Unit 4: Types of Markets

Content Area: **Social Studies**
Course(s): **AP Micro Economics**
Time Period: **December**
Length: **4 weeks**
Status: **Published**

Transfer

Enduring Understandings

In the short run, companies can make profits in perfectly competitive markets. In the long run, a company will break even. This is in part because as people see profitability in an industry, they enter businesses into this industry which takes away from the profits of other existing businesses. The opposite is true for losses.

Competitive firms are price takers, because in the long run, they are tied to the price set at equilibrium for supply and demand.

Monopolies are still bound to set prices at what consumers are willing to pay for that good. The price is usually higher and should make the monopoly profit.

Monopolistic Competition is the most realistic because companies offer similar goods with slight differences. The differences make them unique and allow them to profit as long as they are different from other firms.

Although firms can make more if they collectively do not advertise, if just one of them advertizes, all the other firms will be forced to advertise.

Essential Questions

Why do long run profits for perfectly competitive firms equal zero, regardless if the industry is profitable or losing money in the short term?

Why are competitive firms forced to take prices of the market and what would happen if they increased or

decreased the price above or below equilibrium?

Why can monopolies not charge unlimited price for their goods if they are the only firm in the industry?

How can we use cost analysis and supply demand analysis to determine the profitability of firms in industries, regardless of the size of the industry?

How does advertisement play a role in a firm's ability to make money? How do they gauge what to advertise and to whom to advertise to?

Skills

Graph and analyze supply and demand curves and profitability of firms in monopolies, competitive markets and monopolistically competitive markets.

Analyze how firms react differently in different markets and how barriers to entry impact firms.

Evaluate current economic climate through Economic Literacy Projects (ELP) where students choose a current event article and write up an analysis of it using economic standards.

Assess the ways that firms can impact and change their markets to gain more revenue and profitability.

Vocab: Perfect Competition, Price Taker, Total Revenues, Market Failure, Natural Monopoly, Tariffs, Cartel, Price Discrimination, Price Differentiation, Product Differentiation, Oligopoly, Horizontal Merger, Vertical Merger,

Standards

6.5.8 A. 7. Discuss how innovation, entrepreneurship, competition, customer satisfaction, and continuous improvement in productivity are responsible for the rise in the standard of living in the United States and other countries with market economies.

6.5.8 A. 8. Compare and contrast the characteristics of the three basic economic systems: traditional or barter and trade, market capitalism, and command (e.g., communism).

6.5.8 B. 3. Discuss how societies have been affected by industrialization and by different political and economic philosophies.

6.5.8 B. 6. Analyze and give examples of how business and industry influence the buying decisions of consumers through advertising.

6.5.12 A. 4. Identify entrepreneurs in the community and describe the risks and rewards of starting a new business.

6.5.12 A. 5. Discuss how a market economy experiences periodic business cycles of prosperity and recession and that the federal government can adjust taxes, interest rates, spending, and other policies to help restore economic health.

6.5.12 B. 4. Discuss the value and role of free and fair competition versus the social need for cooperation and how business, industry, and government try to reconcile these goals.

6.5.12 B. 5. Analyze the importance of economic issues to politics and be able to distinguish the economic views of different political parties.