AP Economics Unit 3B: Perfect Competition

Level	PRICE EFFECT ON PROFIT/LOSS	THE SHUTDOWN DECISON	VC AND FC EFFECT ON PROFIT/LOSS
	Predict the effect profits and losses would have on firm's decision to enter or leave a market. ☐ What would the outcome be in the LR? Illustrate.	**Create a true to life scenario where a firm would shut down in the SR.** ☐ A daily scale. ☐ Weekly scale. ☐ Monthly scale.	**Predict how changes in business taxes may effect MC.** ☐ Connect that a firm's S is the MC above AVC.

4	**Analyze the effect price has on profit and loss.**
	☐ Using MC and ATC, illustrate:
	  ☐ Profit max Q
	  ☐ Per Unit profit/loss
	  ☐ Break even
	  ☐ TC, TR and Total Profit
		Illustrate a firm earning an economic loss but choosing to operate in the short run.
		☐ Differentiate this from a firm that chooses to shut down in the SR.
		☐ All firms will shut down when earning losses in the LR. They will 'exit' the industry.
			Illustrate how changes in lump sum and per-unit costs shift the cost curve set.
			☐ Increases in cost shift up
			☐ Decreased in cost shift down
			☐ Lump Sum change ATC only.
			☐ Per unit change them all.

3	**Using side by side graphs, illustrate how a market determines price for the PC seller.** ☐ Show that price (P) is the horizontal line that also identifies, MR, D and AR.	**Analyze why a firm would operate at a loss in the short-run, ie. not shut down.** ☐ AR is covering AVC plus offsetting at least some of the AFC.	**Differentiate per-unit cost changes from lump sum and analyze their effects on VC and MC.** ☐ Review the MC formula. ☐ Identify how this changes output decisions. ☐ Identify how lump sum (FC) costs do not change output decisions.
2	**Understand that Market Price is 'Taken' by sellers.** ☐ Due to product uniformity. ☐ No incentive to take less than market price.	**Identify that break even and shutdown points are the min ATC and AVC.** ☐ When price moves, output decisions change.	**Identify lump sum costs as FC.** ☐ Identify that lump sum changes drive a change in FC and have an effect on TC. ☐ These changes effect AFC and therefore ATC.

1	**Retrieve/Recall Cost Categories**
	☐ Basics of Market Graphs, including how market price is determined.
	☐ Characteristics of Perfect Competition
	  ☐ No product differentiation
	  ☐ Many Sellers
		Retrieve/Recall:
		☐ Price is dictated to the producer form the market.
		☐ When it changes, profit or loss is affected.
			Retrieve/Recall:
			☐ Lump sum v per unit analysis
			☐ Per unit changes output decisions.