Chapter 20

**Market Structure**
The particular environment of a firm, the characteristics of which influence the firm’s pricing and output decisions.

**Perfect Competition**
A theory of market structure based on four assumptions: (1) There are many sellers and buyers, (2) sellers sell a homogeneous good, (3) buyers and sellers have all relevant information, and (4) entry into or exit from the market is easy.

**Price Taker**
A seller that does not have the ability to control the price of the product it sells; the seller takes the price determined in the market.

**Marginal Revenue (MR)**
The change in total revenue that results from selling one additional unit of output.

**Profit-Maximization Rule**
The rule that profit is maximized by producing the quantity of output at which \( MR = MC \).

**Resource Allocative Efficiency**
The situation when firms produce the quantity of output at which price equals marginal cost: \( P = MC \).

**Short-Run (Firm) Supply Curve**
The portion of the firm’s marginal cost curve that lies above the average variable cost curve.

**Short-Run Market (Industry) Supply Curve**
The horizontal addition of all existing firms’ short-run supply curves.

**Long-Run Competitive Equilibrium**
The condition where \( P = MC = SRATC = LRATC \). There are zero economic profits, firms are producing the quantity of output at which price is equal to marginal cost, and no firm has an incentive to change its plant size.

**Productive Efficiency**
The situation that exists when a firm produces its output at the lowest possible per-unit cost (lowest \( ATC \)).

**Long-Run (Industry) Supply (LRS) Curve**
Graphic representation of the quantities of output that the industry is prepared to supply at different prices after the entry and exit of firms are completed.

**Constant-Cost Industry**
An industry in which average total costs do not change as (industry) output increases or decreases when firms enter or exit the industry, respectively.
Increasing-Cost Industry
An industry in which average total costs increase as output increases and decrease as output decreases when firms enter and exit the industry, respectively.

Decreasing-Cost Industry
An industry in which average total costs decrease as output increases and increase as output decreases when firms enter and exit the industry, respectively.