- Section 4: Diminishing returns, Technology, Contestibility
  - Contestibility of firms to enter a specific market
    - High contestibilitly (behaves like perfect comeptition)
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      -allocative effeiciency
      -prodcutive effeiciency
      -X-effeciencies: waste minimised
      -Job creation: higher quantity in the market so more labour needed
    - Disadvanatages of high contestibility
      -lack of dynamic effeiciency
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    - Actions of incumbent firms to make market less contestable (to hold their large profits)
      -Predetory pricing
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      -set lower prcies to prevent making supernormal profits as this will attract new entrants(so sacrifices SR profits)
    - Evaluation
      -length of contestibilitly- if incumbent firms use anticompetative strategies it won't be contestable in LR
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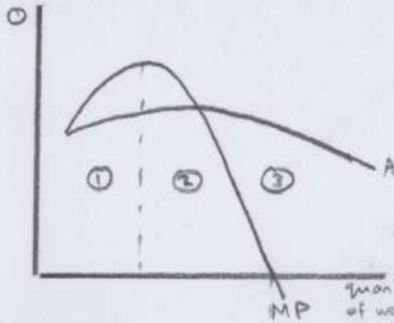
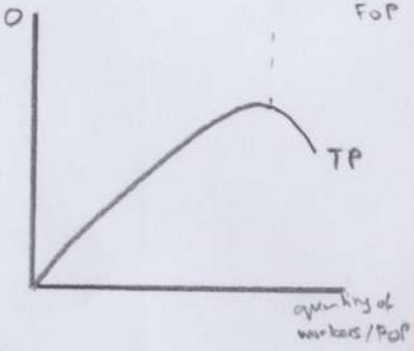
    - Hit and run: firms enter when there are large supernormal profits to be made, and leaves when prices are drvien down to normal profit levels
      -in LR contestable markets move towards allocative and productive effeiciency becuase supernormal profit are competed away
  - Ecnomies of scope
    -Economies of scope happens when it is cheaper to produce a range of products rather than specialize in a limited number.
    -Procter and Gamble and Gillette merger allowed for more products to be sold through common branding, channels and logistics
  - Diminishing returns
    -Variable FOPs are added to a fixed factor, resulting in falling TP, AP and MP (graph is opposite)
  - Returns to scale (production in the LR) How output changes as input increases
    - Increasing returns to scale when FOP increases, output increases at a faster rate
    - Constant returns to scale when FOP increases, output increases at the same rate
    - Decreasing returns to scale when FOP increases, output increases at a slower rate
    - MES(Minimum efficient scale)
      -MES at a high qunatity for industries with high fixed costs(many large firms)
  - Profit (TR-TC)
    - -Normal profit: TR=TC, economic profit of zero which is the min level needed to keep resources in their current use in LR
      -Supernormal profit: TR>TC,
    - Role
      -incentive to invest
      -incentive for entrepreneurs to take risk
      -promotes dynamic, allocative and productive efficiencies
      -signal for other firms to enter the market
  - Technological change (industries become more capital intensive and less labour intensive)

    Technological changes:
    -Structure of market
    -Production methods
    -Consumption of G and S
    - Invention: advancements in pure science
      Innovation: application of new knowledge to production methods
      -technical EOS is achieved
      -tech advancements can reduce or increase barriers to entry
    - Creative destruction
      -markets constant changing due to tech advancements destroy industries and jobs and create new ones
      -in LR jobs will also be created
      -railroads destroyed canals, while motorways and lorries destroyed railroads
    - Examples
      -internet has reduced barriers to entry due to more online retailing
      -Cars are cheaper and more effcient
      -Uber dominating the taxi market
      -Air bnb impacts established hotel chains
      -music and video online streaming
      -diverse range of products _
      _-tech advancements improves knowledge and knowledge of prices





① Each additional worker brings more output so MP ↑

② Diminishing returns set in when each additional worker brings less output Fixed FOP become constraint on production

③ As soon as MP<0, then TP starts to decrease

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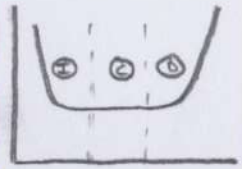

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