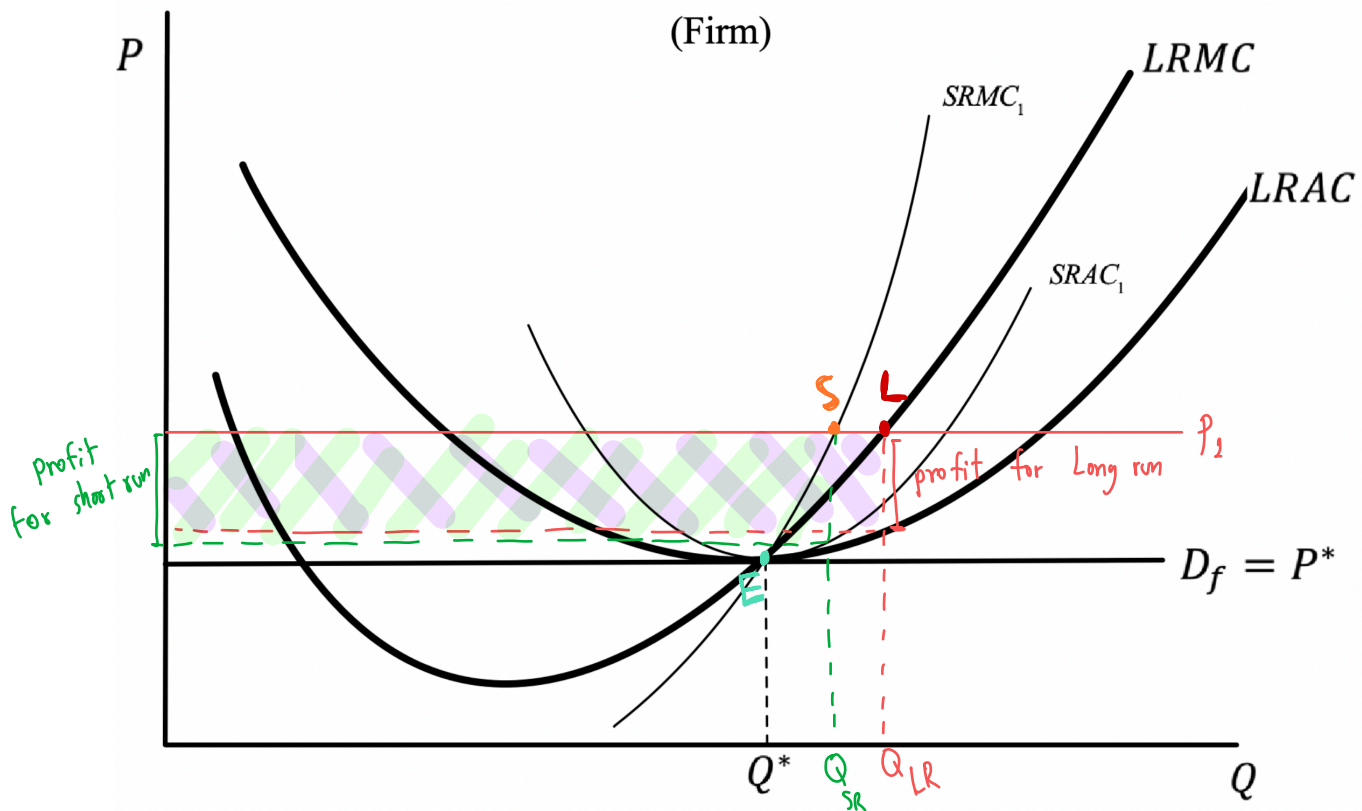


**HW#16**

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.



2.) The equilibrium output for SR will change from  $E(Q^*, P^*)$  to  $S(Q_{SR}, P_1)$  and in LR the equilibrium also changes to  $L(Q_{LR}, P_1)$  due to the price increase in the market.

C.) For long-run, there are more profit than short-run because in LR there is no fixed cost and the firm can increase the capital for the production progress. Thus, the number of machines is flexible and the new firms short run are still need to pay a fixed cost that is the cause of diminish Profit.

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