

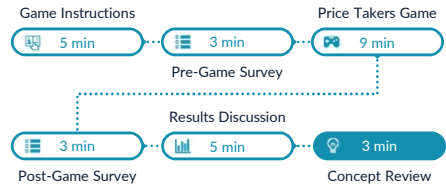
Price Takers

Profit Maximization in the Long and Short Run

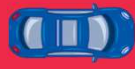
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What's Included

Price Takers




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Price Takers

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Game Instructions


Price Takers

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You are one of ten potential drivers for a rideshare service in the area

Hourly Revenue depends on how many drivers choose to drive

Revenue depends on how many hours you choose to drive



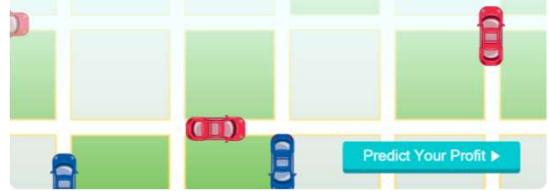
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In the first round, you will be told how many drivers are in the market

Drive Today?

The profit predictor will help you decide. Predict the number choosing to drive; it will tell you a driver's hourly revenue, and you can calculate whether driving would be profitable. After using the predictor, you can choose whether to drive today or not.

There are 10 potential drivers



Predict Your Profit ▶

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In the following rounds, you will be told how many drivers decided to drive yesterday

Drive Today?

The profit predictor will help you decide. Predict the number choosing to drive: it will tell you a driver's hourly revenue, and you can calculate whether driving would be profitable. After using the predictor, you can choose whether to drive today or not.

3 out of 10 people drove yesterday

Predict Your Profit ▶

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Use profit predictor to help you make the decision to drive or not

Drive Today?

The profit predictor will help you decide. Predict the number choosing to drive: it will tell you a driver's hourly revenue, and you can calculate whether driving would be profitable. After using the predictor, you can choose whether to drive today or not.

3 out of 10 people drove yesterday

Predict Your Profit ▶

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Explore how different numbers of drivers and hours affect your profit

Predict Your Profit

Dollars

Revenue

My Hours

Resulting Profit

Drivers: 8 Revenue per Hour: \$12

My Hours: 3 Marginal Cost: \$5

Resulting Profit: -\$37

Your fixed cost for driving - If you drive, you pay \$64

Your predicted profit - -\$37

Number of drivers affects Revenue/Hr

Number of hours affects Marginal Cost

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Decide whether or not you want to drive today

Drive Today?

Now that you have predicted your profits, choose whether to drive (🚗) today or not (✖).

Drive today

Don't drive today

Return to previous screen

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Choose how many hours to drive (If you didn't drive, see what you could've made)

Choose Your Hours

Dollars

Revenue

My Hours

Resulting Profit

Drivers: 8 Revenue per Hour: \$25

My Hours: 3 Marginal Cost: \$5

Resulting Profit: \$2

Your fixed cost for driving - You paid \$64 to drive.

Your actual profit - \$2

Number of drivers this round

Choose the number of hours to drive

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Pre-Game Survey

Price Takers

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With the hours you choose, how much profit will you make?

$(3 \times \$25) - \$64 - \$9 = \2

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How many drivers will enter the market?

Lets find out:

- You've been told to maximize your profits (or minimize your losses!)
- Theory predicts how many drivers there will be in a perfectly competitive market.
 - Everyone is a price taker in this market!
- How accurate will the prediction be?

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Game Time!

Price Takers

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Post-Game Survey

Price Takers

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How many hours should you drive in order to maximize profit?

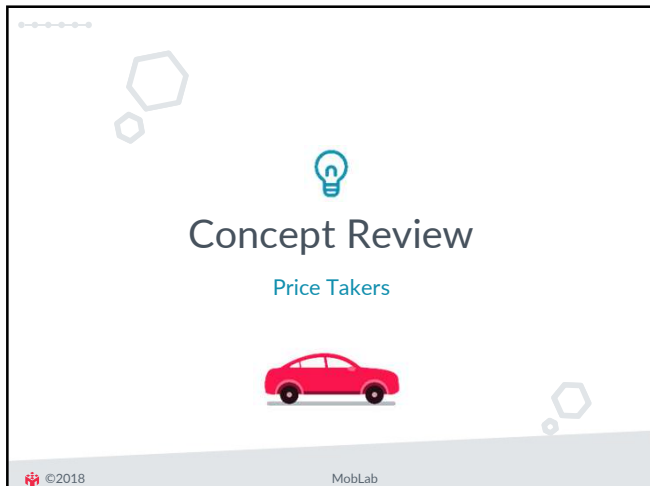
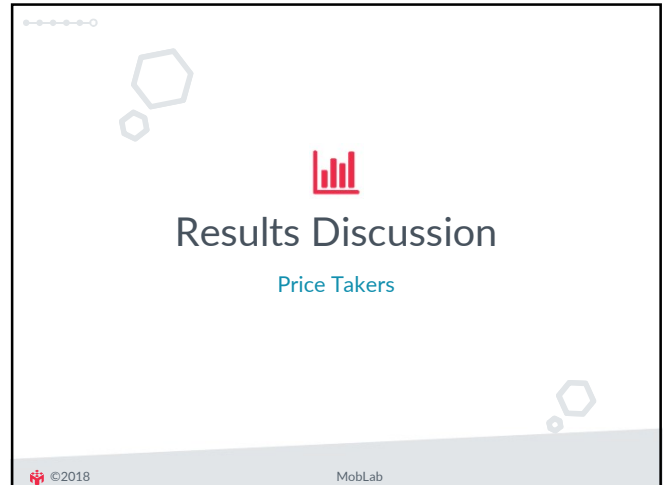
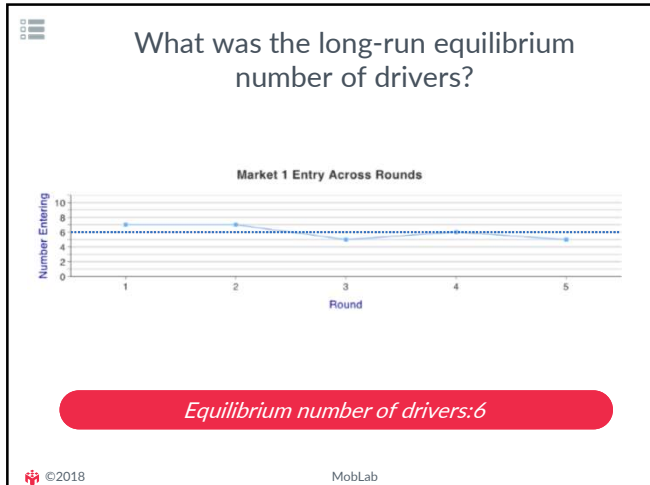
When marginal revenue equals marginal cost!

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What was the long-run equilibrium number of drivers?

# of Drivers	Hours (MR = MC)	Profit
1	15	\$341
2	15	\$191
3	12	\$92
4	10	\$46
5	9	\$17
6	8	\$0
7	7	-\$15
8	6	-\$28
9	5	-\$34
10	5	-\$39

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- What is the long-run equilibrium profit?
- If there is positive economic profit:
 - Firms have incentive to enter the market
 - If there is negative economic profit:
 - Firms have incentive to leave the market
 - If there is zero economic profit:
 - Firms have neither incentive to enter nor exit the market, **resulting in equilibrium**
 - Drivers will still make an *accounting* profit, but make no *economic* profit
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- Key Takeaways
- *Price Takers* accept the price that the market determines.
 - There are many buyers and sellers in the market.
 - Goods offered by producers are largely identical.
 - Producers may freely enter or exit the market
 - For a market to be considered a *perfectly competitive market*, it must consist of *Price Takers* and have low barriers to entry and exit.
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