

Labor is the largest cost of production

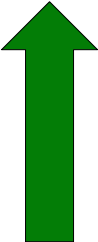
If **prices rise** while **wages remain fixed**, production becomes **more profitable** and firms produce more

$$\text{Profit} = \text{Price} - \text{Cost}$$



A large blue arrow pointing to the right, with the word "same" written in white lowercase letters in the center.

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


Wages are **constant** in the short run

$$\uparrow \text{Profit} = \text{Price} \uparrow - \text{Cost} \leftarrow \text{same}$$

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

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

Labor is the largest cost of production



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