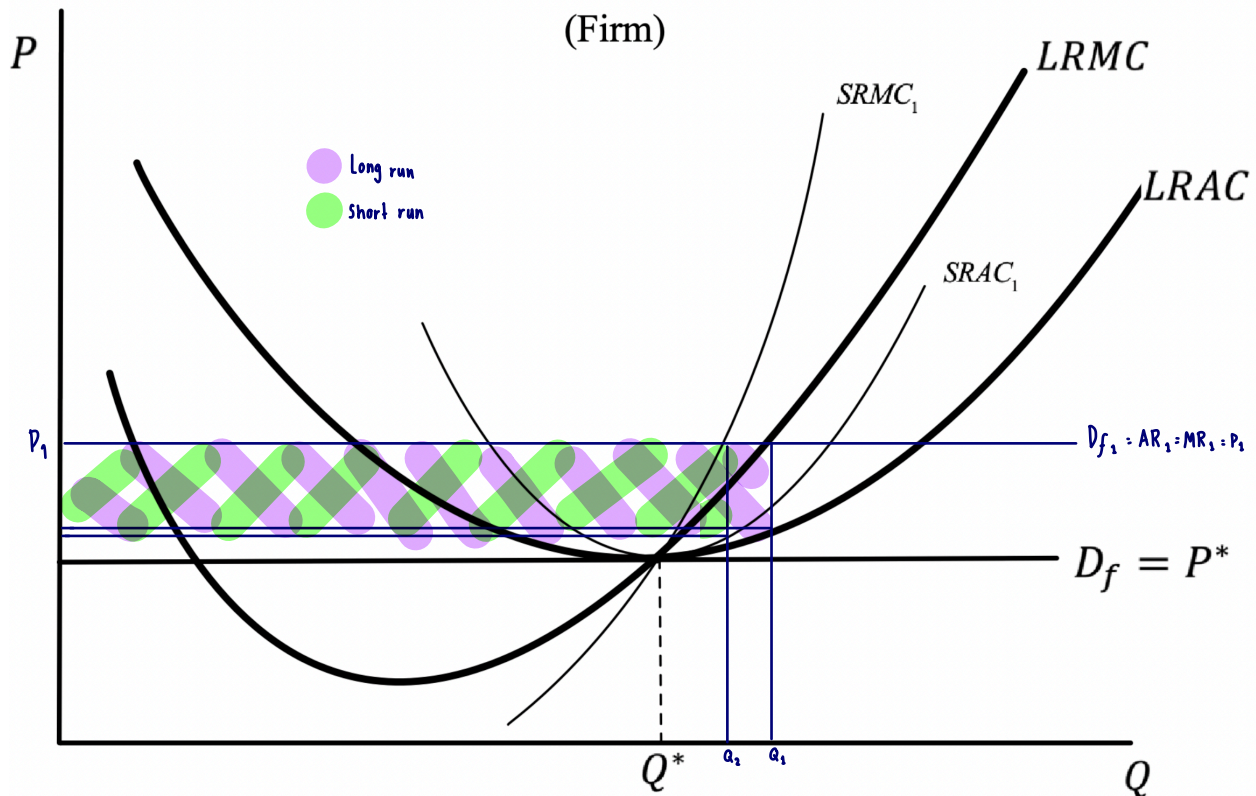


HW#16

Suppose that the market is in a Long-Run equilibrium where the price is at P^* and each firm produces Q^* . With the given $SRMC_1$ and $SRAC_1$ and $LRMC$ and $LRAC$, the market price increases from P^* to P_1 ,

- Show how the firm will change its output in Short Run and Long Run.
- Indicate the profit the firm receives in Short Run and Long Run.
- Explain why the profit in Long Run is bigger than profit in Short Run.



- SR : Output from Q^* to Q_2 (increase)
 - LR : Output from Q^* to Q_1 (increase)

LR's profit > SR's profit

because: Firm has fixed input in SR (Able to produce to just Q_2)

C.) On the other hand, in LR, the firm can change any input, leading to be able to produce at Q_1 ($Q_1 > Q_2$)

∴ Increase in production = higher cost

However, the cost is not too much comparing to the profit gained by the firm