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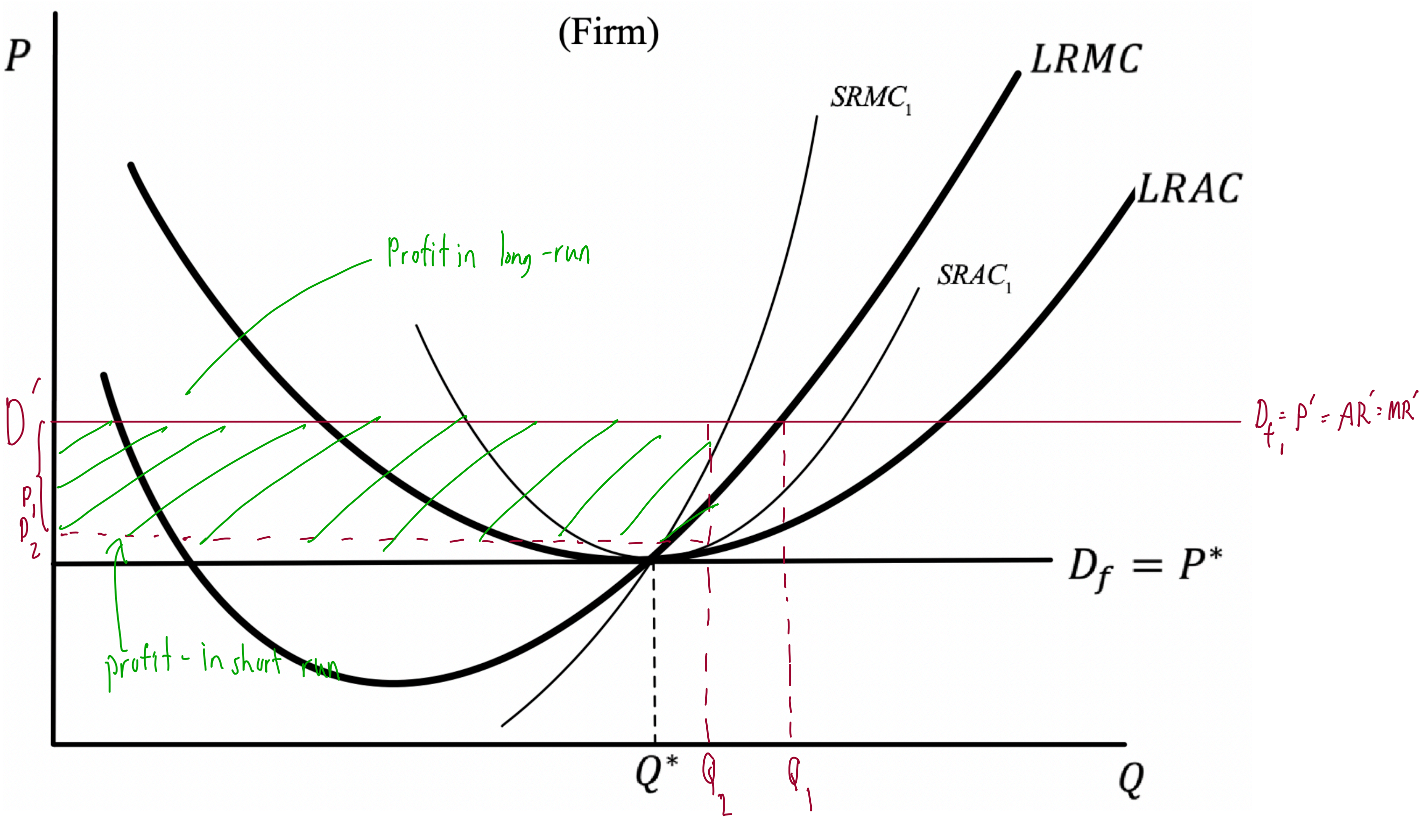
HW#16

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.



a.) In Long-run, the Quantity will increase from Q^* to Q_1 as price increased.
because at Q_1 the firm reach equilibrium conditions, where
$LRMC(Q_1) = MR'(Q_1)$ and slope of $LRMC(Q_1) >$ slope of $MR'(Q_1)$

In short-run, the quantity also increase from Q^* to Q_2 as price increased.
because at Q_1 the firm reach equilibrium conditions, where
$SRMC_1(Q_2) = MR'(Q_2)$ and slope of $SRMC_1(Q_2) > MR'(Q_2)$

c.) Because there is a fixed cost in short run, that make
$SRTC_1(Q) \geq LRTC(Q)$ at any Q
Moreover, In long-run the firm can produce more at Q_2.