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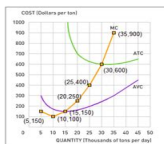


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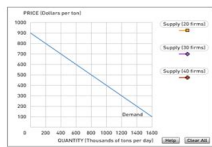
6. Short-run supply and long-run equilibrium

Consider a perfectly competitive market for steel. Assume that all firms in the industry are identical and have the marginal cost (MC), average total cost (ATC), and average variable cost (AVC) curves shown on the following graph. Assume also that it does not matter how many firms are in the industry.

Tool Tip: Place the mouse cursor over orange square points on the MC curve to see coordinates.



The following diagram shows the market demand for steel. Use the orange points (square symbol) to plot the initial short-run industry supply curve when there are 20 firms in the market. (Note: Ignore the portion of the supply curve that corresponds to prices at which there is no output, since this is the industry supply curve.) Next, use the purple points (diamond symbol) to plot the short-run industry supply curve when there are 30 firms. Finally, use the red points (cross symbol) to plot the short-run industry supply curve when there are 40 firms.



With 40 firms in this market, the short-run equilibrium price of steel would be **\$250** per ton. At that price, firms in this industry would **exit**. Therefore, in the long run, firms would **neither enter nor exit** the steel market, operate at a loss **and** **exit**.
 With 30 firms in this market, the short-run equilibrium price of steel would be **\$400** per ton. At that price, firms in this industry would **enter**. Therefore, in the long run, firms would **neither enter nor exit** the steel market, operate at a profit **and** **enter**.
 With 20 firms in this market, the short-run equilibrium price of steel would be **\$600** per ton. At that price, firms in this industry would **enter**. Therefore, in the long run, firms would **neither enter nor exit** the steel market, operate at a profit **and** **enter**.

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