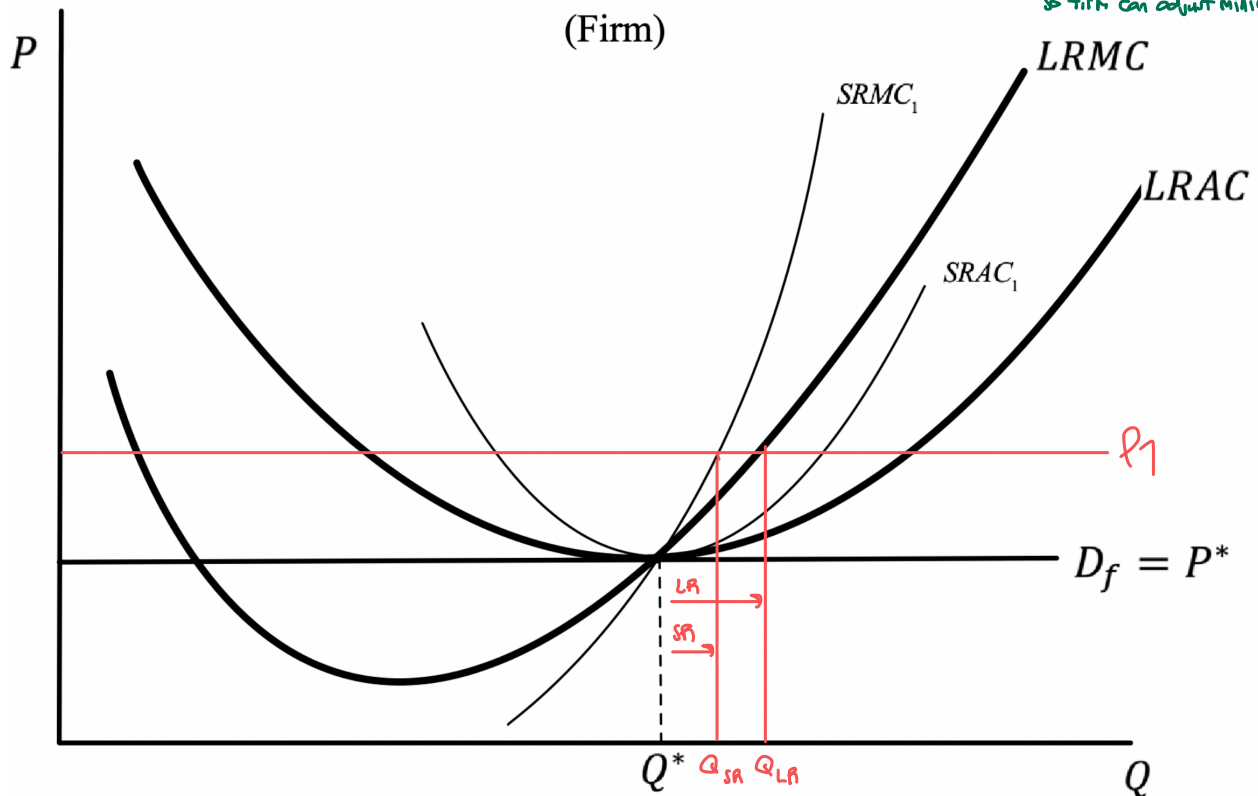


HW#16

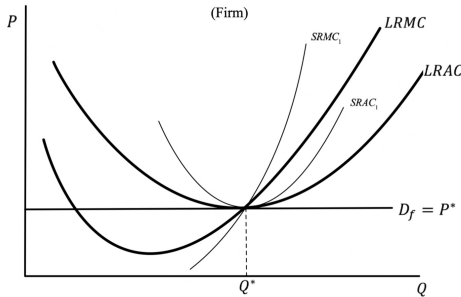
Suppose that the market is in a Long-Run equilibrium where the price is at P^* and each firm produces Q^* . With the given $SRMC_1$ and $SRAC_1$ and $LRMC$ and $LRAC$, the market price increases from P^* to P_1 ,

- 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.

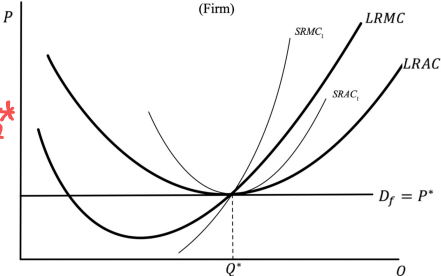
In SR, there is fixed cost : capital (K)
 In LR : K & L both are variable cost
 so firm can adjust minimize cost



SR :
 $P^* = MC$
 \therefore produce at Q^*
 & no profit
 (normal profit)

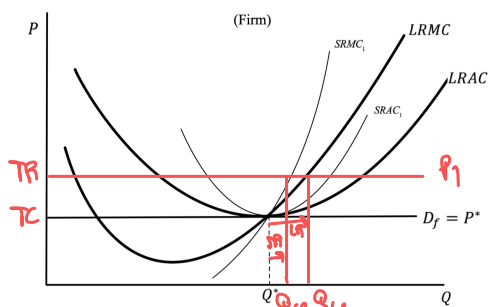


LR :
 $P^* = MC$
 \therefore produce at Q^*
 & no profit
 (normal profit)

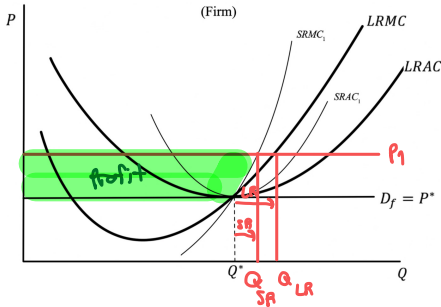


$P = LRMC = LRAC = SRMC = SRAC$

after PT



after PT :



note $TR = P \times Q$
 $TC = AC \times Q$
 $\pi = (P - AC) \times Q$
 $P \rightarrow Q \uparrow$ from Q^* to Q_{SR}
 \rightarrow profit increase ; $P > SRAC$
 \therefore excess profit