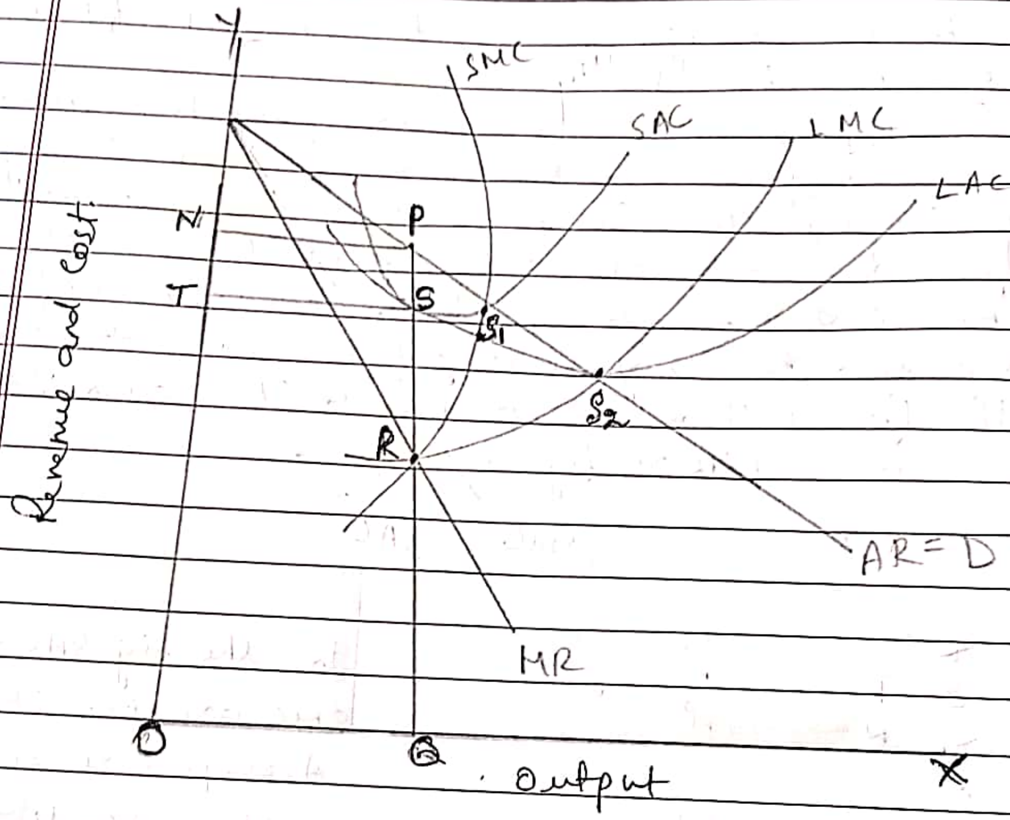
Long Run Monopoly Equilibrium.

The monopoly firm in the long run expand the size of the plant with the object of maximising its long term profits.
The long term equilibrium can be explained with the help of the fig. below.



In the fig. LAC and LMC are the long run average cost and long run marginal cost curves. AR and MR are the revenue curves. The long run equilibrium of the monopoly firm is determined at point (R) where the equilibrium output is OQ and price is PQ.

(Contd)

(Contd.) The total revenue OQPN exceeds the total cost OQST so that the monopoly firm secures profit amounting to OQPN − OQST = NPST.

The short run average cost curve SAC is tangent to LAC at point S. The optimum output occurs at point S_2 of the LAC curve. At the equilibrium point R both LMC and SMC curve intersect the MR curve. The optimum use of the existing plant can take place at S_1. The actual output OQ is determined by the point S.

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