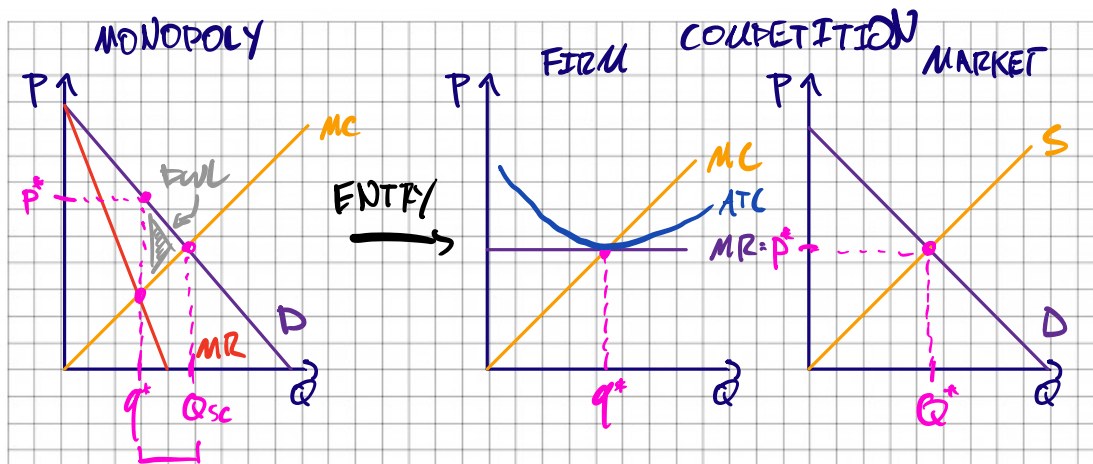


Econ 101 | Vignette E2

The History of the Broomstick Market

In the early days of magical sporting and transportation, Shooting Star was the first broomstick maker to enter the market. They developed a proprietary method for autolocomotion and held the entirety of the market. As their technological secrets began disseminating among the wizarding world, many broomstick makers began producing broomsticks with identical handling and acceleration characteristics. Today, few if any new broomstick makers had opened.

Using a few graphs to illustrate your answer, tell the story of the evolution of the broomstick market from its inception to the present. Be sure to finish in a long run equilibrium.



Initially, Shooting Star is the only seller, so they set both price and quantity. Maximizing their profits leads them to produce too little, generating a deadweight loss.

As firms start entering, the firm's market power is reduced through competition. In long run equilibrium, profits are zero, the market chooses the socially efficient quantity at the minimum ATC.