

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.

