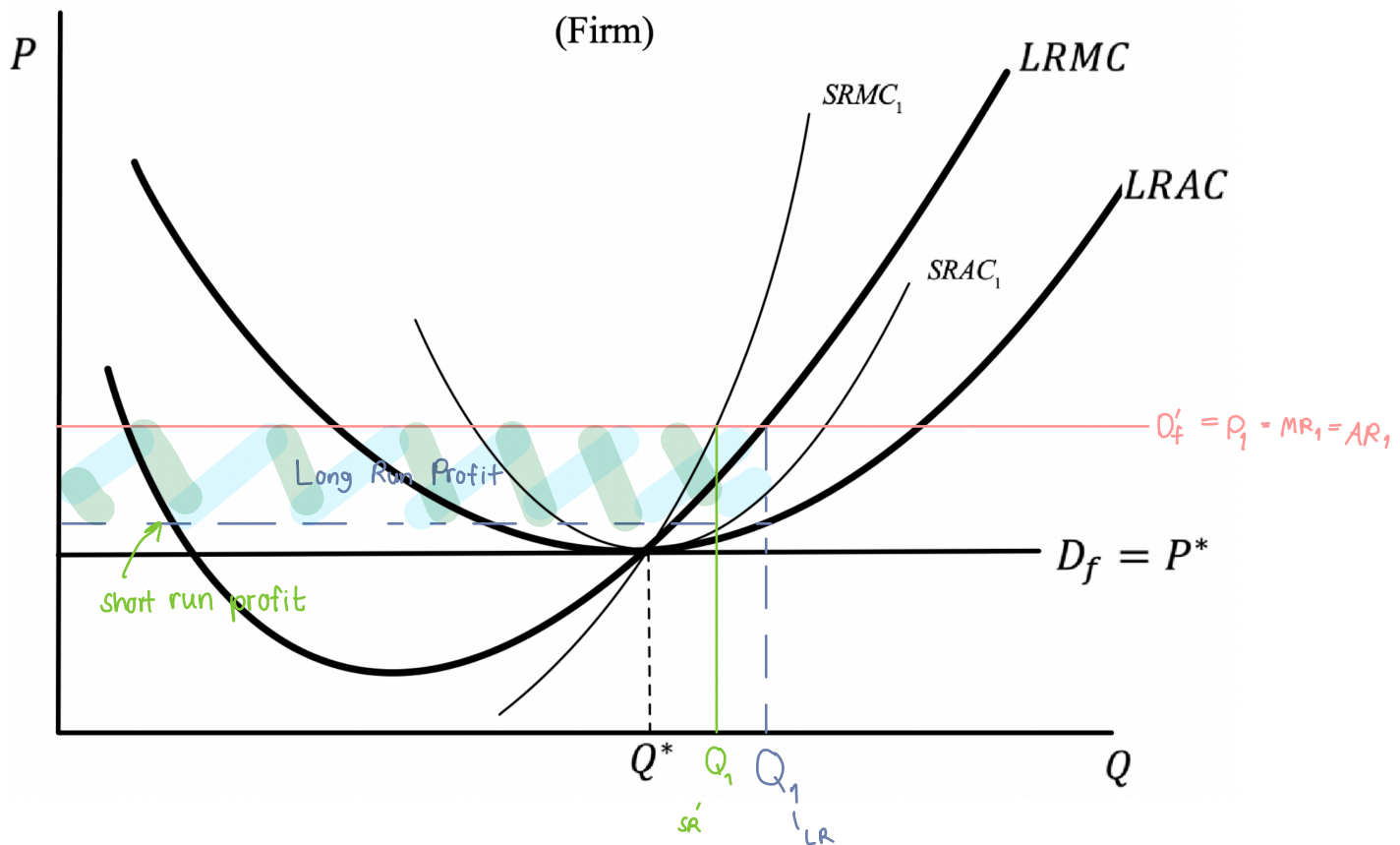


### HW#16

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.



c)

The excess profit in the long run is getting from new sellers coming in the market. In short run, there is just a litter of seller. Thus, the increase in price will attract the seller coming in the market. In the long run, market supply and market quantity increase because of new sellers,