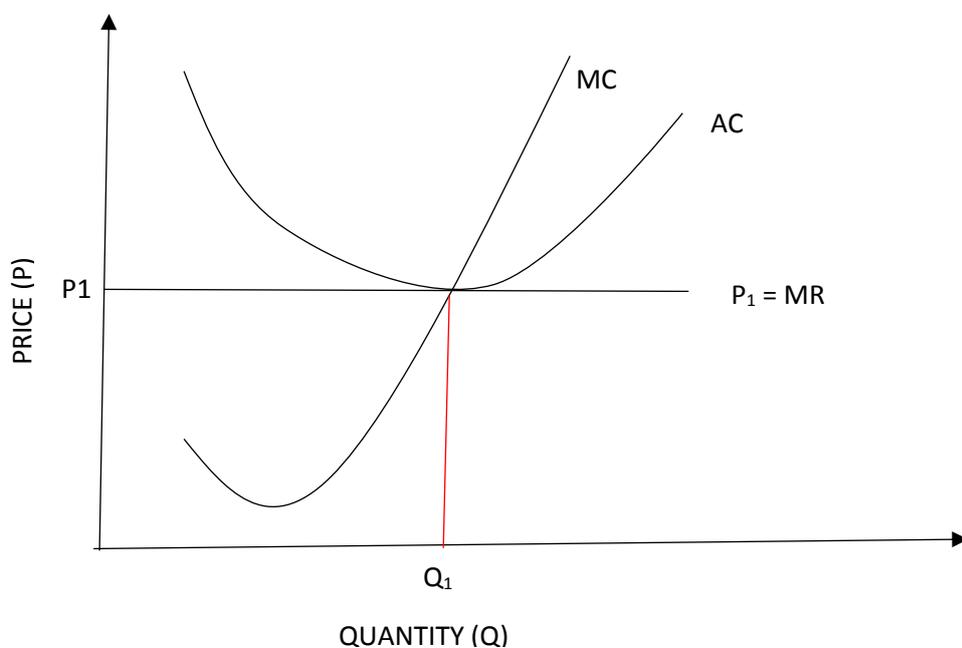


Answer on Question # 76997, Economics -Microeconomics:

Question: What market structure is used to benchmark allocative efficiency and why we use it? Using diagram explain it.

Solution: Perfect competition type market structure is used to benchmark allocative efficiency. For perfect competition market equilibrium, the quantity supplied for every product or service equals to the quantity demanded at the current price. So, any firms can't influence the market.



MC = MARGINAL COST, AC = AVERAGE COST, MR = MARGINAL REVENUE

The optimal point of production for any individual firm is where $MR=MC$. The optimal point (P_1, Q_1) of production for any Firm is, where price equal to marginal cost. This is called the point of maximum allocative efficiency and is achieved in perfect competition (because $MR=MC$, and $MR = P_1$ for a perfectly competitive price taking firm, therefore $P_1=MC$).

Answer: Perfect competition.

Answer provided by <https://www.AssignmentExpert.com>