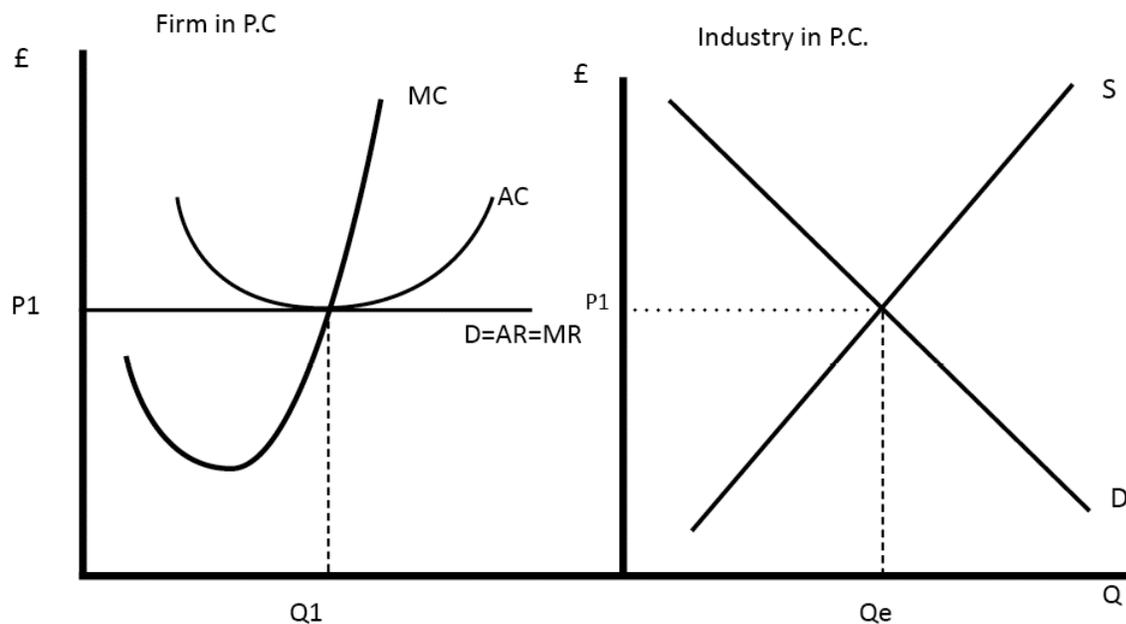


Answer on Question #75903 - Economics / Microeconomics

Question

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

Answer:



Firms in perfect competition earn normal profits at point Q1 where Marginal Cost (MC) equals Marginal Revenue (MR). On the right diagram, the market price is set through demand and supply. The equilibrium price is Pe.