Equilibrium of a firm under Perfect Competition

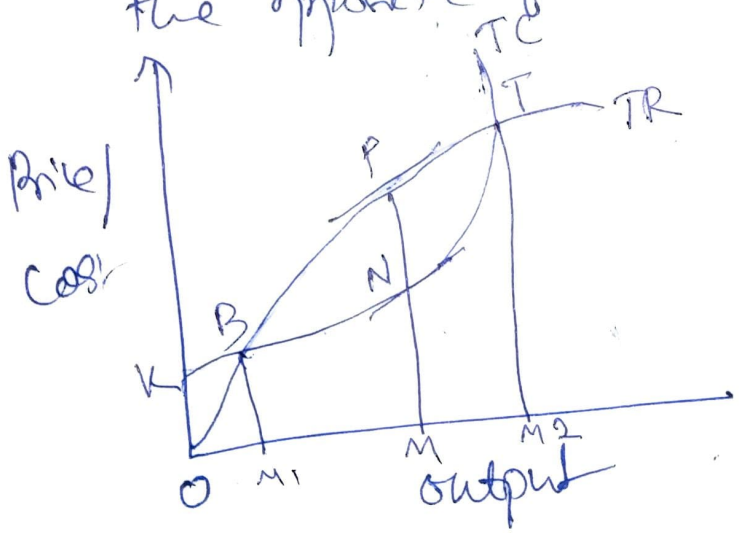
A firm is an individual production unit and a firm attains equilibrium when marginal cost = Marginal Revenue. The objective of every firm is to maximise Profit. Two conditions are there for a firm to attain equilibrium.

① Total Revenue & Total Cost Approach

② Marginal cost & Marginal Revenue Approach.

① TR and TC - approach:-

A firm is said to be in equilibrium when the difference between total revenue and total cost is maximum. Every rational producer will try to maximise profit. Equilibrium is a position of rest or where the opposite forces are in balance.



OY - shows price/cost/output

OX - output

TR - Total revenue curve at various level of output

TC - Total cost curve which lies above TR curve.

At point B & T. - there is zero profit. - Break even point.

Built at OM - output the vertical distance between TC & TR is maximum. - Total Profit Maximum.

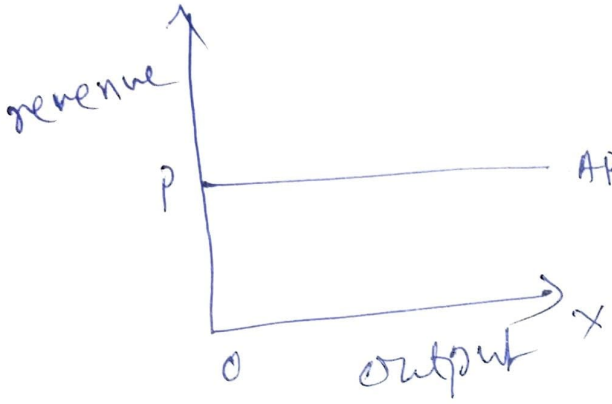
Revenue – types.

Revenue is the money received by selling a quantity of a goods. Total Revenue is the sum of all sales, receipts or income of a firm.

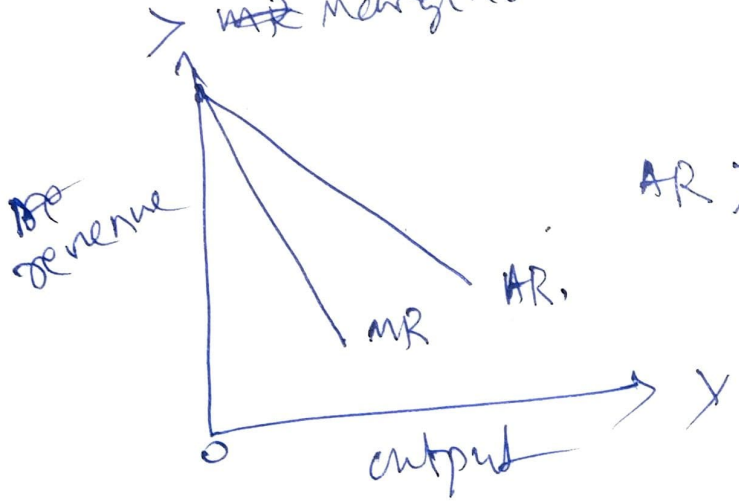
Marginal Revenue – (MR) is the revenue received by selling an additional goods. It is the addition to made to Total Revenue by selling an extra goods.

Avarage Revenue – is the revenue per unit of output. $AR = \frac{\text{Total Revenue}}{\text{Quantity sold}} = \frac{TR}{Q}$.

In Perfect Competition market – Avarage Revenue = marginal Revenue = Price.



In monopoly market, Avarage Revenue (AR) marginal Revenue (MR)



AR > MR.