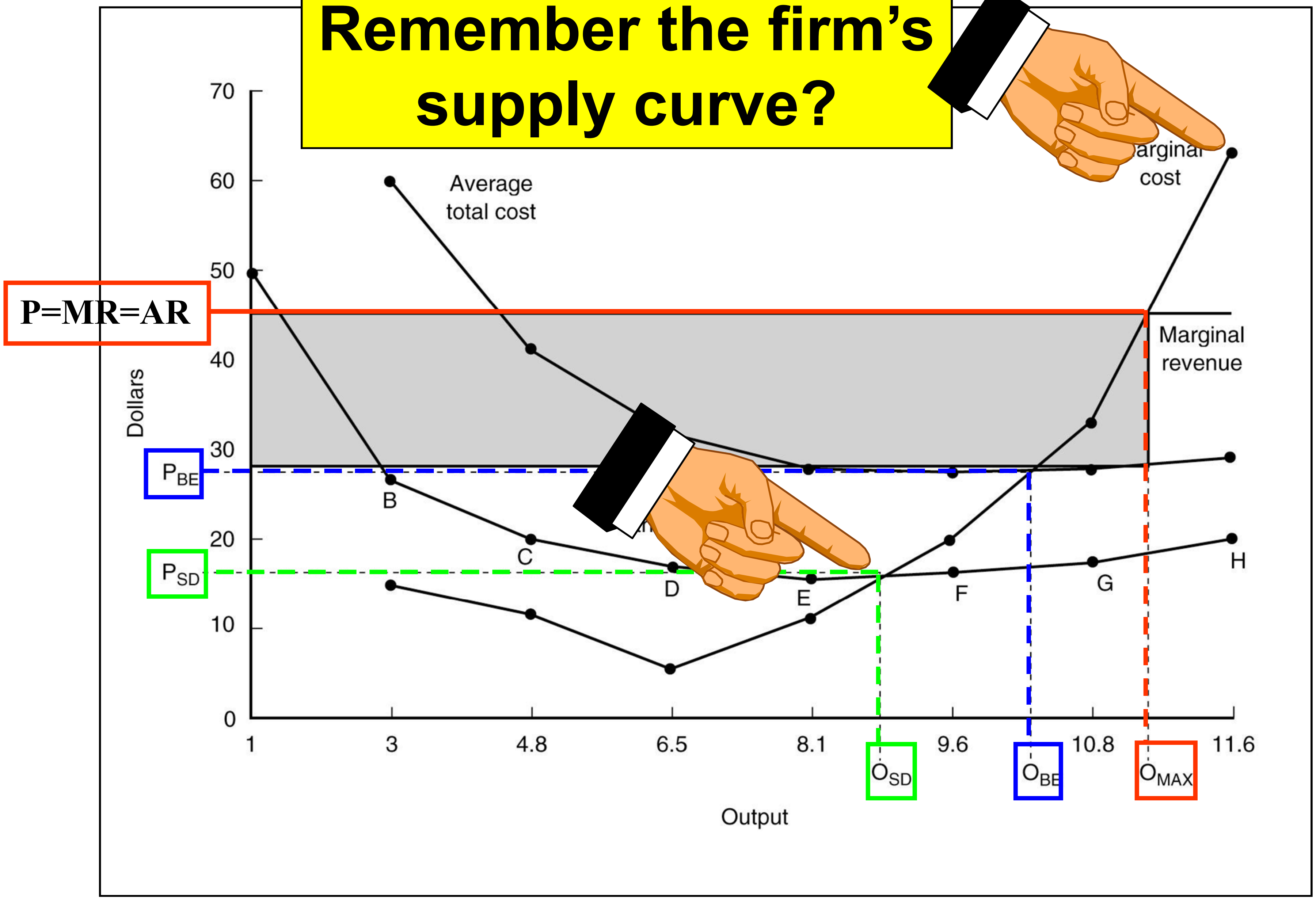
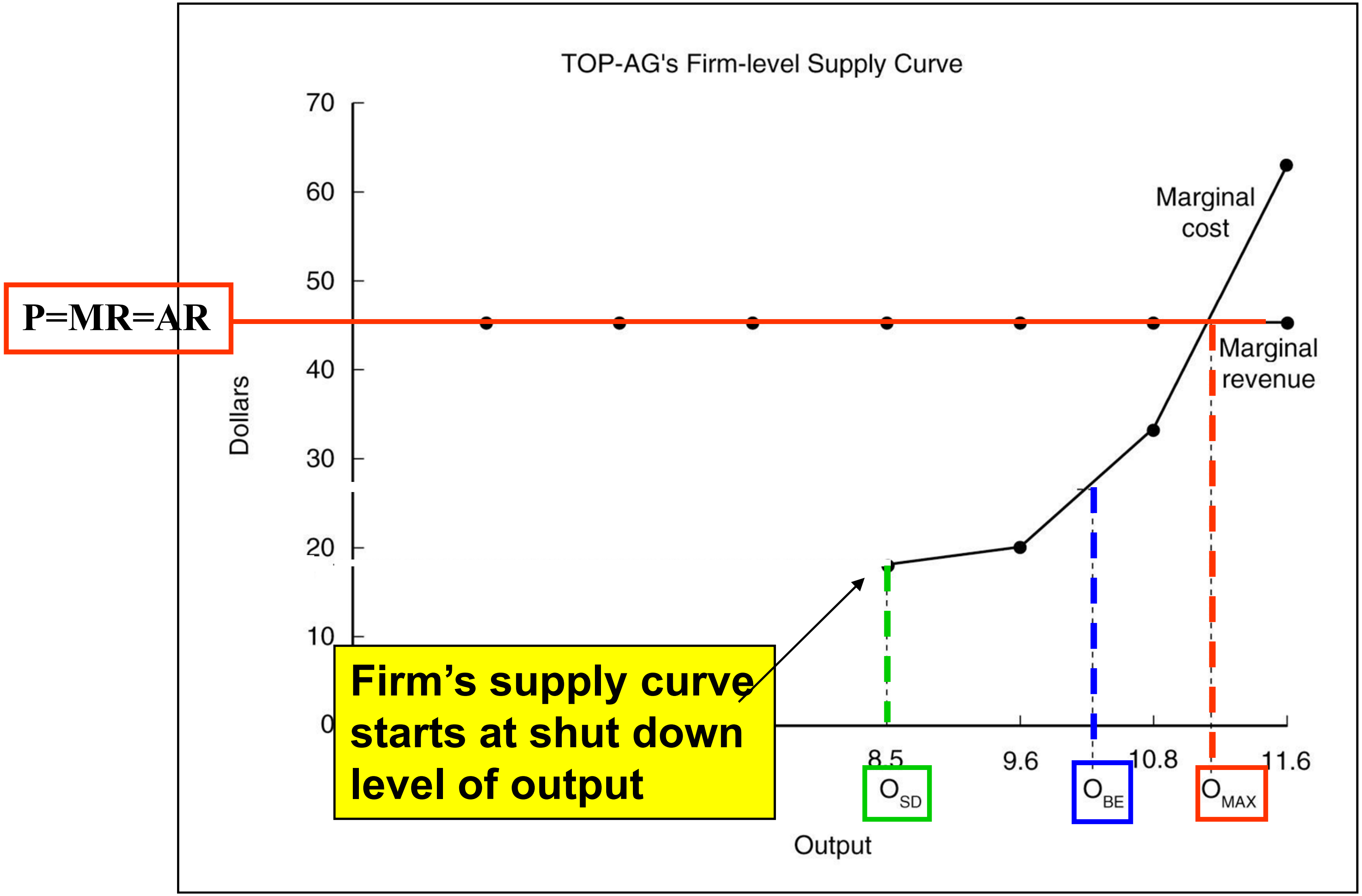
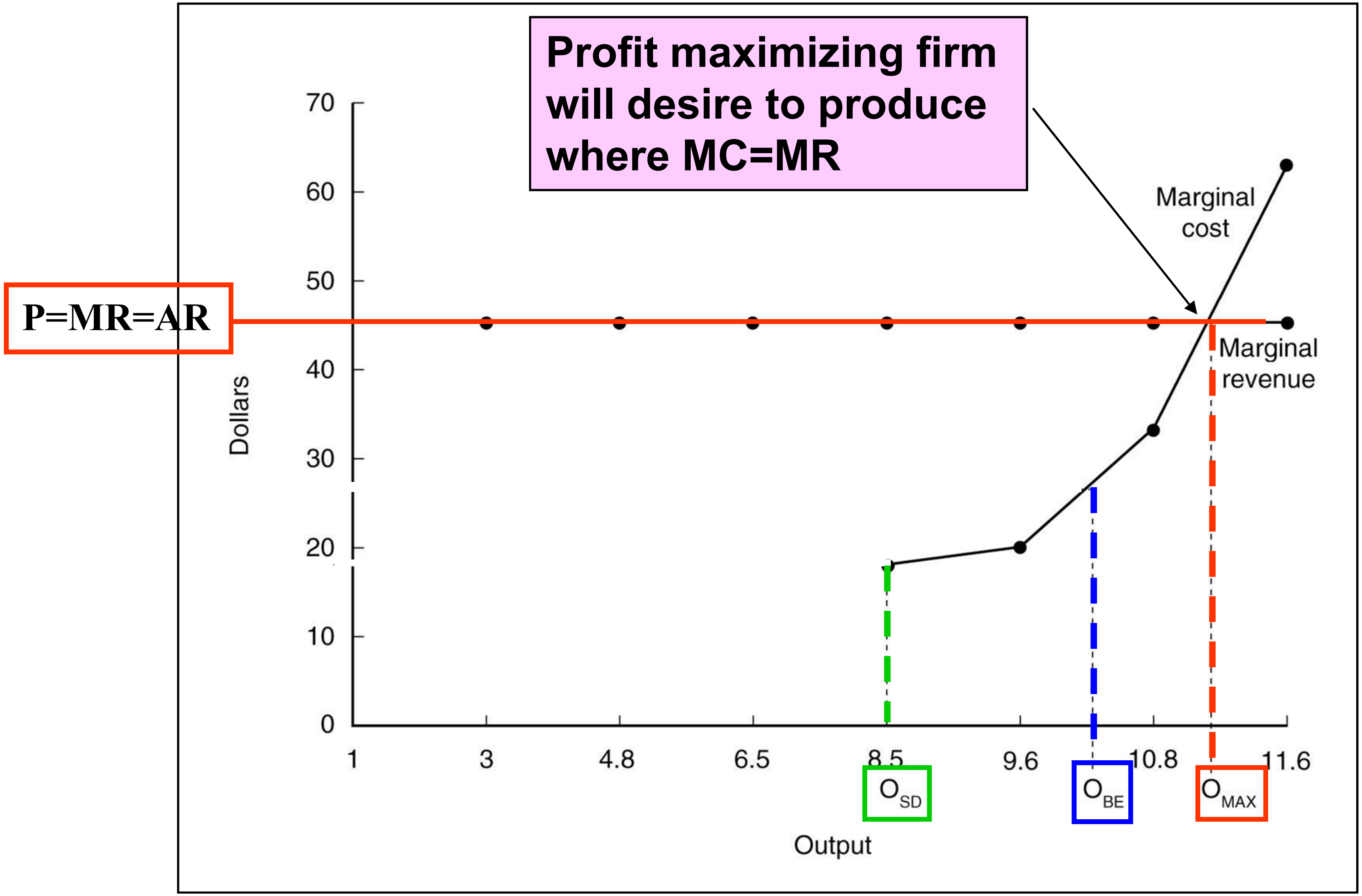
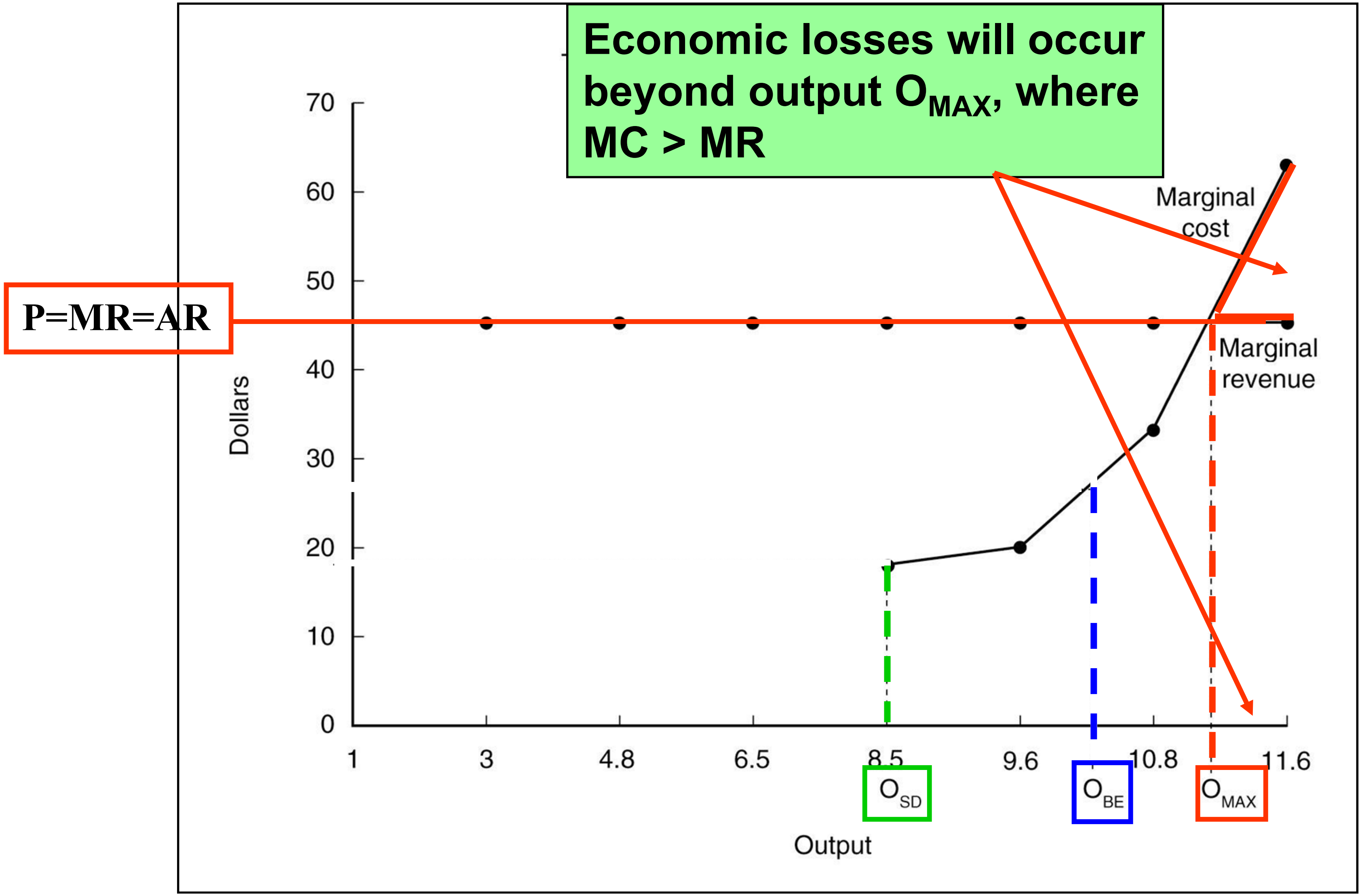
Market
Price Discovery #1
Perfect Competition

Remember the firm's supply curve?

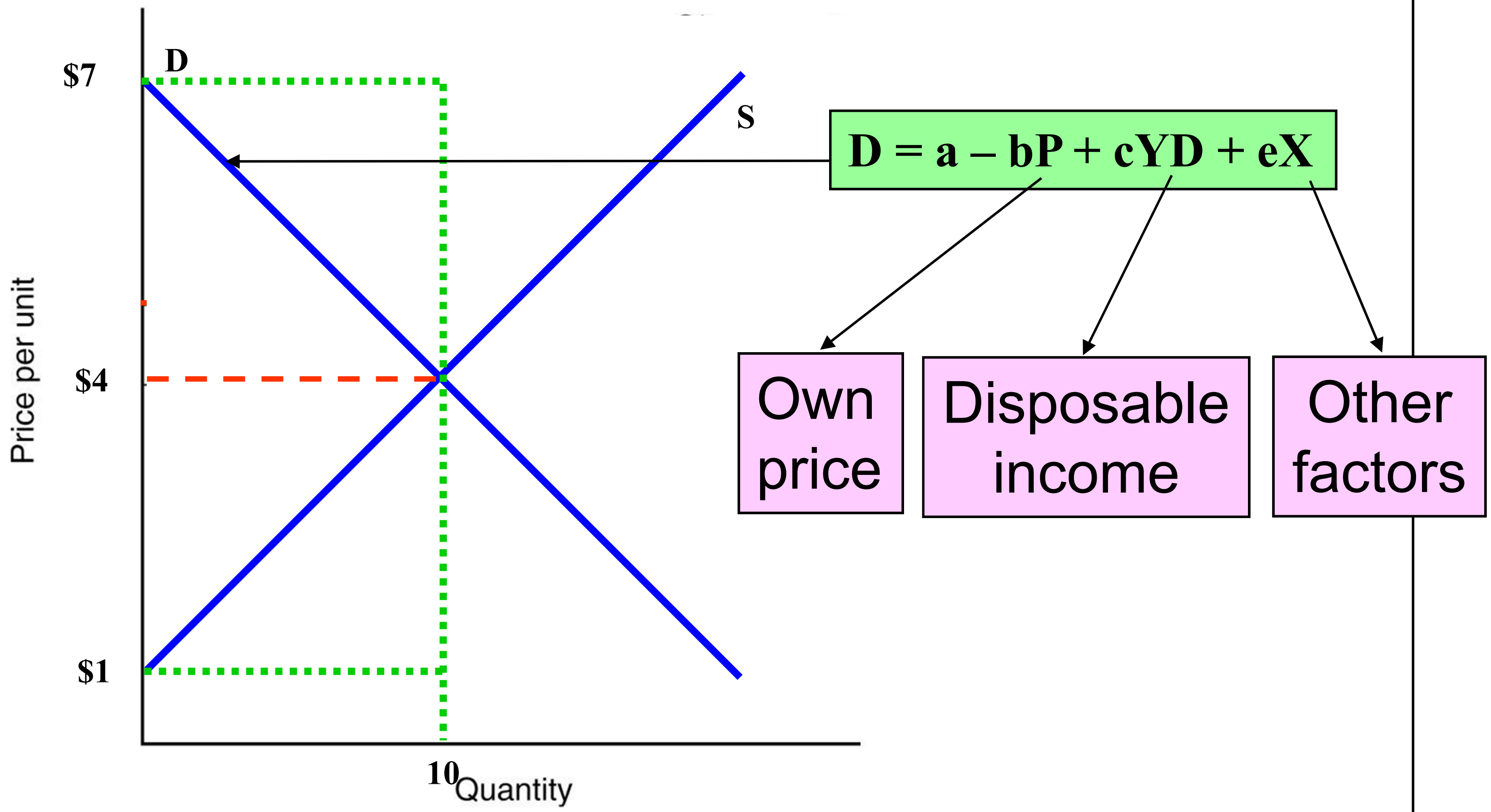



TOP-AG's Firm-level Supply Curve
P=MR=AR
Dollars
70
60
50
40
30
20
10
0
Marginal cost
Marginal revenue
Firm's supply curve starts at shut down level of output
8.5
9.6
10.8
11.6
O_{SD}
O_{BE}
O_{MAX}
Output

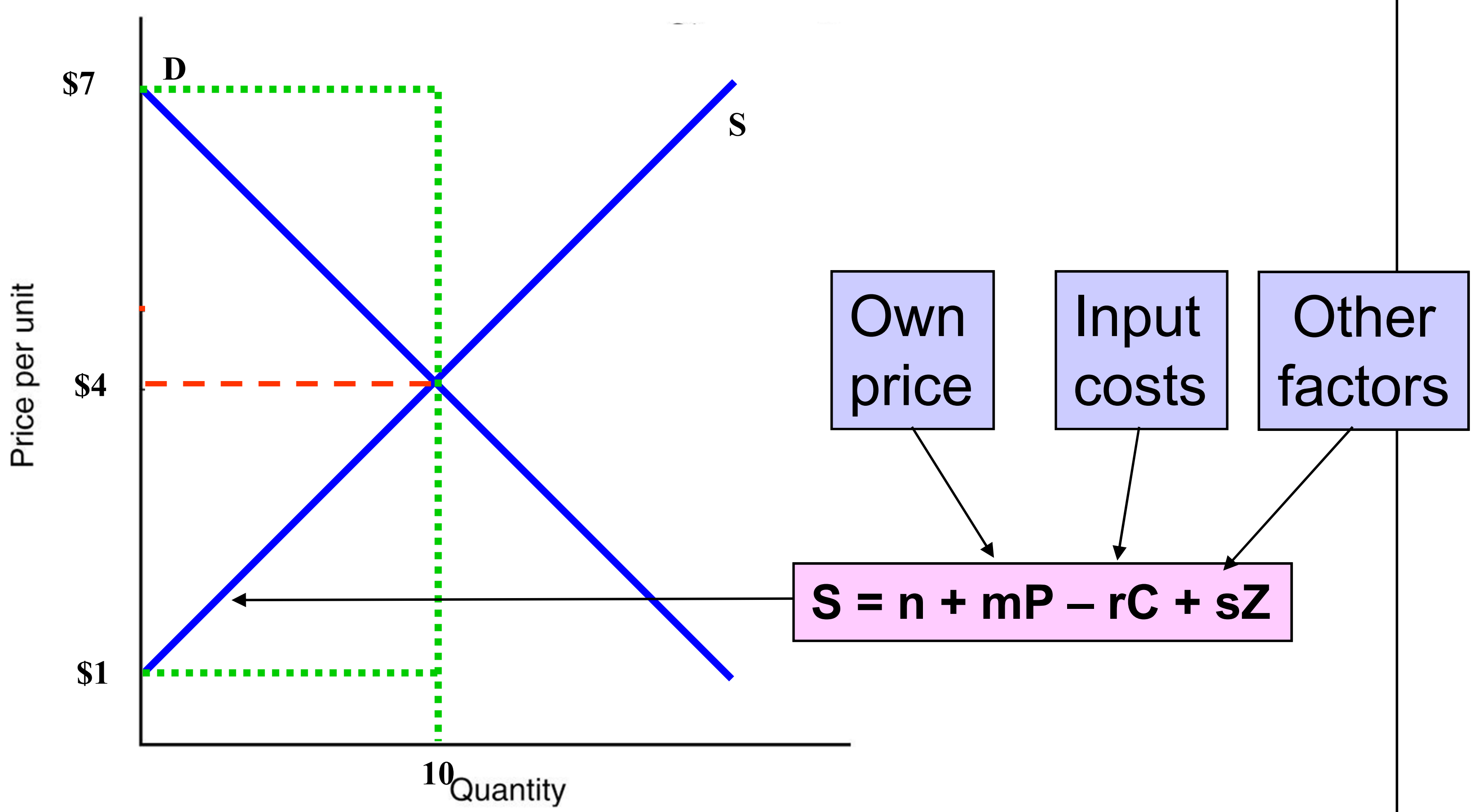

Profit maximizing firm will desire to produce where MC=MR
P=MR=AR
Marginal cost
Marginal revenue
Dollars
70
60
50
40
30
20
10
0
1
3
4.8
6.5
8.5
9.6
10.8
11.6
O_{SD}
O_{BE}
O_{MAX}
Output


Economic losses will occur beyond output O$_{MAX}$, where MC > MR
P=MR=AR
Marginal cost
Marginal revenue
Dollars
70
60
50
40
30
20
10
0
1
3
4.8
6.5
8.5
9.6
10.8
11.6
O$_{SD}$
O$_{BE}$
O$_{MAX}$
Output

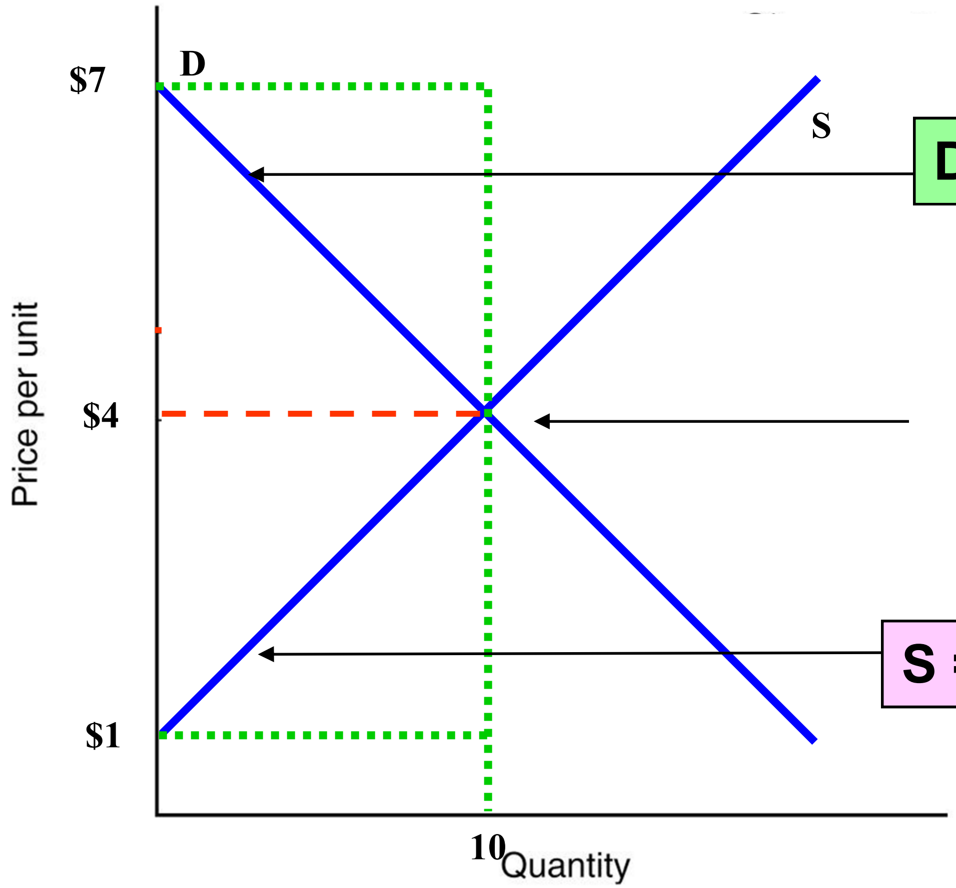
Forecasting Future Commodity Price Trends



Forecasting Future Commodity Price Trends



Projecting Commodity Price



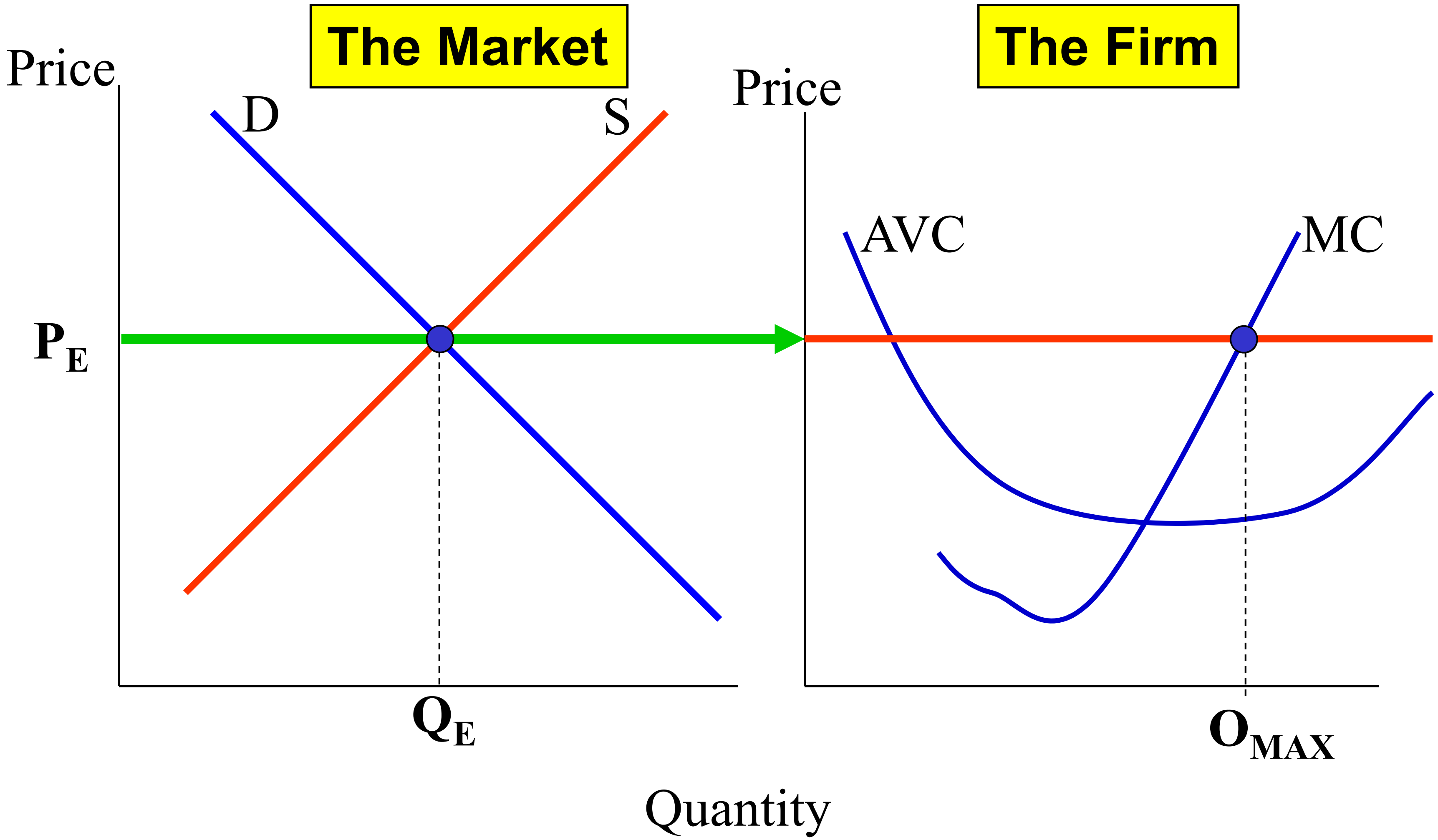
$$D = 10 - 6P + .3YD + 1.2X$$

$$D = S$$

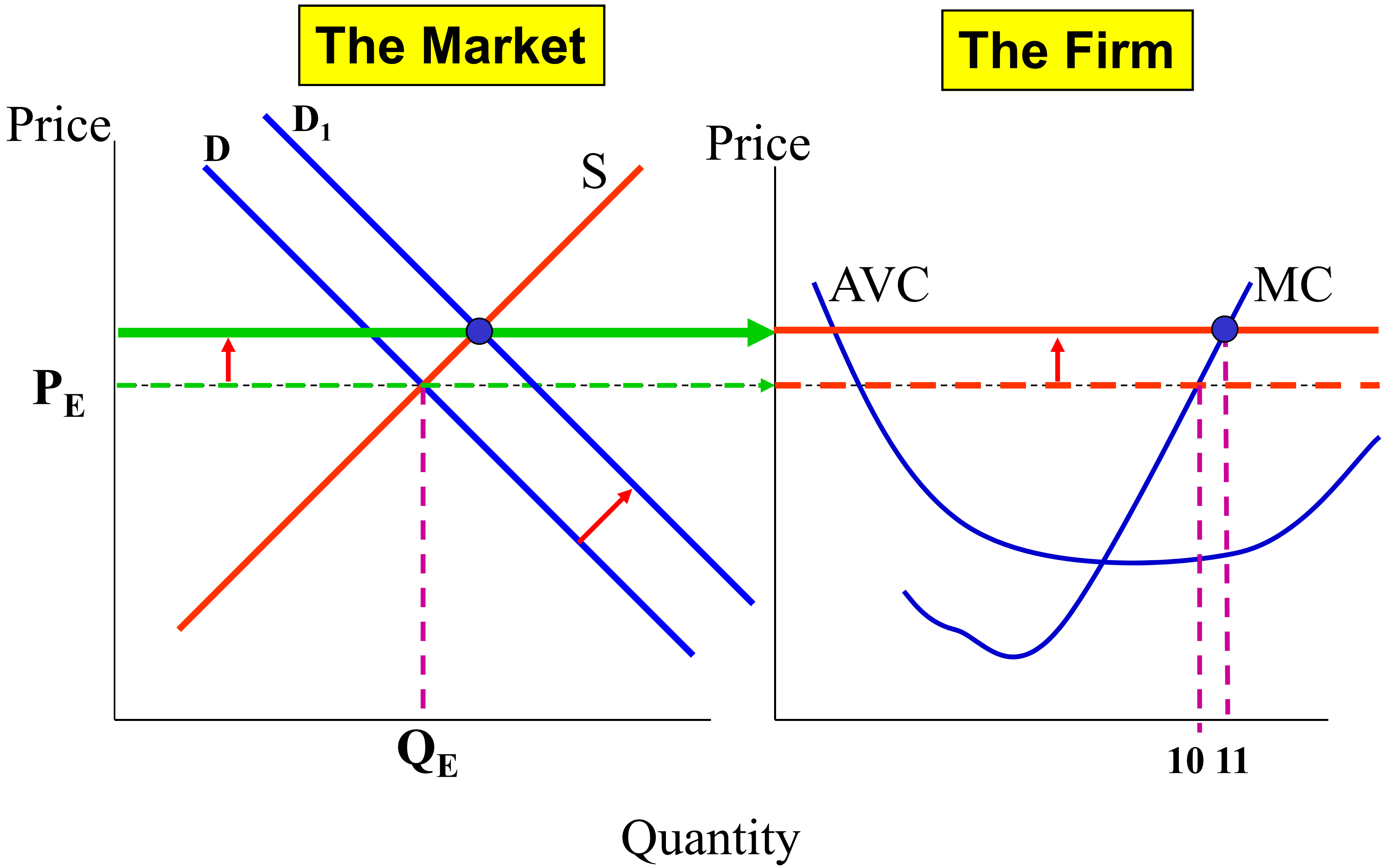
$$S = 2 + 4P - .2C + 1.02Z$$

Substitute the demand and supply equations into the the equilibrium condition and solve for price

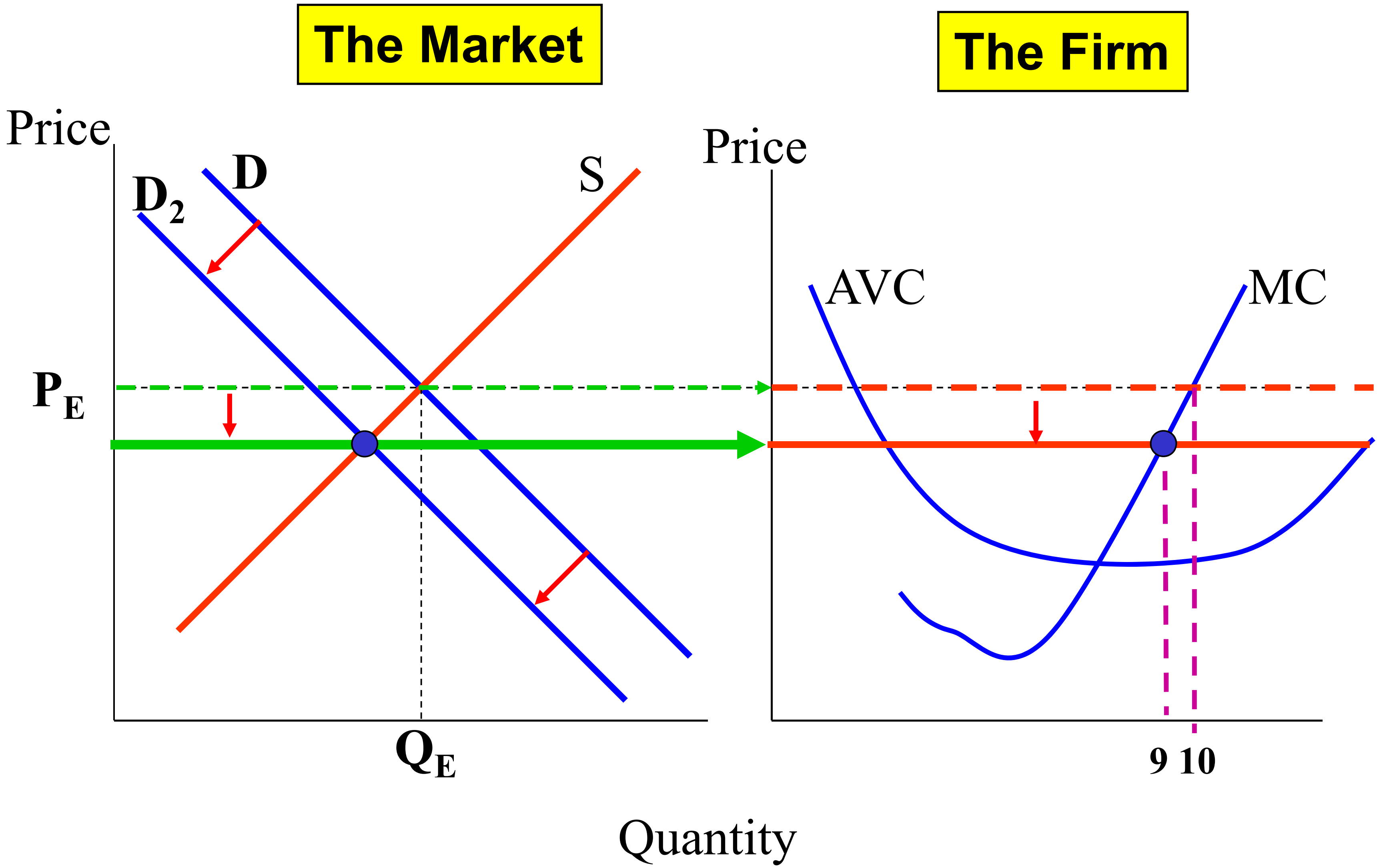
Firm is a "Price Taker" Under Perfect Competition



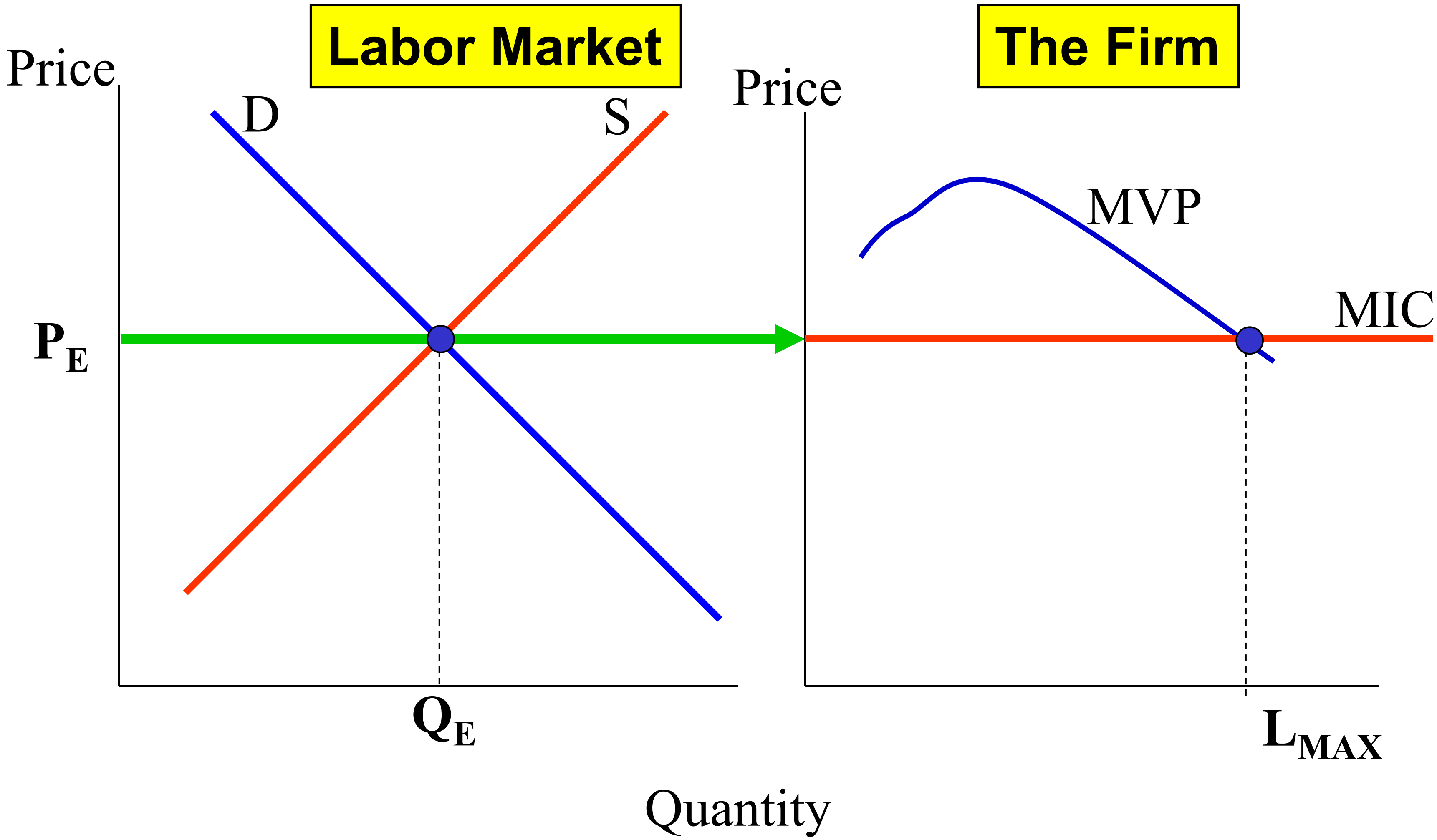
If Demand Increases……



If Demand Decreases……



Firm is a "Price Taker" in the Input Market



If Demand Increases……