price is now £40 where 300 units are demanded and supplied. The cost curves for the individual firm are as follows:

|  |  |  |
| --- | --- | --- |
| **Output** | **ATCEs** | **MCEs** |
| 0 |  |  |
|  |  | 20 |
| 1 | 60 |  |
|  |  | 40 |
| 2 | 40 |  |
|  |  | 60 |
| 3 | 50 |  |
|  |  | 80 |
| 4 | 60 |  |

**Questions:**

1. **Using Microsoft Excel/Microsoft Publisher construct a diagram showing the industry position and, using the equilibrium prices and information from the table above construct the diagram of the firm.**
2. **At a price of £60 what quantity would the firm have been producing?**
3. **What was its level of supernormal profits or losses?**
4. **Explain why a price of £40 is sufficient to keep the firm in the industry.**