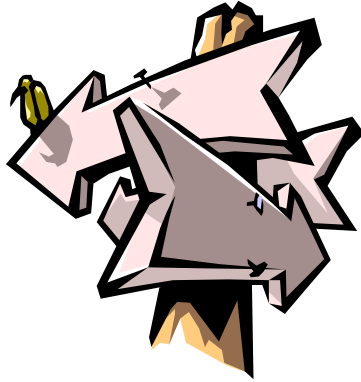


Firm Entry Decision



Definitions

❖ **Average Cost (AC)**

= **Total Cost (TC) ÷ The amount of output (Q)**

= **A per-unit cost of output**

❖ **Average Fixed Costs (AFC)**

= **Total Fixed Cost (TFC) ÷ The amount of output (Q)**

❖ **Average Variable Costs (AVC)**

= **Total Variable Cost (TVC) ÷ The amount of output (Q)**

Experiment

❖ **If you were a businessperson, what factors will cause you to enter into a market to start your business?**



•Teacher writes down students' answers on board, without commenting on them.

Experiment

❖ **You will be an entrepreneurs today.**



❖ **Decide whether to enter a market and how much to pay for a business license.**

•In today's experiment, we will discover one factor that affects firm's entry decision. I would like you to tell me what you can discover through this experiment at the end of this lesson.

Experiment

- ❖ **Divide into groups of 3 to 5.**
- ❖ **Each group will be a firm that has the option of buying a business license.**
- ❖ **The licenses give you the right of publishing and selling a monthly magazine.**

- ❖ 《*最in*時尚手冊》



Market Information

No. of firms	Price of magazine (HK\$)	Quantity of magazine per firm	Average cost of a magazine (HK\$)
1	20	10	9
2	18	9	10
3	16	8	11
4	14	7	12
5	12	6	13
6	10	5	14
7	8	4	15

- Since you will be a price-taker, therefore, you have perfect information.
- Post/ project Table 1, which shows how the market price, the quantity of magazine per firm, and the average cost of production which varies with the number of firms in the market, on board.

Business License



- ❖ **Get a business license before entering the market.**
- ❖ **The license allows a firm to operate the business for one month.**
- ❖ **Each license's bottom price is \$5 and will be auctioned to the highest bidder.**
- ❖ **Each firm can buy only one license.**

- Teacher should record the bid price for each license on Table 2.
- Post/ project Table 2 on board.

License Bid Price

License No.	Bid Prices at Round I	Bid Prices at Round II	Bid Prices at Round III	Bid Prices at Round IV	Bid Prices at Round V
1					
2					
3					
4					
5					
6					
7					

- After the first round, tell students to bid for another license to publish and sell magazines for another one month.
- For the first three rounds, teacher can auction up to seven business license.
- After three rounds of auctioning seven licenses in each round, teacher auctions only two licenses for round 4 & 5.
- Teacher will continue to auction license as long as someone bids a positive amount for one of the licenses.

Profit Calculation

❖ **After the auction, firm with licenses auctioned should compute their profit.**

❖ **Profit = [(Price – Average Cost) * Quantity] – Price of License**

❖ **Fill in Profit Record Sheet of Table 3.**

- After each round, firm with licenses auctioned should compute their profit on Table 3 (distribute Table 3 to each group).
- We compute the profit of each firm by adding up its profit over five rounds.
- Award the group that earns the highest profit.

The group with the highest profit at the end of the game will win.

Discussion



- ❖ **Did your group set the maximum bid-price for each license?**
- ❖ **How much was that?**
- ❖ **How did you come up with this maximum price?**
- ❖ **Why you stopped bidding for a license when the price exceeded your maximum?**

- Did your group set the maximum bid-price for each license?
- How much was that?
- How did you come up with this maximum price?
- Ask 1 to 2 groups why they stopped bidding for a license when the price exceeded their maximum.

Discussion



- ❖ **What happens to your profit if more firms enter into the market?**
- ❖ **Can you explain the reasons behind?**
- ❖ **Can you identify the rule to decide whether or not to produce/ enter the market?**

- What happens to your profit if more firms enter into the market?
- Can you explain the reasons behind?
 - Profit will be reduced as more firms enter into the market because they are in the price-taker market, the free entry and exit feature allows firms to enter the market to share the profit.
- Can you identify the rule to decide whether or not to produce/ enter the market?
 - So long as the price is above average cost, the firm has the incentive to enter the market to produce.

