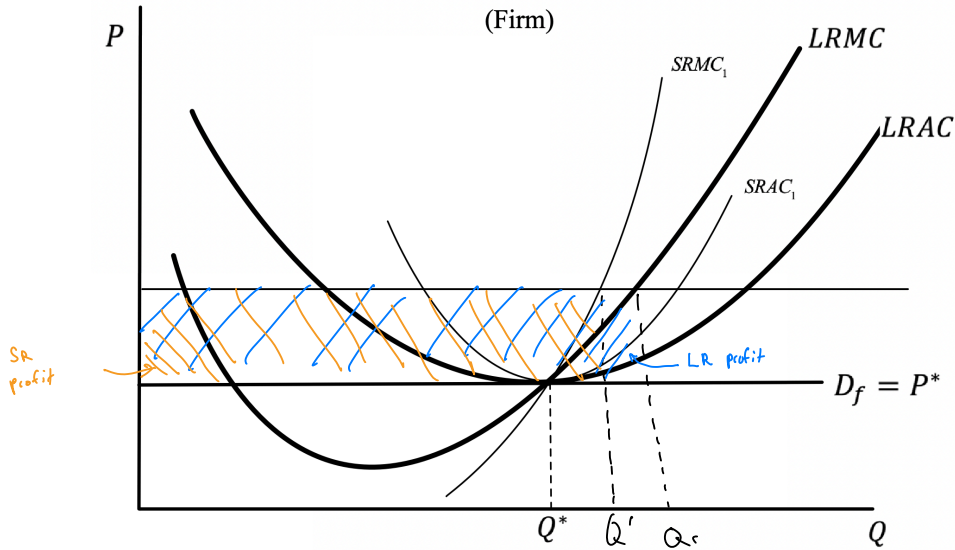


HW#13 Due May 13, 2021

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.



SR: output from Q^* to Q'

LR: output from Q^* to Q_c

At Q' , LR profit $>$ SR profit

LR profit $Q_c >$ SR profit Q'

LR profit is more than SR because there is economy of Scale