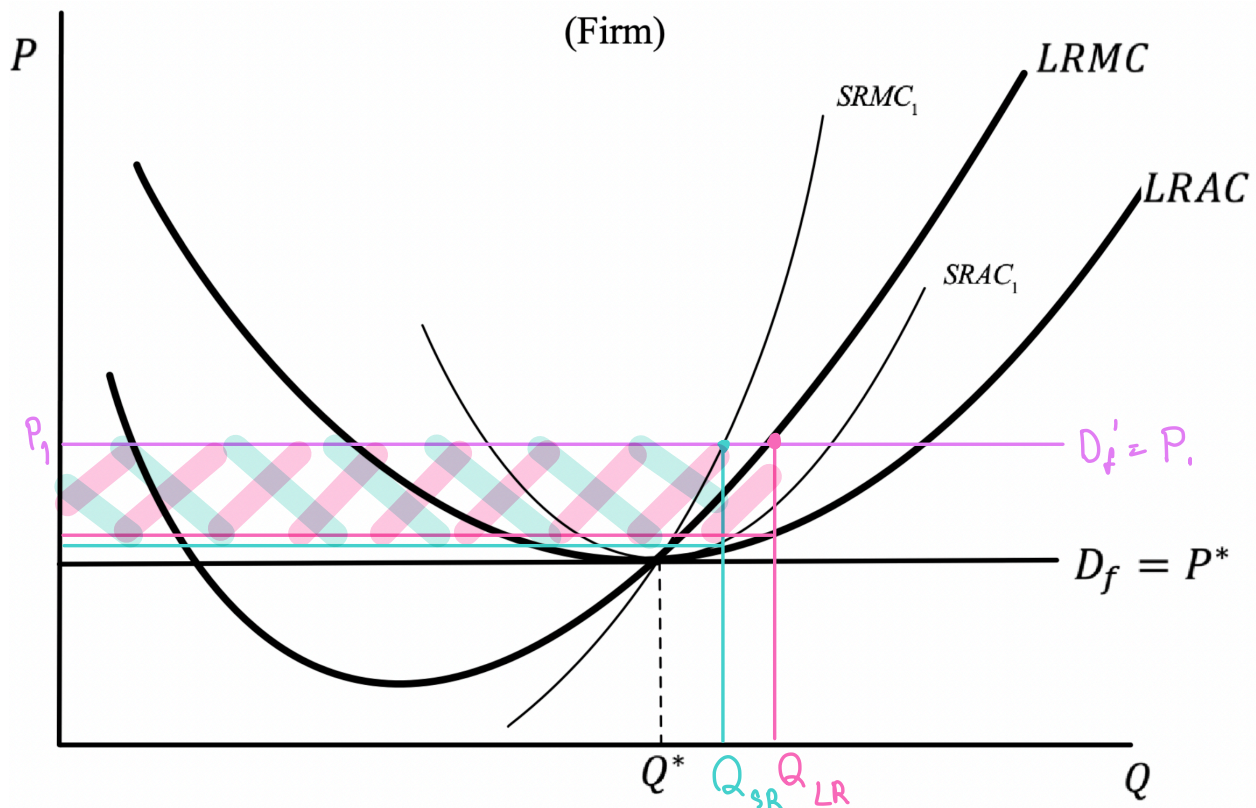


HW#16

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.



- Long Run's Profit
- Short Run's Profit

-The reason of why the profit in Long Run higher than that of Short Run is for the cost of short run include TFC so the SRAC will higher than LRAC. At the same price the profit in LR is higher than SR.