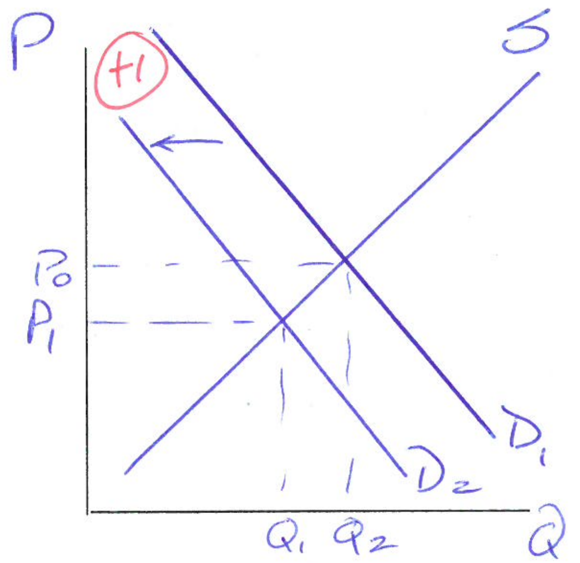
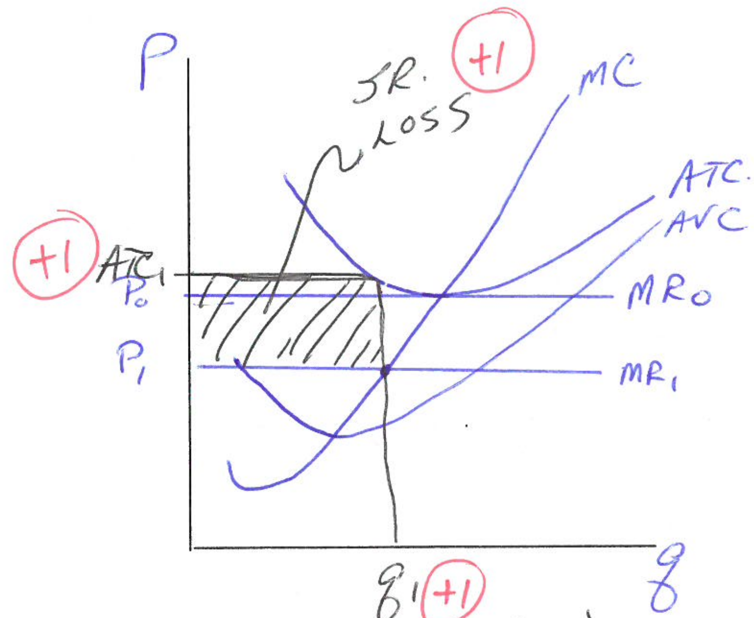
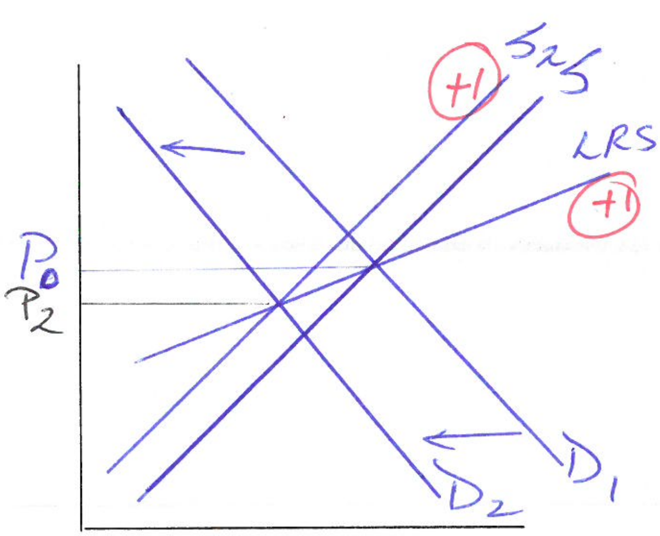
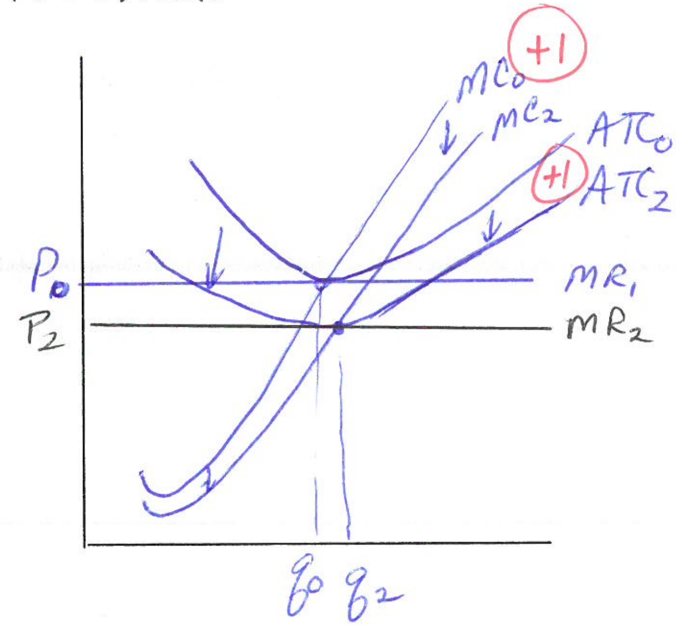
7. A perfectly competitive industry is in long-run equilibrium (zero economic profits). Show graphically and explain in a couple of sentences how a decrease in demand would affect this industry and firm. Use side by side graphs of the business firm and industry. (Hint: This is done best with two sets of graphs below. The first would show the short-run affect of the change in demand with a loss or profit etc. The second would show the long-run adjustments). Assume that this is an increasing cost industry. (10 points)





+1 A DECREASE IN DEMAND DECREASES THE PRICE (& MR), CAUSING A LOSS FOR A REPRESENTATIVE FIRM.





+1 A SHORT-RUN LOSS WILL CAUSE FIRMS TO EXIT IN THE LONG-RUN. DUE TO INCREASING COSTS, FIRMS EXITING WILL FREE UP RESOURCES, LOWERING COSTS, SHIFTING ATC & MC DOWN