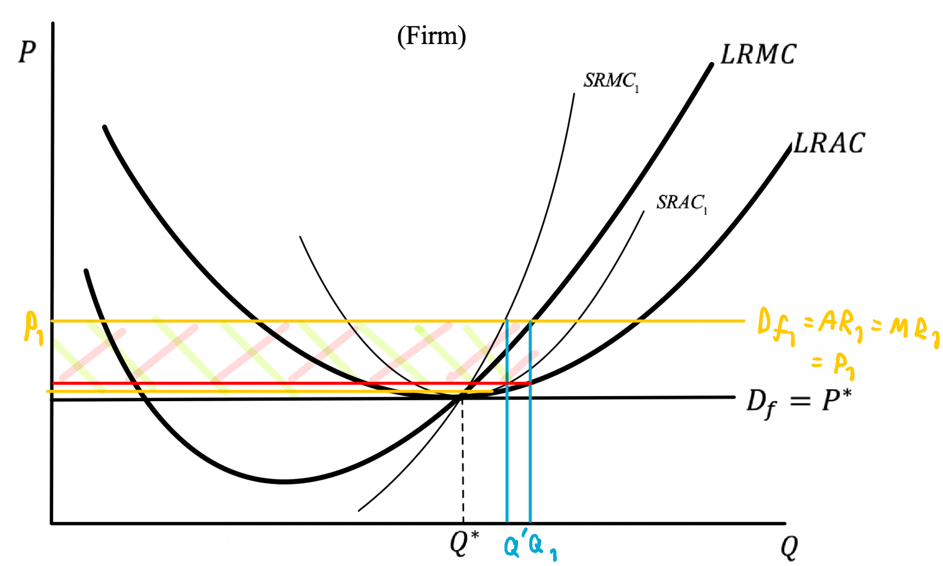
HW#13 Due May 13, 2021

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,

a) Show how the firm will change its output in Short Run and Long Run.

b) Indicate the profit the firm receives in Short Run and Long Run.

c) Explain why the profit in Long Run is bigger than profit in Short Run.



In SR : output increases from Q^* to Q'

LR : ———— Q^* to Q_1

profit received in in LR

profit received in SR

The profit in LR is bigger than the profit in SR
⇒ the firm has fixed input in SR so its potential to produce is at Q'
However, the firm can change any input in LR. it can produce at Q_1 that greater than Q'.
The increase in production contribute to higher cost, it is not too much cost compare to the profit gain by firm