

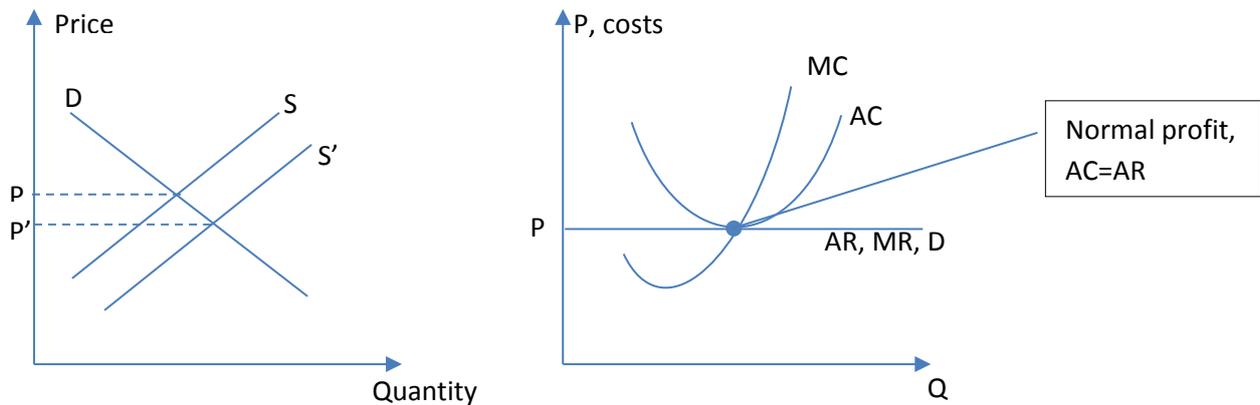
Question #75189, Economics / Microeconomics

Question

Explain using properly labelled diagrams, why a perfectly competitive firm will earn only normal profit in the long-run.

Answer

As we know, perfectly competitive firms make supernormal profit in short-run. We also know that there are no barriers to enter or leave the perfectly competitive market. It means that in long-run firms will keep entering the market attracted by supernormal profit. As the number of firms increases, the supply curve will shift to the right (lowering the equilibrium price) until every firm in the market earns only normal profit ($AR=AC$ and $MR=MC$).



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