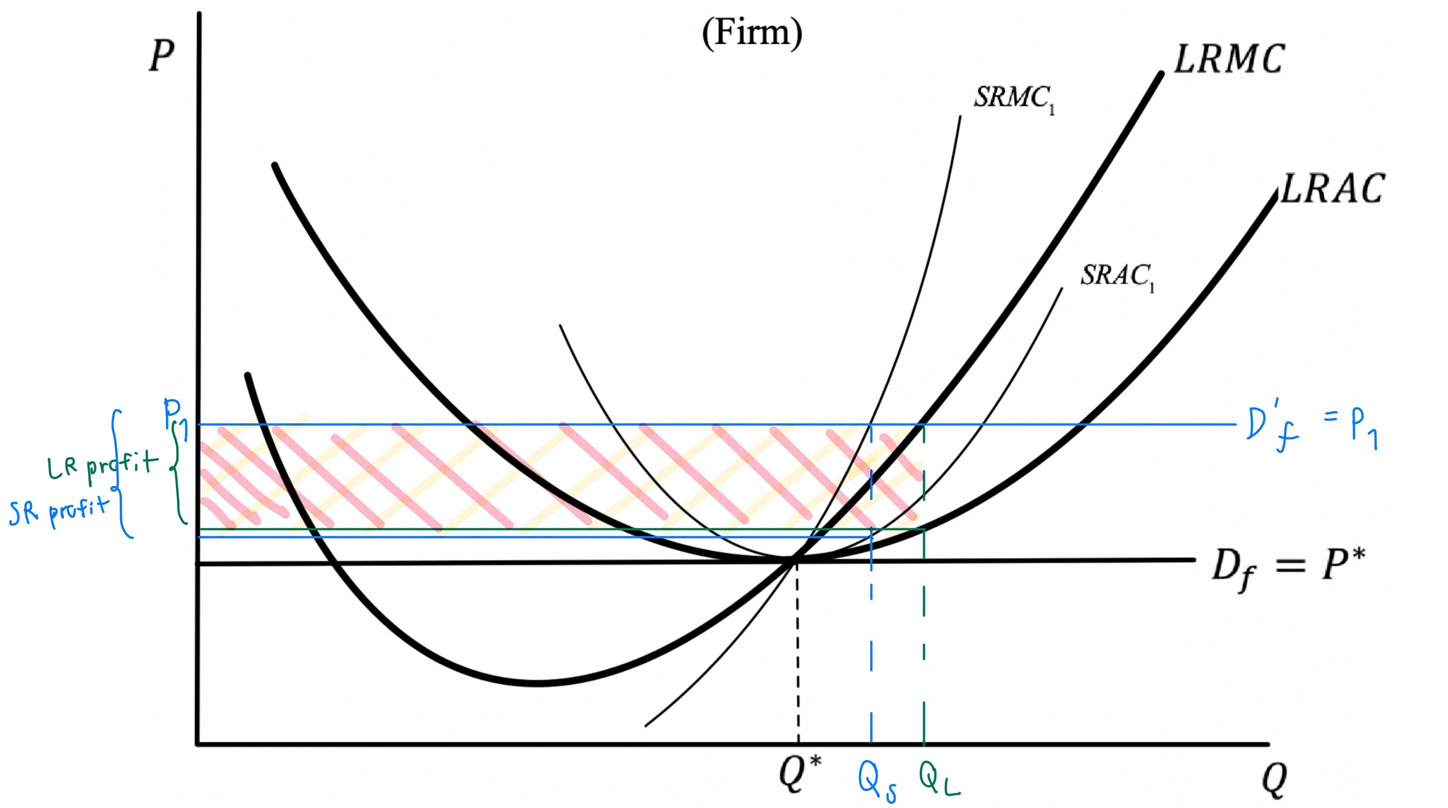
HW#16

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,

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.



a) In short run, the firm will increase output from Q^* to Q_S at $MC(Q_S) = AR(Q_S)$

In long run, the firm will increase output from Q^* to Q_L at $LRMC(Q_L) = AR(Q_L)$

b) The firm in the long run receives more profit whose in the short run.

c) The firm in the long run receives bigger profit than short run because in the short run there is total fixed cost that reduces profit for short run.