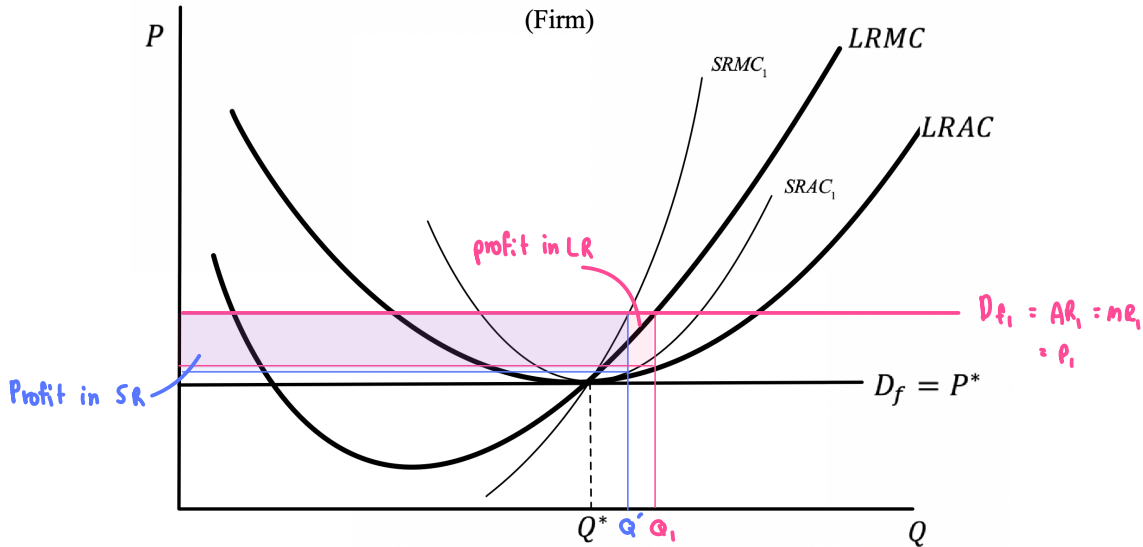


HW#13 Due May 13, 2021

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 ,

- 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 : output increases ($Q^* \rightarrow Q'$)

In LR : output increases ($Q^* \rightarrow Q_1$)

Profit in LR is bigger than Profit in SR because the firm has fixed input in SR, so it can produce at Q' . While the firm can change any input in LR, so it can produce at Q_1 , which is bigger than Q' . The increase in production leads to higher cost, but it's not too much cost if we compare to the profit raised by the firm.