3.4.1 Efficiency

- *Allocative efficiency*
- *Productive efficiency*
- *Dynamic efficiency*
- *X-inefficiency*
- *Efficiency/ inefficiency in different market structures*

- Efficiency: making optimal use of scarce resources
- Allocative efficiency:
    - Resources are distributed to the goods and services that consumers want
    - Utility maximised
    - Supply = demand
    - Total economic surplus/ economic welfare is maximised
    - Same as Pareto efficiency
    - All points on the PPF
    - P=MC: people are paying the exact amount it costs to produce the last unit
- Productive efficiency: operating at the lowest point on its average cost curve. MC = AC. Most firms won't operate at this level.
- Productively efficient economy is on the PPF because it can only produce more of one good by producing less of another
- Dynamic efficiency: the most efficient point changes due to innovation. Some firm may not be efficient in the short-term if they are trying to reduce long-run costs through innovation. The rate of innovation is at the optimum level which leads to falling LRAC.
- Social efficiency: MSB = MSC, includes externalities
- X-inefficiency: when costs rise because there is no competition, ie. it is producing within the AC boundary. The actual AC curve is the lowest possible AC curve
- Market structure: the ways in which firms are competing

	Productively efficient in short run?	Productively efficient in long run?	Allocatively efficient in short run?	Allocatively efficient in long run?
Perfect competition	No	Yes	Yes	Yes
Monopolistic competition	No	No	No	No
Oligopoly	No	No	No	No
Monopoly	No	No	No	No