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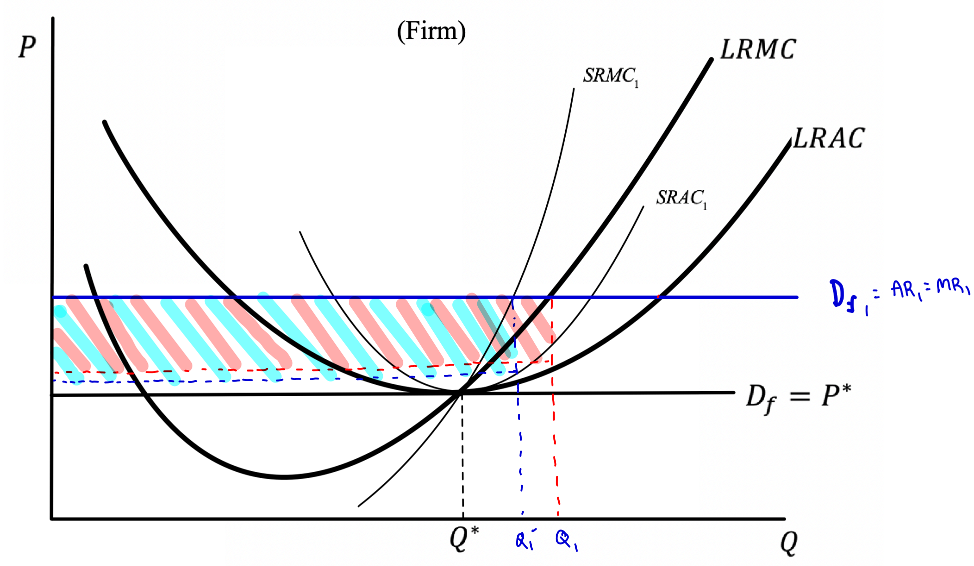
HW#13 Due May 13, 2021

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 short run : output increases from $\hat{Q}$ to Q'
- In long run : output increases from $\hat{Q}$ to Q_1

represent profit in short-run

represent profit in long-run

The reasons why the profit in long run is bigger than the profit in short run is because the firm has fixed the amount of input in short run, so the potential to produce is at Q'. On the other hands, the firm can change any input in long run, so the firm can produce at Q_1 which is greater amount than Q'. The increase in the amount of production leads to higher cost, but it is not too much cost comparing to the profit that will gained by the firm.