13. Summary of How the Model of the Firm Arrives at Profit Maximization

1. If ridge lines exist, eliminate the areas outside of them.

2. Using input price information (long run) or fixed capital information \( \bar{k} \) (short-run), calculate the expansion path and confine attention to it.

3. Using the production function and expansion path information, calculate all cost functions and curves expressing cost as a function of output.

4. Using output price information, calculate all revenue functions and curves.

5. Using cost and revenue information, calculate the profit-maximizing output \( x^0 \).

6. From the intersection of the isoquant relating to the profit-maximizing output and the expansion path, calculate the profit-maximizing input quantities – \( (l^0, k^0) \) in the long run and \( l^0 \) in the short run.