Answer on Question #40658 – Economics - Economics of Enterprise

Under oligopoly, the firms fixed the prices at the level higher than the AC. The consumers have to pay more than it is necessary to retain the resources in the industry. In other words, the economy's productive capacity is not utilised in conformity with the consumers' preferences.

When supply and demand curves shift, this results in changes шт the equilibrium price and quantity. For example, if there is an increase in demand (a shift to the right of the demand curve, as might occur with higher incomes, higher prices for a substitute good, or stronger tastes for the product in question), both the equilibrium price and equilibrium quantity will increase. A decrease in demand will entail reductions in the equilibrium price and quantity. If there is an increase in supply (a shift to the right of the supply curve, as might occur with improved technology or reduction in the prices of inputs), this will result in a decline in the equilibrium price and an increase in the equilibrium quantity. Conversely, a decrease in supply will raise the equilibrium price and lower the equilibrium quantity.

The opportunity cost of a choice is the value of the best alternative forgone, in a situation in which a choice needs to be made between several mutually exclusive alternatives given limited resources. Assuming the best choice is made, it is the "cost" incurred by not enjoying the benefit that would be had by taking the second best choice available.

The assumption of constant opportunity costs is very unrealistic. It implies that all the factors of production are equally efficient either in the production of butter or in the production of guns. For many of the choice society make opportunity costs tend to increase as we choose more and more of an item. Such a phenomenon about choice is so common, in fact, that it has acquired a name: the principle of increasing marginal opportunity cost. This principle states that in order to get more of something, one must give up ever-increasing quantities of something else. In other words, initially the opportunity costs of an activity are low, but they increase the more we concentrate on the activity.