



Labor is the largest cost of production

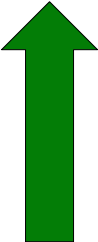
If **prices rise** while **wages remain fixed**, production becomes **more profitable** and firms produce more

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



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


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