

## Teaching Plan

Title	Firm Entry Decision (HKAL)
Instructional Objectives	➤ Showing that a firm will enter a market if the price exceeds the average cost of production.
Keywords and Concepts Illustrated	➤ Average cost
Assumption	➤ Students understand the features of a price-taker market i.e., homogenous good, perfect information & free entry and exit.
Needed Time	➤ A single-lesson period, 40 minutes in total

Sessions	Details	Time Spent
Activity/ Announcement	<ol style="list-style-type: none"> <li>1. T: 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.</li> <li>2. T: 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.</li> <li>3. T: You will play the role of entrepreneurs who must decide whether to enter a market and how much to pay for a business license.</li> <li>4. T: I will divide you into groups of 3 – 5. Each group represents a firm that has the option of buying a business license to publish and sell a monthly magazine 《最 in 時尚手冊》. 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).</li> <li>5. T: Before you can enter the market, you need to get a business license from me. It 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).</li> </ol>	<p>5 mins</p> <p>10 mins</p>

	<p>6. 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 licenses. Teacher will continue to auction licenses as long as someone bids a positive amount for one of the licenses.</p> <p>7. T: After each round, firms with licenses auctioned should compute their profit on Table 3 (distribute Table 3 to each group). I have prepared a prize for the group that earns the highest profit at the end of the game!</p> <p style="padding-left: 40px;">Profit = [(price – average cost) x quantity] – price of license</p> <p>8. After three rounds of auctioning seven licenses in each round, teacher auctions only two licenses for round 4 &amp; 5.</p> <p>9. (At the end of the experiment) T: We compute the profit of each firm by adding up its profit over five rounds. (Award the group that earns the highest profit).</p> <p>10. Discussion:</p> <p>10.1. 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.</p> <p>10.2. 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).</p> <p>10.3. 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).</p>	<p>15 mins</p> <p>10 mins</p>
Tools	<ul style="list-style-type: none"> <li>➤ Enlarge and print Table 1 and 2 for posting on board.</li> <li>➤ Print Table 3 for each group of students.</li> <li>➤ Print enough Table 4 for the use in auction.</li> <li>➤ Prize for the winning group.</li> </ul>	
Definitions	<ul style="list-style-type: none"> <li>➤ Average Cost – is the total cost divided by the amount of</li> </ul>	

	output. It is a per-unit cost of output. Average cost is also divided into average fixed costs and average variable costs. (Lam 1996:138)	
References	<ul style="list-style-type: none"> <li>➤ Experiment: <ul style="list-style-type: none"> <li>➤ Garratt, Rodd, summer 2000, A Free Entry and Exit Experiment, Journal of Economic Education, vol 31 (3), pp 237-243.</li> </ul> </li> <li>➤ Definition: <ul style="list-style-type: none"> <li>➤ Lam, P. L., 1996, <i>Advanced Level Microeconomics: Illustrations</i> Macmillan Publishers (HK) Ltd.</li> </ul> </li> </ul>	

## Appendix

## Materials for Teacher

Table 1	Market Information
Table 2	License Bid Price
Table 3	Profit Record
Table 4	Business Licenses