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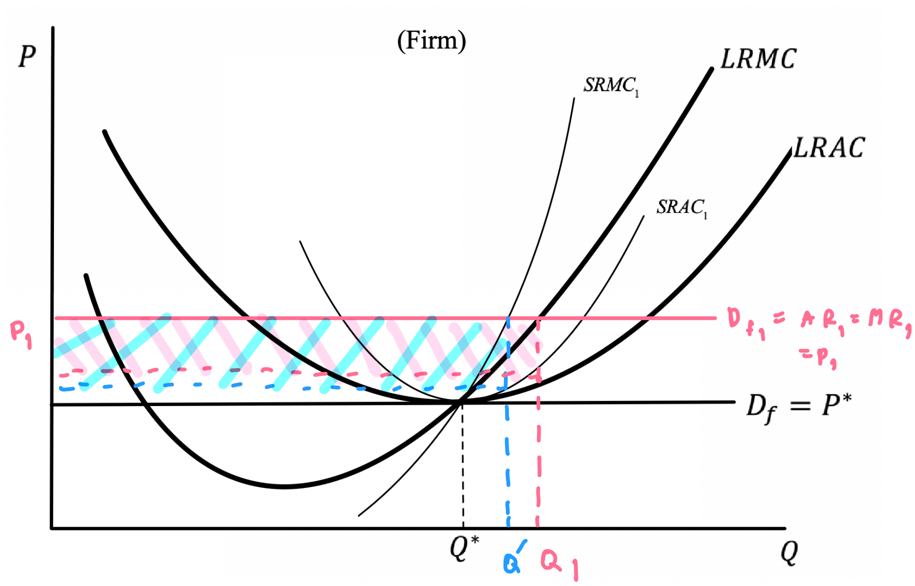
HW#13 Due May 13, 2021

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.



Profit received in Long run

Profit received in short run

In short run : output increase from Q^* to Q'

In long run : output increase from Q^* to Q_1

The profit in Long Run is bigger than the profit in Short-Run because the firm has fixed input in short-run, so its potential to produce is at Q'. In contrast, the firm can change any input In Long run, so it can produce at Q_1 which is greater amount than Q', The increase in production leads to higher cost, but it is not too much cost compare to profit gained by the firm.