Meta data of E- Content (Pre production)

S. N.	AREA OF MATA DATA	TO BE FILLED BY CONTENT GENERATOR(S)
1	Topic	Producer's Equilibrium
2	Subject	Economics
3	Topic connected which area of subject?	Microeconomics
4	Class/ Level	XII
5	Objectives	-To list the conditions of Producer's equilibrium -To show the concept of equilibrium using diagram by MC - MR approach - To help the student test his under standing
6	Summary	Producer's equilibrium is defined as that output where a producer maximises profits and has no urge to change output. Conditions of producer's equilibrium are: 1) MC=MR 2) MC > MR after MC=MR level of output Student activity based on the topic is given to test the student's understanding of the concept.
7	Key Words	Producer's equilibrium , marginal cost, marginal revenue, maximum profit
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PRODUCER'S EQUILIBRIUM

Producer's equilibrium refers to a situation when the producer produces that level of output at which he earns maximum profit.

Average Revenue (AR) of a firm is defined as total revenue per unit of output.
Total Revenue, TR= p x q, where p= market price, q= firm's output.
AR= TR/q
For price taking firm, AR= price.

Marginal Revenue (MR) of a firm is the increase in total revenue for a unit increase in the firm's output.
For price taking firm, MR= price.

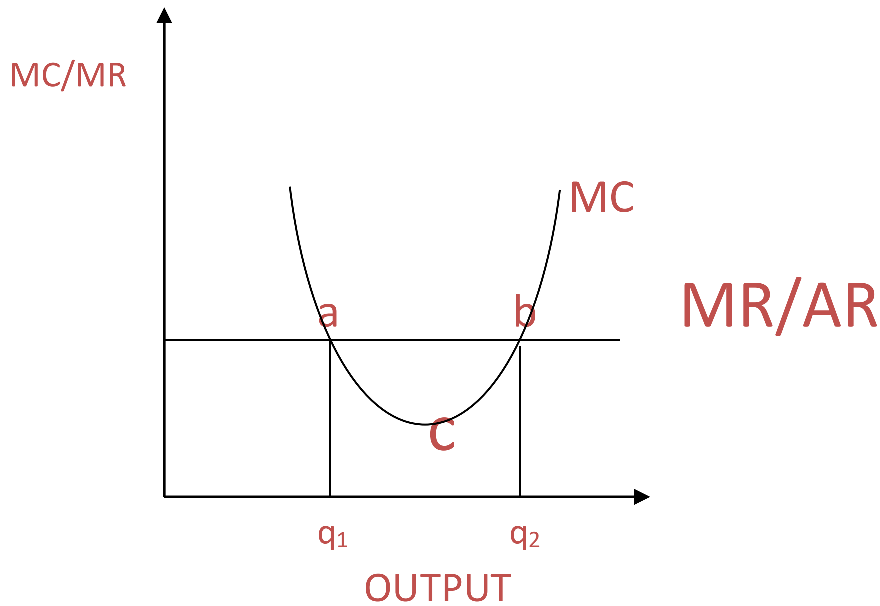
Profit (Π) is the difference between its total revenue (TR) and its total cost of production (TC), **Π= TR-TC.**

Assuming that firm's output is perfectly divisible, if there is a positive output level at which profit is maximized, then the following MC-MR approach conditions must hold at that output.

MARGINAL COST MARGINAL REVENUE APPROACH

Two conditions:

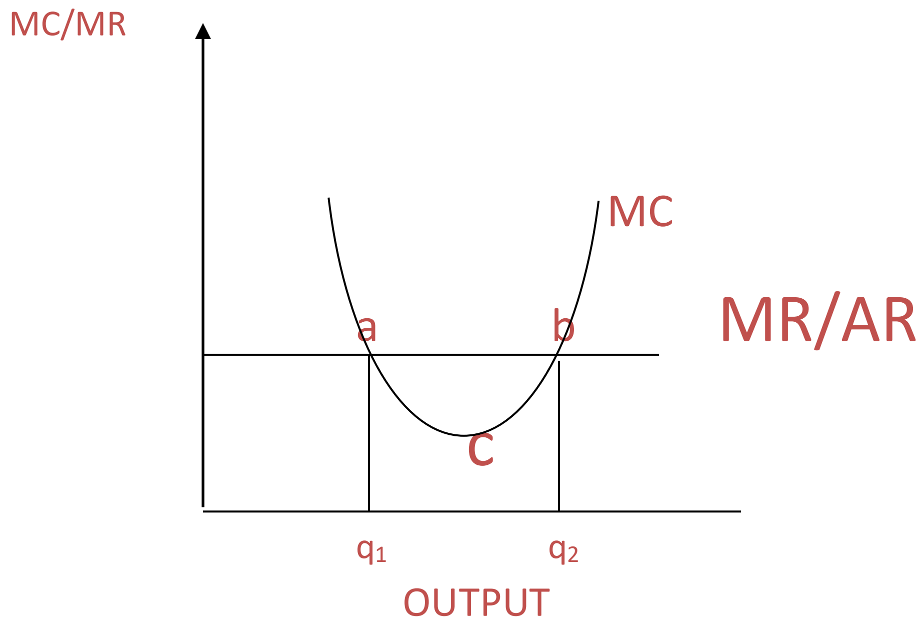
1) MC=MR
2) MC is greater than MR after MC=MR level of output. Based on condition 1, firm has two points corresponding to profit maximizing output levels: 'a' and 'b' (look at the figure below). But at point 'a', MC is downward sloping and so output level corresponding to 'a' is not profit maximizing. For the output level corresponding to the left of point 'a' output level, i.e. to the left of q_1 , market price < MC. The firm's profit at an output level slightly smaller than q_1 exceeds that corresponding to the output level q_1.



Student Activity

Q.1. Identify from the figure below whether the following statements are true or false;

1) The producer earns maximum profit at point c
2) The producer will produce more output after point b to increase his profits
3) The producer is in equilibrium at point a
4) The producer will produce more output after point 'a' to earn maximum profit
5) The producer is in equilibrium at point b



ANSWER KEY (TO REMAIN HIDDEN TILL STUDENT ANSWERS THE QUESTIONS)

1) False
2) False
3) False
4) True
5) True