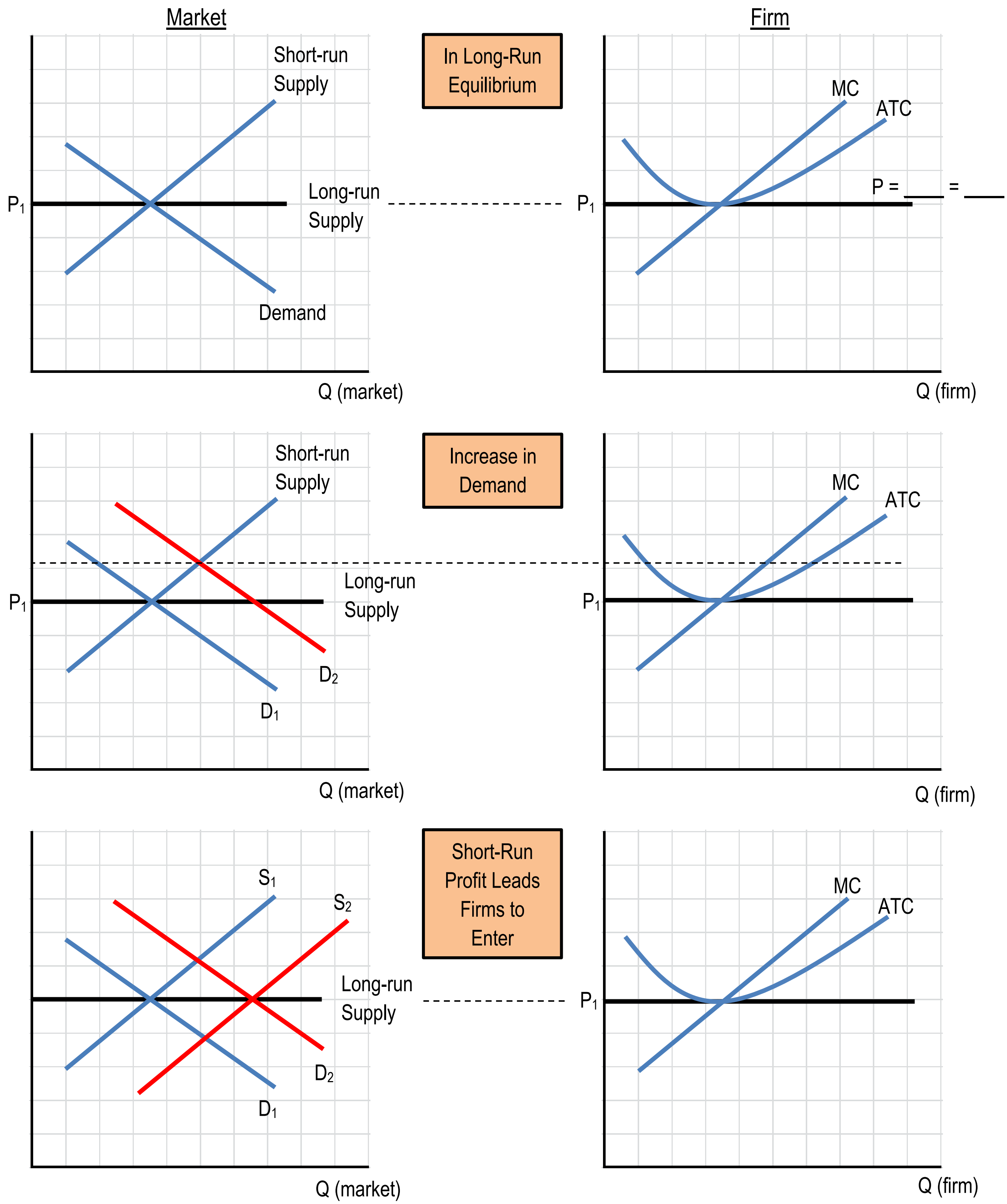
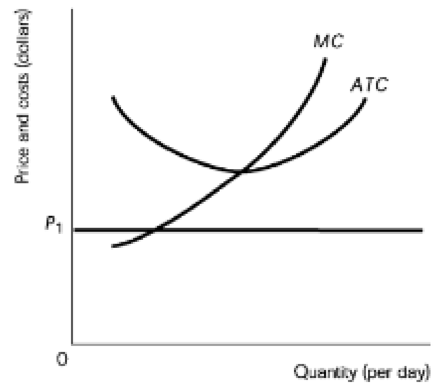
CONCEPT: CHANGES IN DEMAND AND LONG RUN EQUILIBRIUM

- Shifts in the demand curve can create short-run profits or losses, but eventually return to the same long-run equilibrium.
    - □ In the short run, firms can earn economic profit or loss. In the long run, firms earn no economic profit.



PRACTICE: Use this graph to answer the following questions:



If the price is P_1, the firms are

a) Earning an economic profit and some firms will exit
b) Suffering an economic loss and some firms will exit
c) Earning an economic profit and some firms will enter
d) Suffering an economic loss and some firms will enter

Suppose the cost curves apply to all firms in the industry. If the initial price is P_1, in the long run, the market

a) Supply will decrease
b) Demand will decrease
c) Supply will increase
d) Demand will increase

PRACTICE: A new study shows that eating raw garlic keeps vampires away (vampires have become a huge problem). This news shifts the demand curve for raw garlic to the right. In response, new firms enter the garlic market. While firms are entering the market, the price of raw garlic ____________ and the profit of each existing firm ____________.

a) Falls; rises
b) Rises; falls
c) Rises; rises
d) Falls; falls