



q₃

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—

—

1

2

3

4

5

6

7

8

9

10

11

12

13

14

94

95

9%



$\text{MR} \equiv \text{P}_6$

$$MR = P_5$$

$MR \equiv P_4$

MC

If $\text{Price} = \text{AVC}$ the firm is Indifferent
between shutting down and producing q_0

AVC

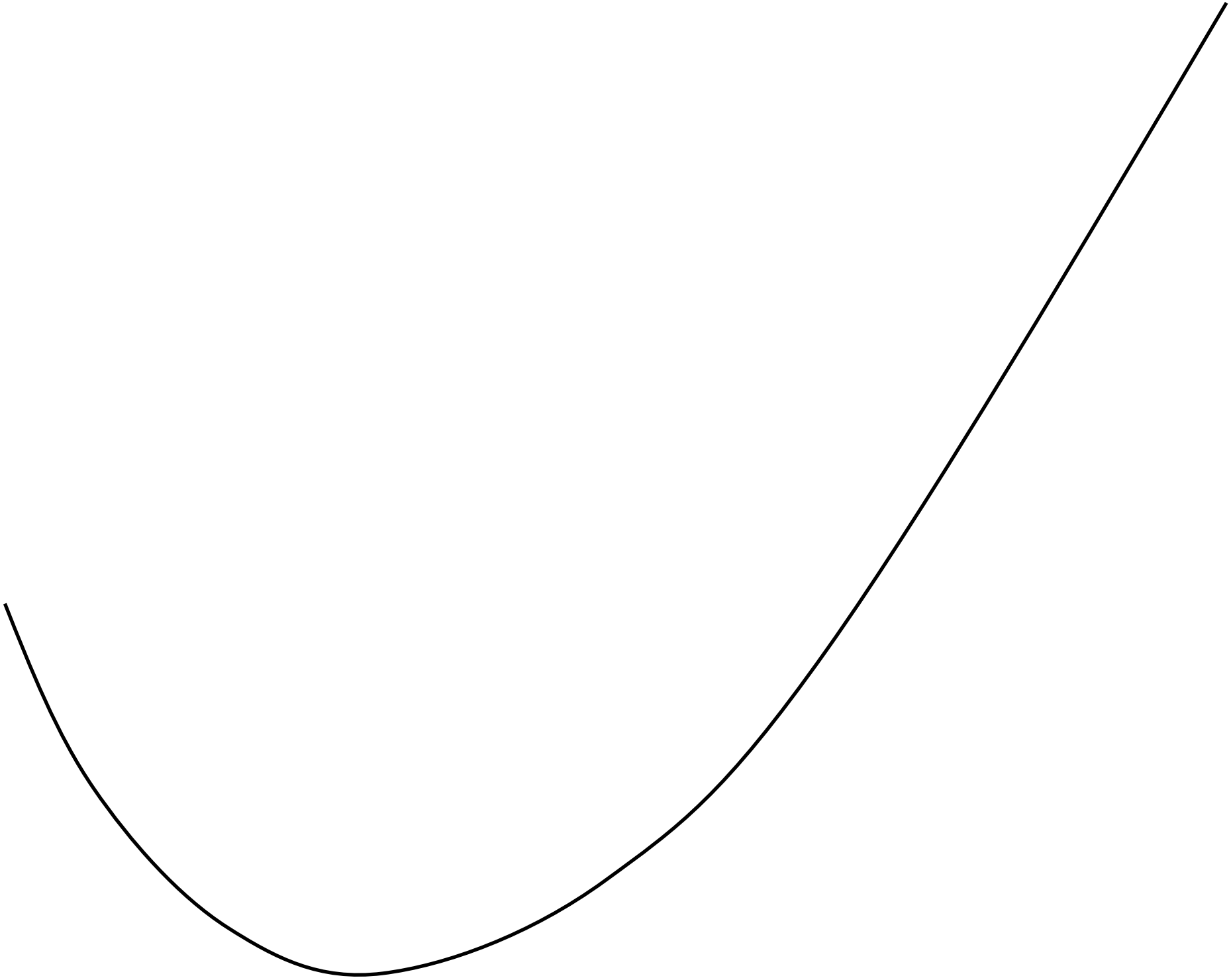
$$P_1 \text{-----} MR=P_1$$

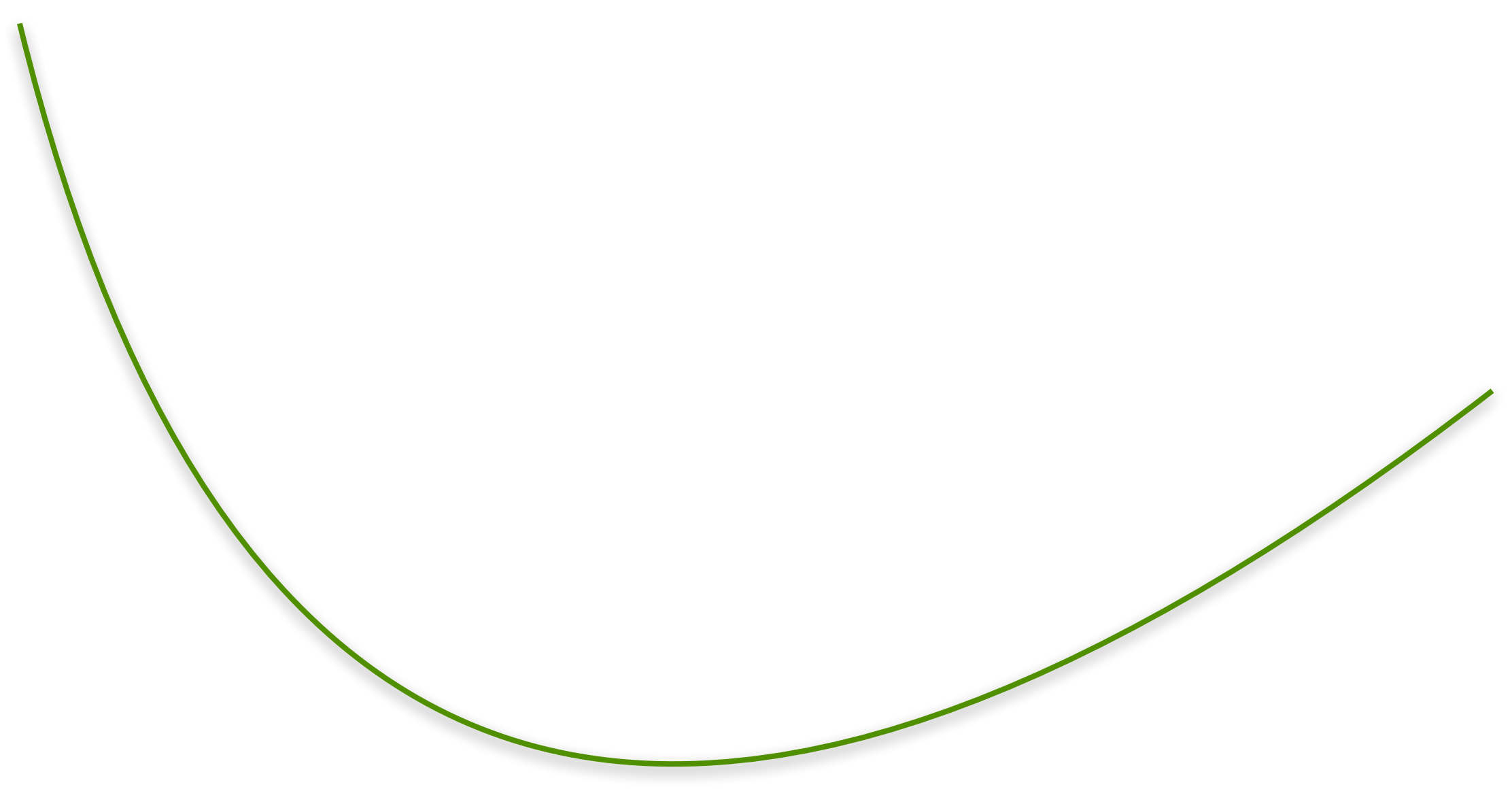
If **Price** $<$ **AVC** the firm should shut down (produce zero units)

The Firm's Short Run Decision









P₆



P₅



P₄



$$P_3 \text{-----} \bullet \text{-----} MR=P_3$$

$$P_2 \text{-----} MR=P_2$$

P_0



$MR=P_0$

Quantity Supplied in the Short Run

[illegible]

P_6

q_6

P_5

q_5

P_4

q_4

P_3

q_3

P_2

0 or q_2

P_1

0

P₀

0

If **Price** $>$ **AVC** the firm should
produce q^* (where $MC = MR$)











h



P









d





P

S

b







W



h



A







h

e







m

S





U



d

S

h

U



d



W





P





u





Z







U

n





S







S



e

2







P





d

U







g







W

h







M



[REDACTED]

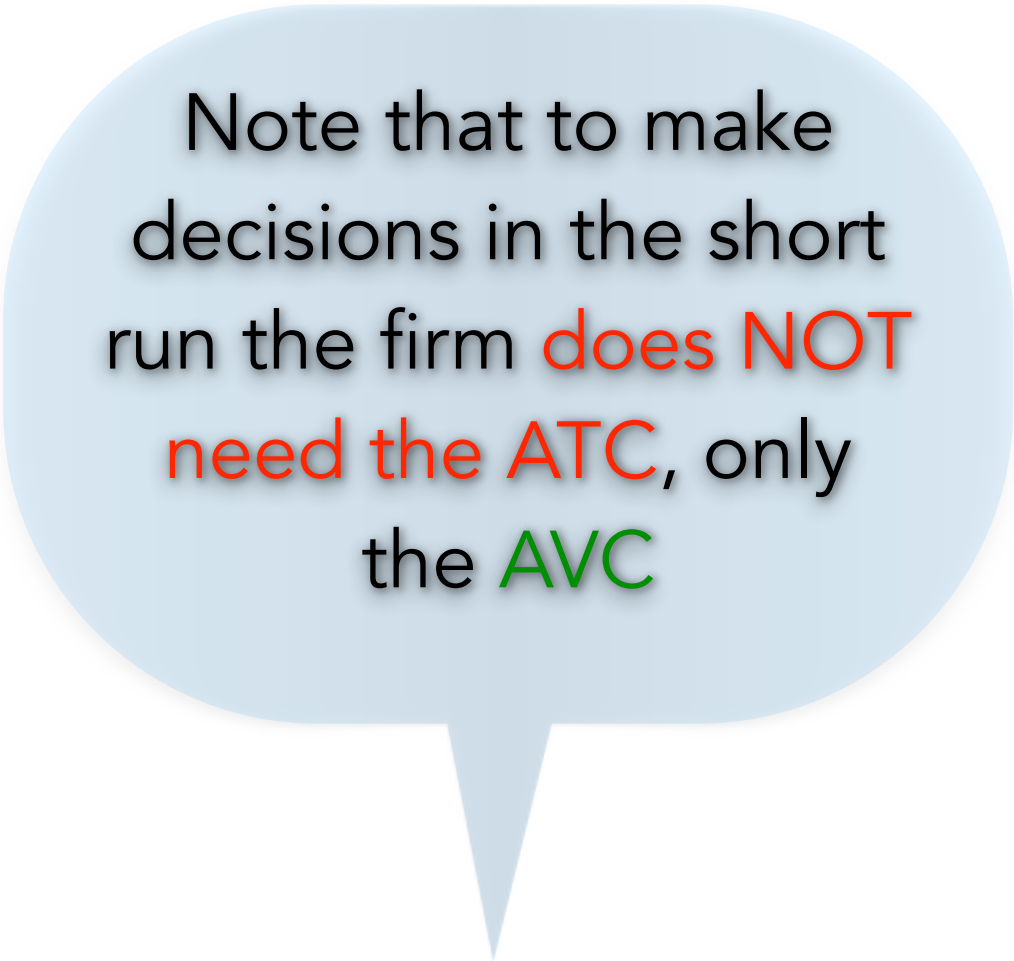
[REDACTED]

M

R







Note that to make decisions in the short run the firm **does NOT need the ATC**, only the **AVC**

$$q = 0$$

$$q_2$$

q

=

0

q





Once the Price drops below the AVC
the firm should shut down (produce
zero units) instead of producing q^*
(where $MC = MR$)

$$q = 0$$

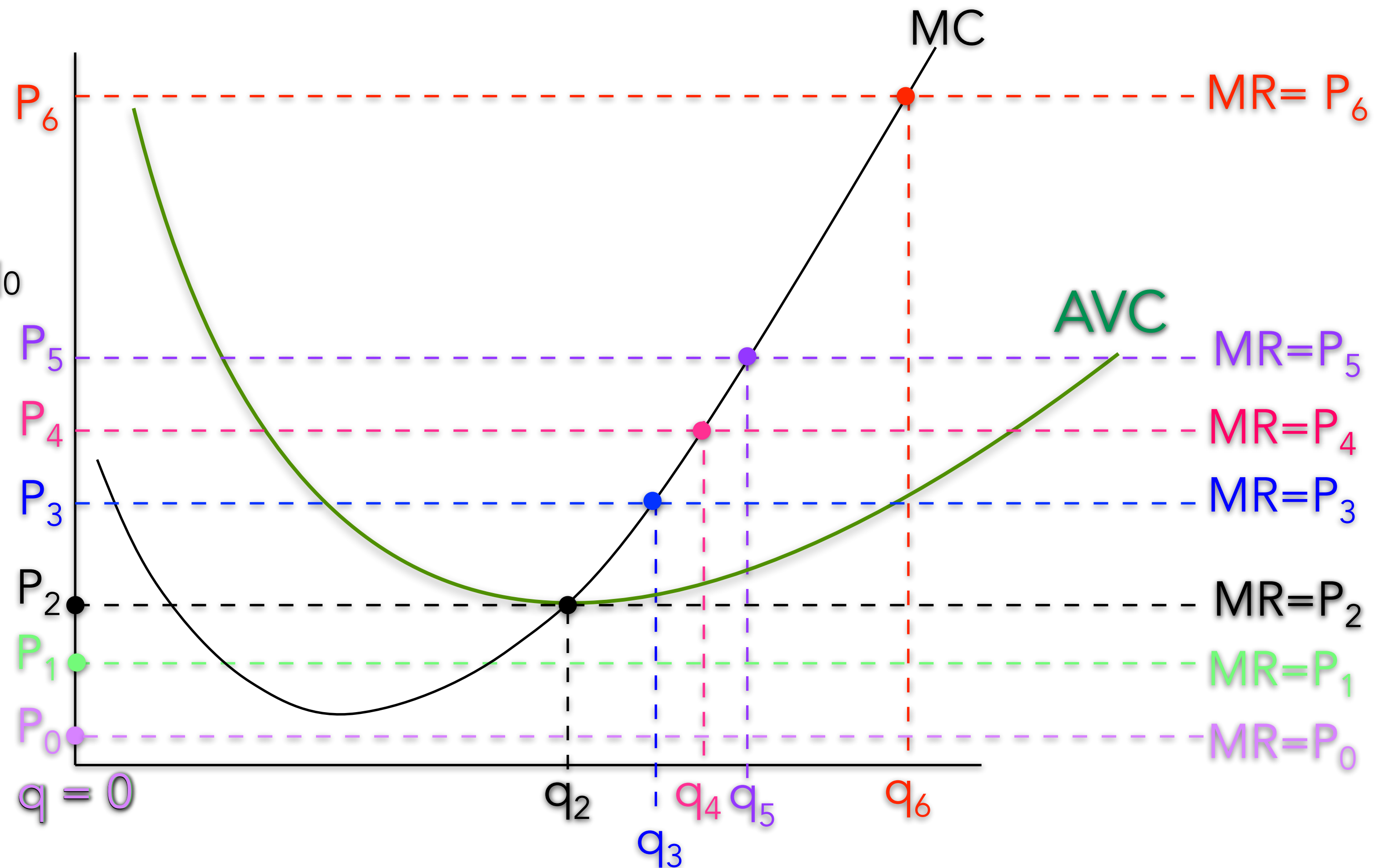
The Firm's Short Run Decision

If **Price** > **AVC** the firm should **produce** q^* (where $MC = MR$)

If **Price** = **AVC** the firm is **Indifferent** between shutting down and producing q_0

If **Price** < **AVC** the firm should shut down (produce zero units)

Quantity Supplied in the Short Run	
Price	Q^s
P_6	q_6
P_5	q_5
P_4	q_4
P_3	q_3
P_2	0 or q_2
P_1	0
P_0	0



Once the **Price drops below** the **AVC** the firm should shut down (produce **zero units**) instead of **producing** q^* (where $MC = MR$)

