

Answer on Question #67606 – Economics – Microeconomics

Question

A sole supplier earns economic profit in the short run using a labelled diagram to show how much output will be produced and at what price this output will be sold to maximize profit

Answer

A monopolistic firm maximizes profit when marginal cost equals marginal revenue. The diagram shows that in point 1 $MC=MR$ thus Q generates maximum profit. The price of profit maximization is limited by demand, so this output will be sold at the price which corresponds to intersection of demand curve and vertical line at the found output.

