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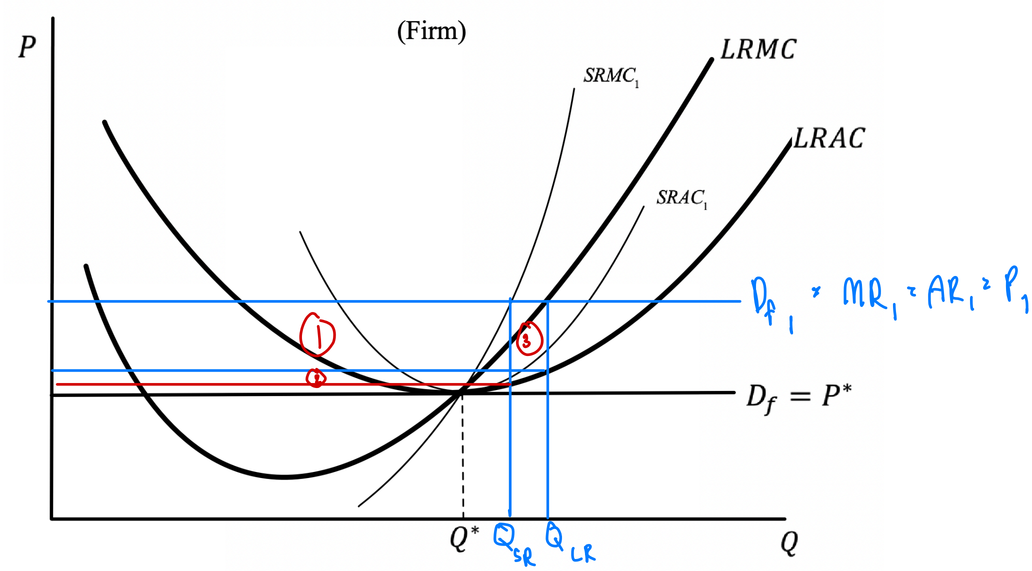
HW#13 Due May 13, 2021

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,

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) the output changes
in short run from Q^* to Q_{SR}
in long run from Q^* to Q_{LR}

b) profit the firm receives
in short run : 1 + 2
in long run : 1 + 3

c) Long-run profit is more than short-run profit since LRAC is less than SRAC. at Q_{SR} is not the maximum profit in Long-run because $MR(Q_{SR})$ not equal to $LRMC(Q_{SR})$, so Long-Run profit will be maximized at Q_{LR} where $MR(Q_{LR}) = LRMC(Q_{LR})$ and slope of $MR(Q_{LR})$ < slope of $LRMC(Q_{LR})$