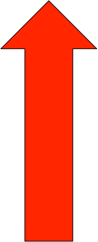
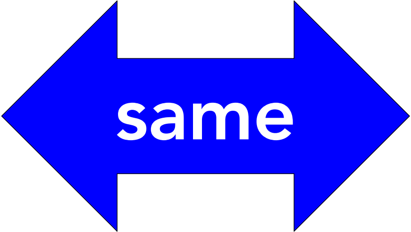
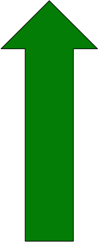
Labor is the largest cost of production

If prices rise while wages remain fixed, production becomes more profitable and firms produce more

Profit = Price - Cost




same



Wages are constant in the short run

In the short run (because wages are constant) firms react to an increase in prices by producing more

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