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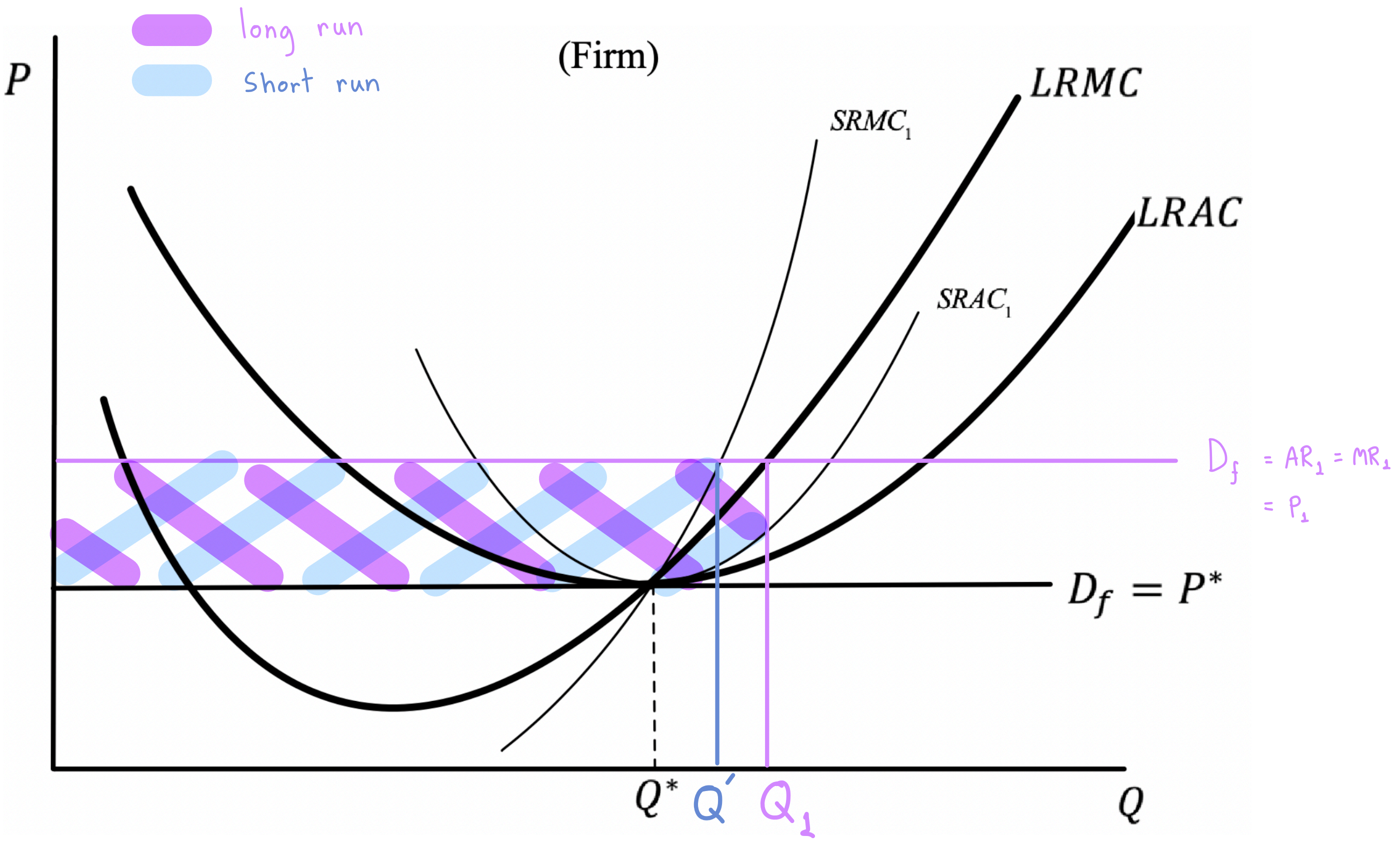
HW#16

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,

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.



- SR : Output from Q^* to Q' (increase)
- LR : Output from Q^* to Q_1 (increase)

<u>LR's profit > SR's profit</u>

because : firm has fixed input in SR (able / protential) to produce to just Q'
On the other hand, in LR, the firm can change any input, leading to be able to produce at Q_1 ($Q_1 > Q'$)

∴ increase in production = higher cost

However, the cost is not too much comparing to the profit gained by the firm.