105

135

MR= 10

MR=6

MR=5

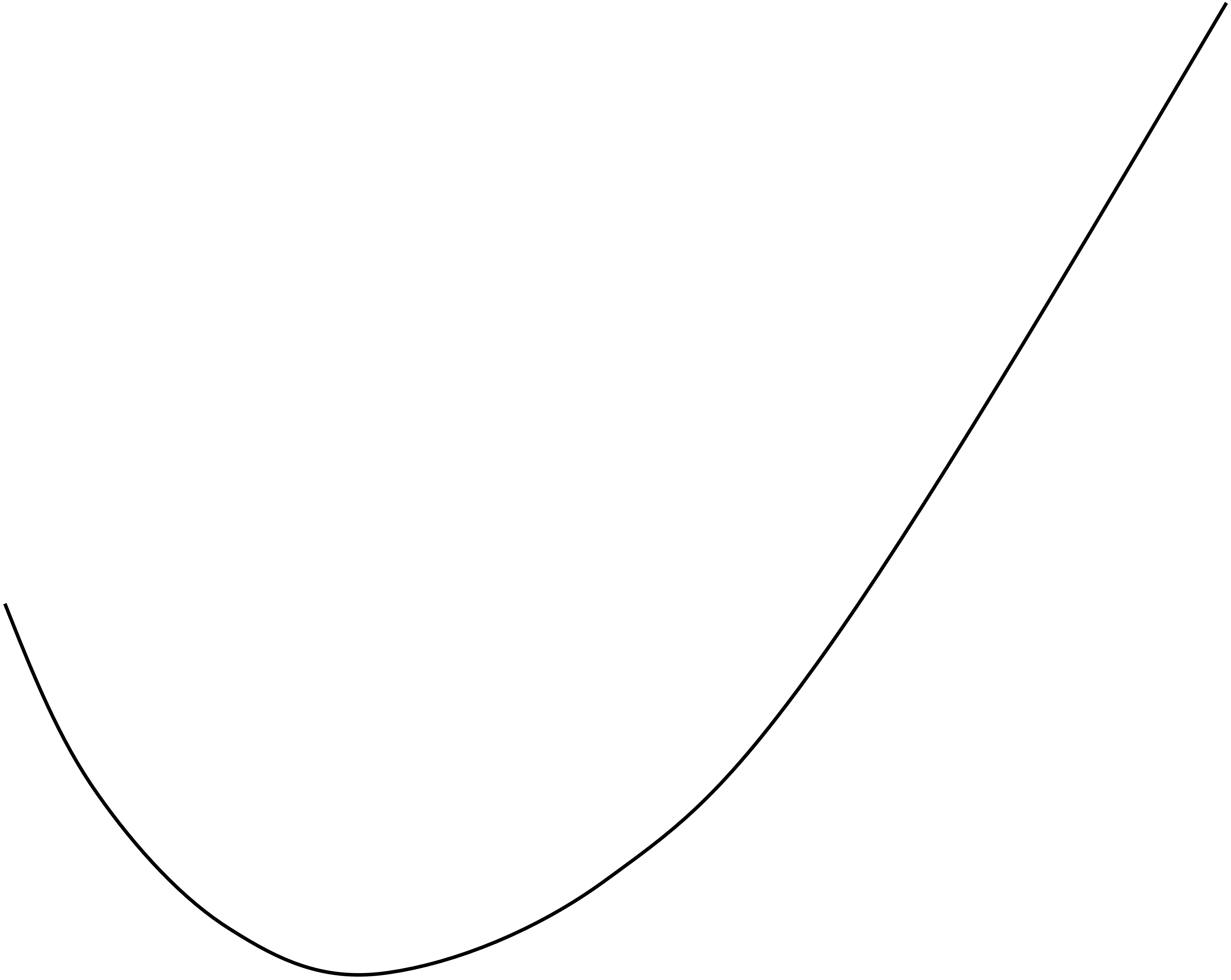
MC

If Price = ATC the firm is Indifferent between exiting the industry and producing q* because it makes zero economic profit either way

2 - MR=2

If Price < ATC the firm incurs a loss and should exit the industry

The Firm's Long Run Decision



4 - MR=4

3 - MR=3

1 - MR=1

Quantity Supplied in the Long Run

Price	Q^s

10

135

6 110

5 0 or 105

4 0

3 0

2 0

1 0

If Price > ATC the firm should produce q* (where MC = MR) because it makes a profit

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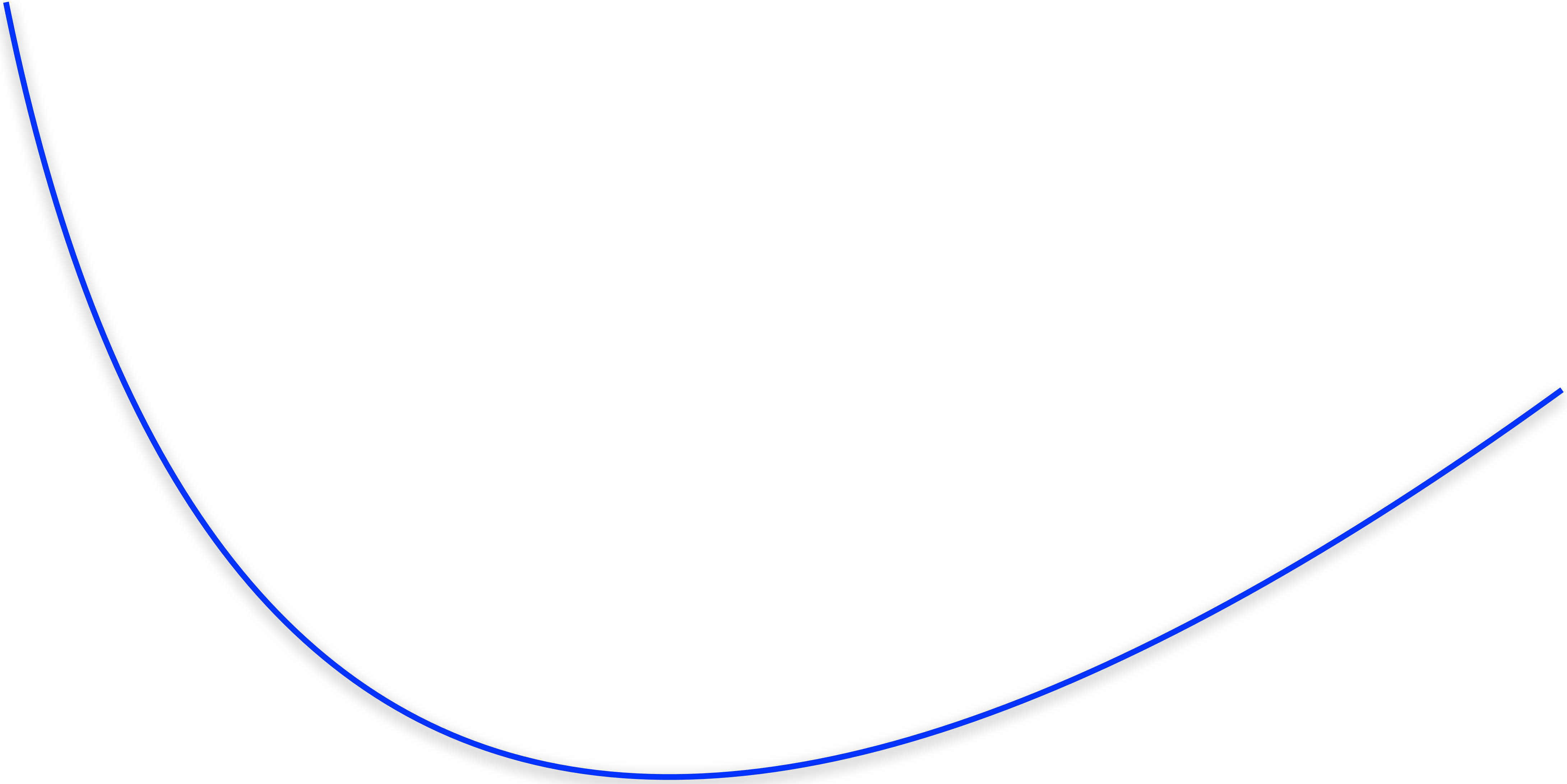


ATC

5

q

0

q

0

$$q = 0$$

$$q = 0$$

q

=

0

10

6

Quantity Supplied in the Long Run all firms in the industry

Q^s

$$135 \times 100 = 13{,}500$$

$$110 \times 100 = 11{,}000$$

0 or 105 x 100=10,500

0 x 100

0 x 100

0 x 100

0 x 100

Assume that there are **100** firms in this Perfectly Competitive industry, total supply is the **sum** of the individual firm's supply

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

$$q = 0$$

Once the Price drops below the ATC the firm should exit instead of producing q* (where MC = MR)

$$q = 0$$

$$q = 0$$

The Firm's Long Run Decision

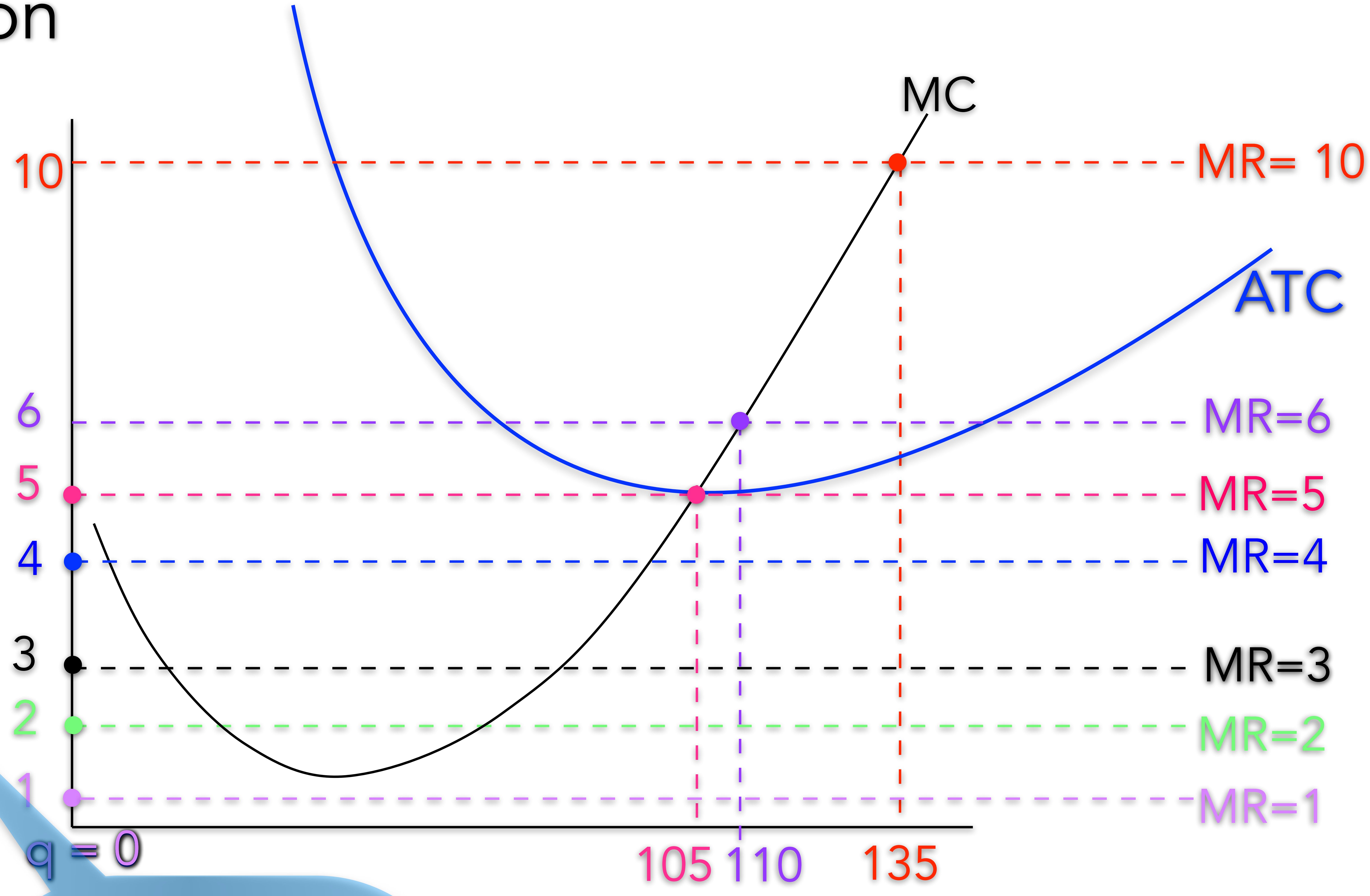
If Price > ATC the firm should produce q* (where MC = MR) because it makes a profit

If Price = ATC the firm is Indifferent between exiting the industry and producing q* because it makes zero economic profit either way

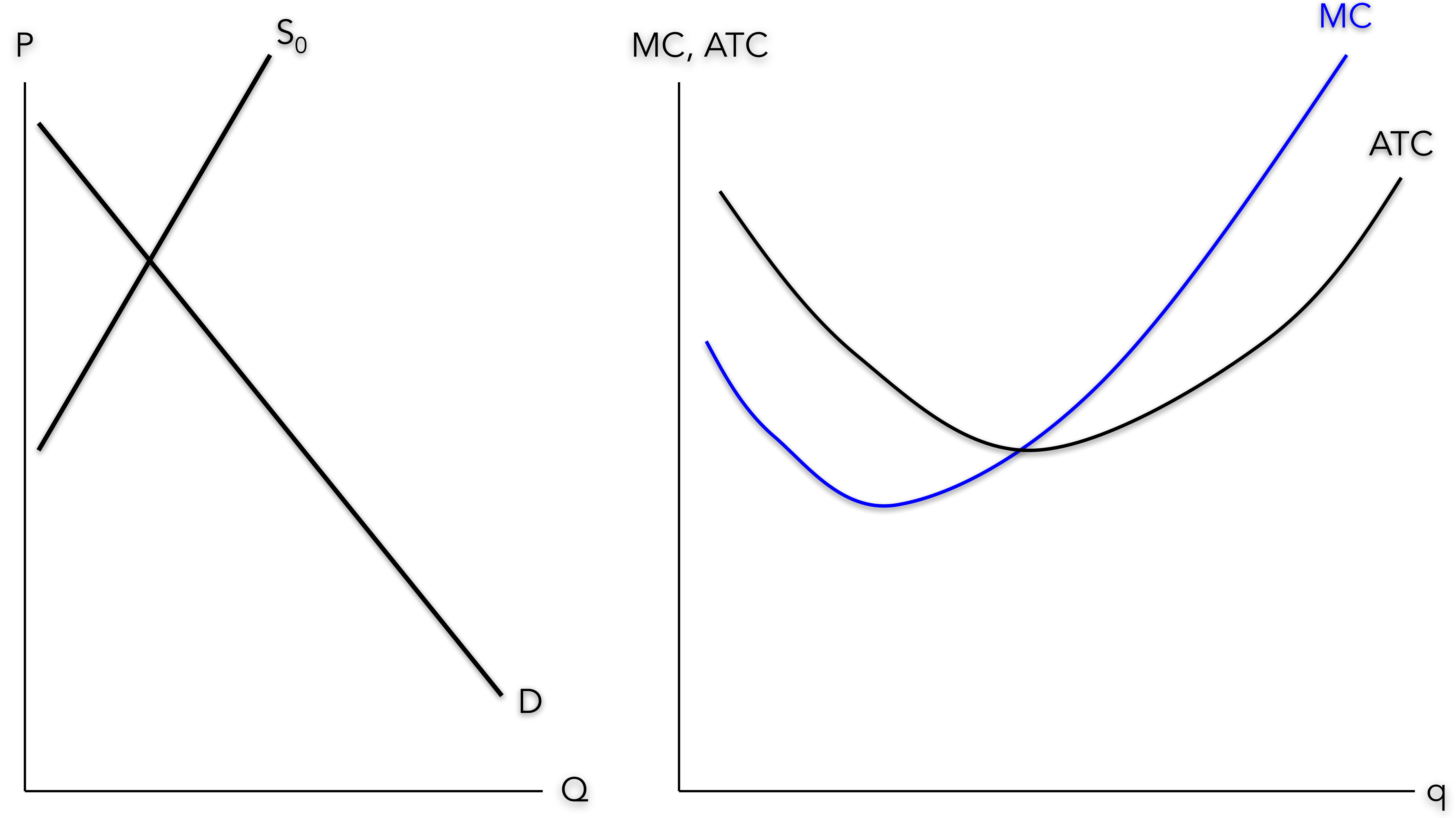
If Price < ATC the firm incurs a loss and should exit the industry

Price	Q^s (Quantity Supplied in the Long Run)	Q^s (Quantity Supplied in the Long Run all firms in the industry)
10	135	135 x 100 =13,500
6	110	110 x 100 = 11,000
5	0 or 105	0 or 105 x 100=10,500
4	0	0 x 100
3	0	0 x 100
2	0	0 x 100
1	0	0 x 100

Assume that there are **100** firms in this Perfectly Competitive industry, total supply is the **sum** of the individual firm's supply



Once the Price drops below the ATC the firm should exit instead of producing q* (where MC = MR)


P
S_0
D
Q
MC, ATC
MC
ATC
q