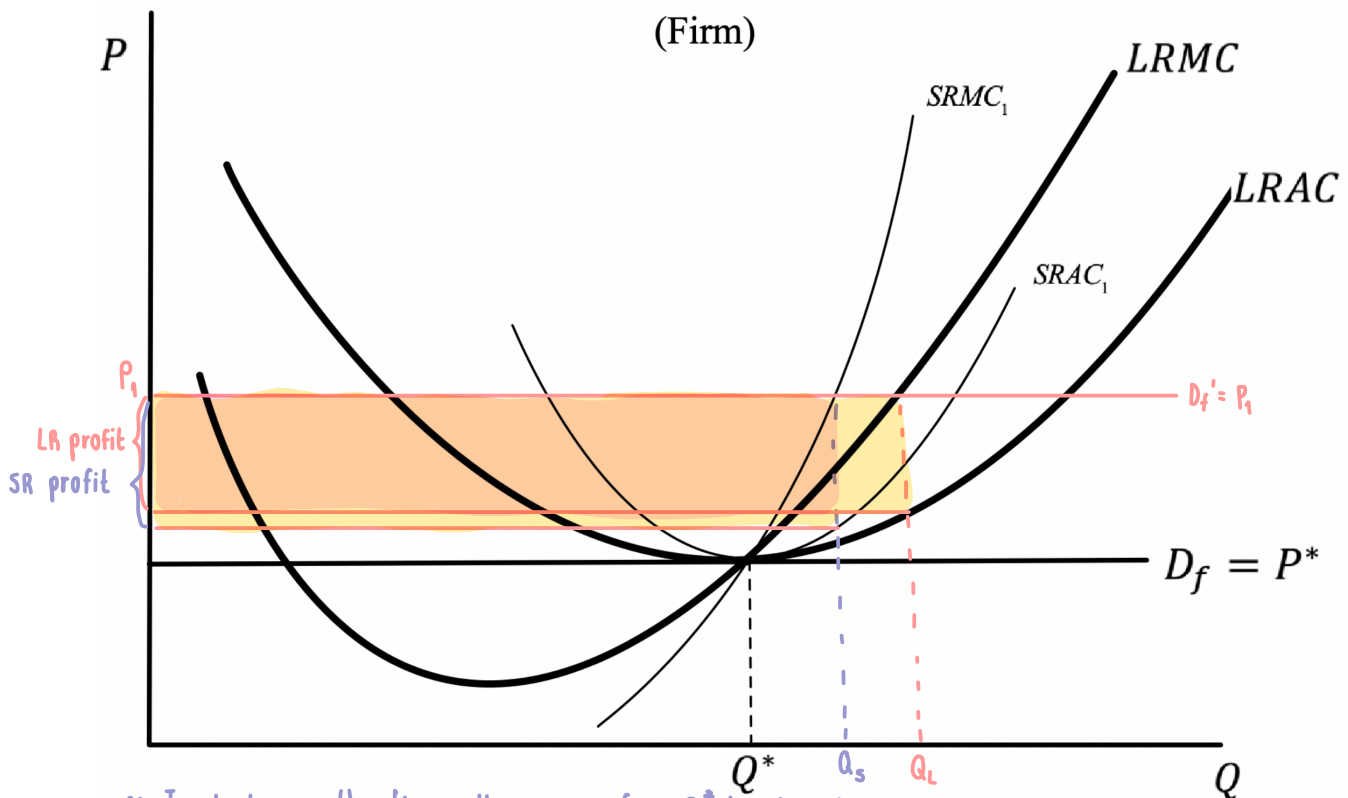


HW#16

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 ,

- 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 short run, the firm will increase from Q^* to Q_s at $MC(Q_s) = AR(Q_s)$
In long run, the firm will increase output from Q^* to Q_L at $LRMC(Q_L) = AR(Q_L)$
- The firm in the long run receives more profit than in the short run.
- The firm in the long run receives bigger profit than short run because in the short run there is total fixed cost that reduces profit for short run.