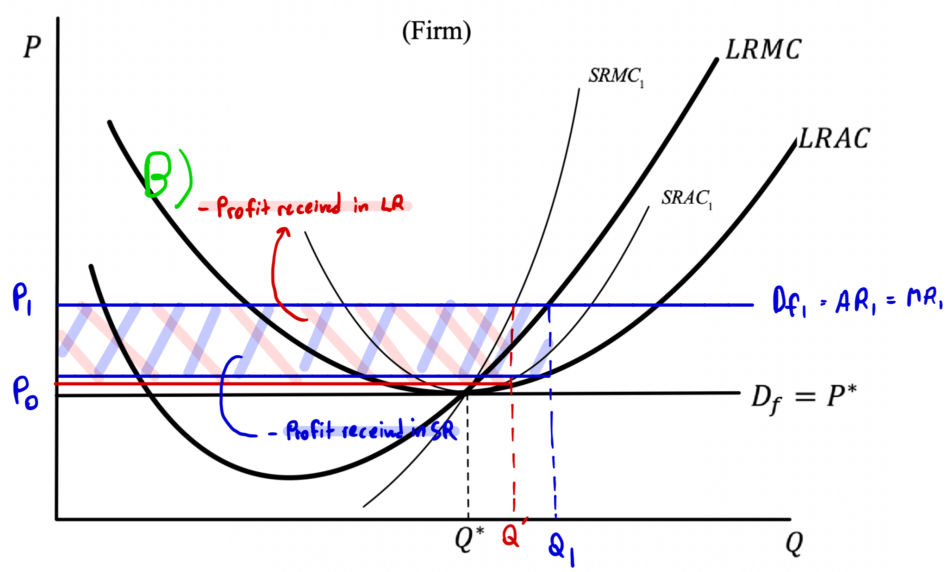
HW#13 Due May 13, 2021

Suppose that the market is in a Long-Run equilibrium where the $\boxed{\text{price is at } P^*}$ and each firm $\boxed{\text{produces } Q^*}$. 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. ?



A) Short Run : output increase from Q^* to Q'
Long Run : output increase from Q^* to Q_1

C) Because Long Run AC is lower than Short Run AC at point Q' (Profit of LR > SR).
But the profit at Q' in still not maximize in LR which we can Maximize Profit by letting $MR(Q_1) = LRMC$ and slope $MR(Q_1) <$ slope $LRMC(Q_1)$