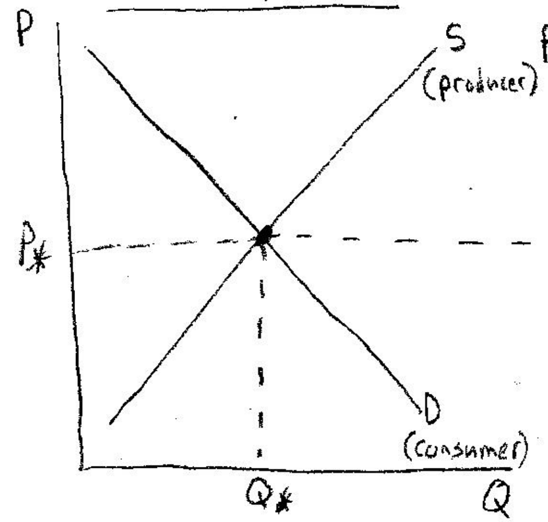
I. Graphing P.C. Product Market

vs.

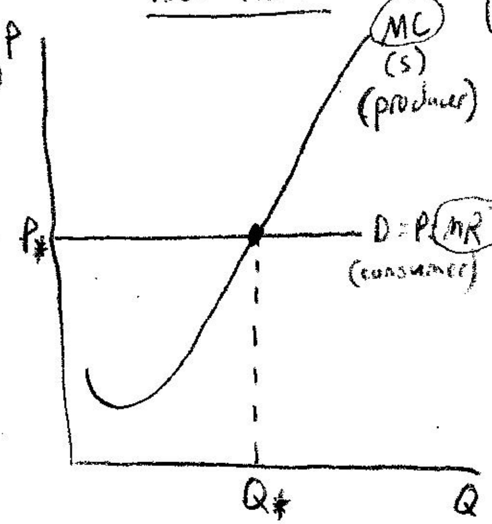
- Thousands of firms selling an identical product
- As a result, **individual** firms have no power to set price (Price Takers).
- It's assumed firms can sell all they can produce @ market price (unrealistic).

P.C. Product Market



- Demand is downward sloping b/c as P↓ people can afford to buy more (income effect)
- Supply is upward sloping b/c as P↑ businesses can afford to produce more.

P.C. Firm



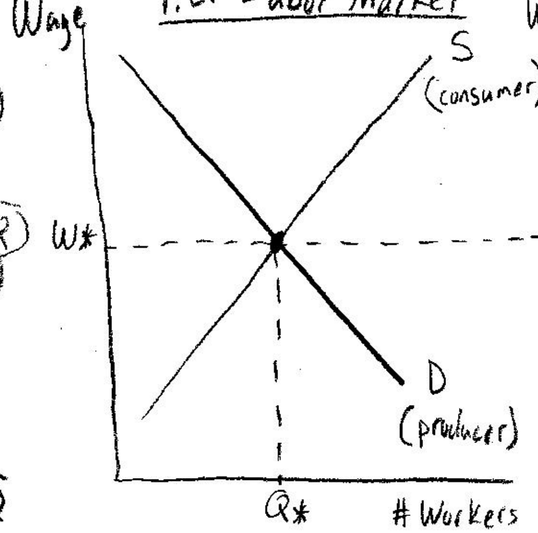
- Firm is a price taker
- Can't ↑P b/c nobody would buy from them.
- Wouldn't ↓P b/c they can sell it all @ market price.
- MC is "U-shaped" b/c of specialization @ first, then LDMR

II. Graphing P.C. Factor Markets

*** Roles Get Reversed in Factor Markets ***

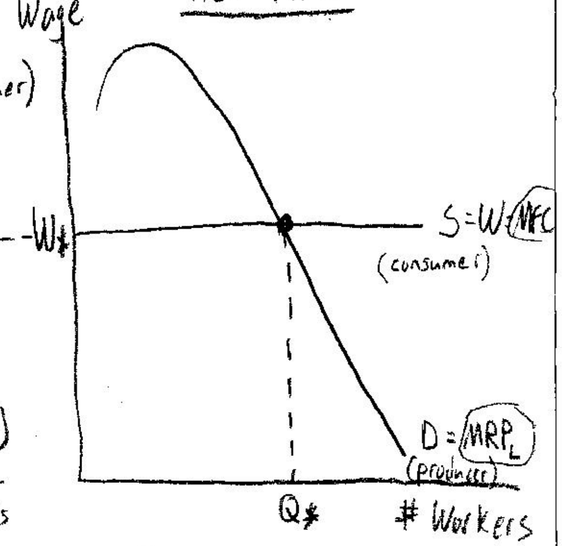
- Thousands of firms hiring workers of equal ability for same job.
- As a result, individual firms have no power to set wage (wage takers).
- It's assumed firms can hire all the workers they need @ the market wage (unrealistic).

P.C. Labor Market



- Demand is downward sloping b/c as W↓ producers can afford to hire more workers
- Supply is upward sloping b/c as W↑, more people apply for jobs.

P.C. Firm

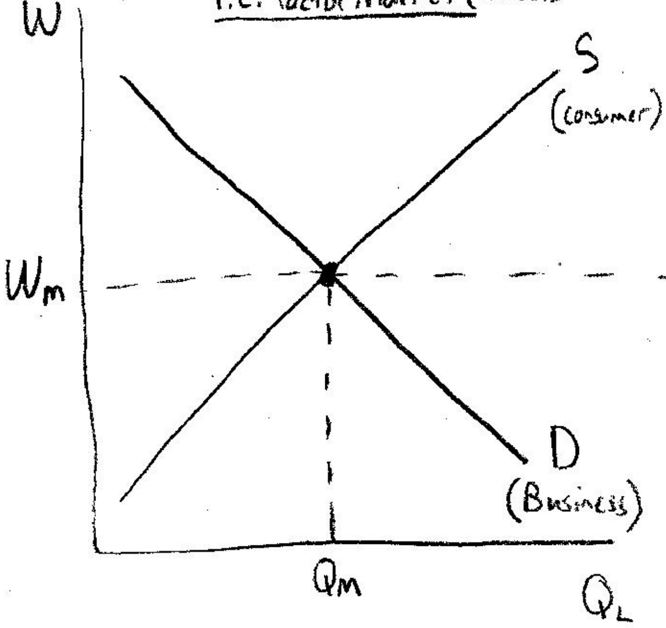


- Firms are wage takers
- Can't ↓wages b/c nobody would work for them
- Wouldn't ↑wages b/c they can hire all the workers they need @ market wage.
- MRP_L is "n-shaped" b/c of specialization @ first, then LDMR.

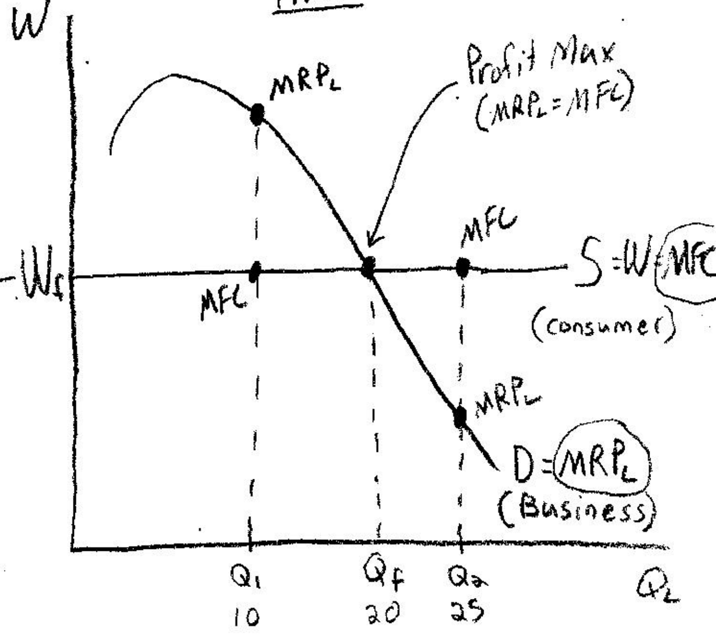
Determing Profit Maximizing # Workers from P.C. Factor Market Graph

* Roles Get Reversed * so * Firm Graph Gets Flipped *

P.C. Factor Market (Labor)



Firm



Q_1 : $MRP_L > MFC$: Hire more workers

Q_2 : $MRP_L < MFC$: Lay off workers

Q_f : $MRP_L = MFC$: Just Right (Not hire or fire any workers)