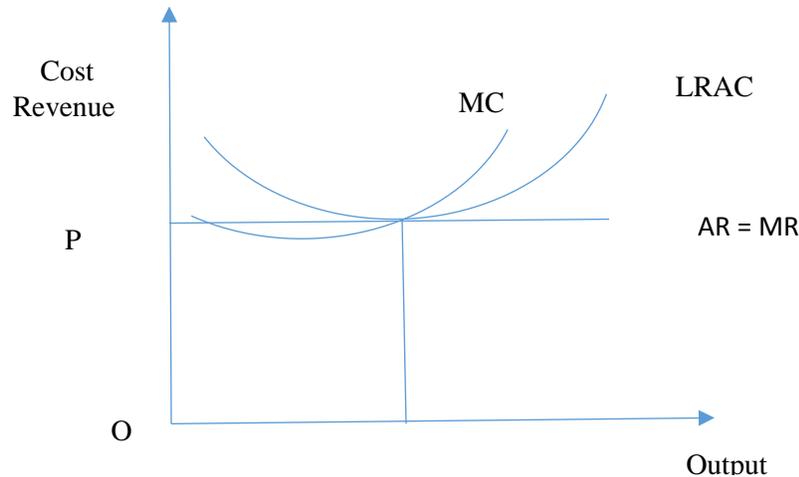


**Answer on question # 75905: Microeconomics.**

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



In the long – run a perfectly competitive firm will earn only normal profits because firms always produce at that level where the  $MC = MR = AC$ . This means that all the firms only get normal profits in the long run. When the price is above average total cost, then there will be an economic profit and this encourages firms to enter the industry. When the price is less than average total cost, there will be losses which forces some firms to quit the industry. This process of entry and exit stops when price and average total cost are driven to equality.

In the above figure, Price (P) equals Marginal cost (MC) which earns the firm is maximizing profit. P also equals average total cost (ATC), so profits are zero. The new firms have no incentive to enter the market while existing firms have no incentive to leave the market.

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