

MC

AVC

ATC





MR

R



q

\*

Pe

AVC

=

$P_e$

<

ATC

ATC



Revenue covers ONLY

VC



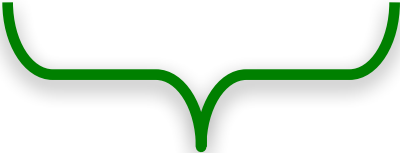


AVC

=



$$AVC \times q = P_e \times q < ATC \times q$$



VC

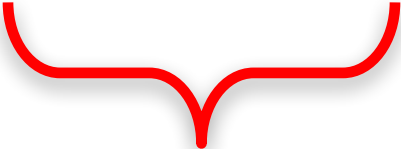
=

TR

<

TC







Firm incurs a loss equal  
to the FC

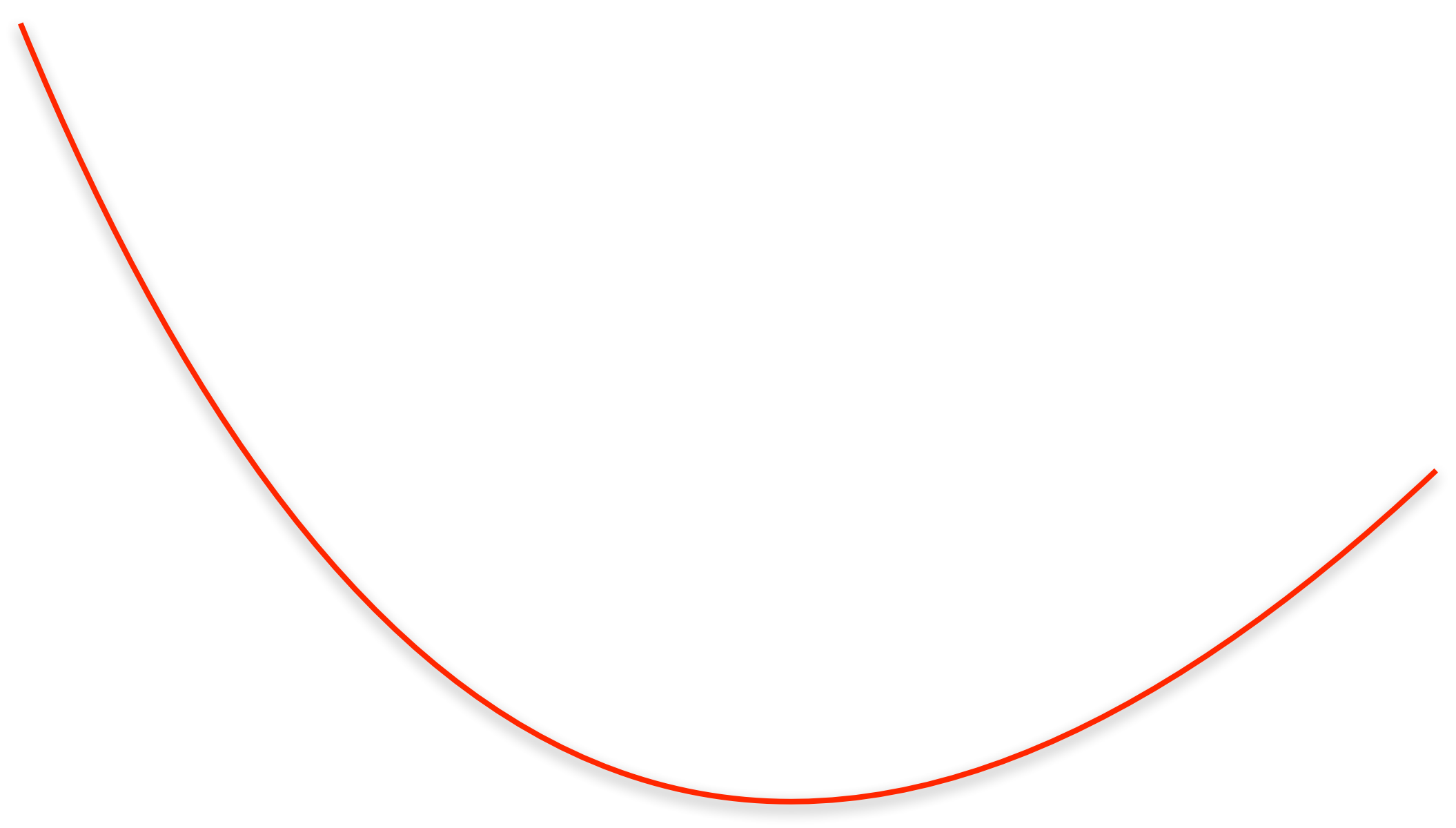


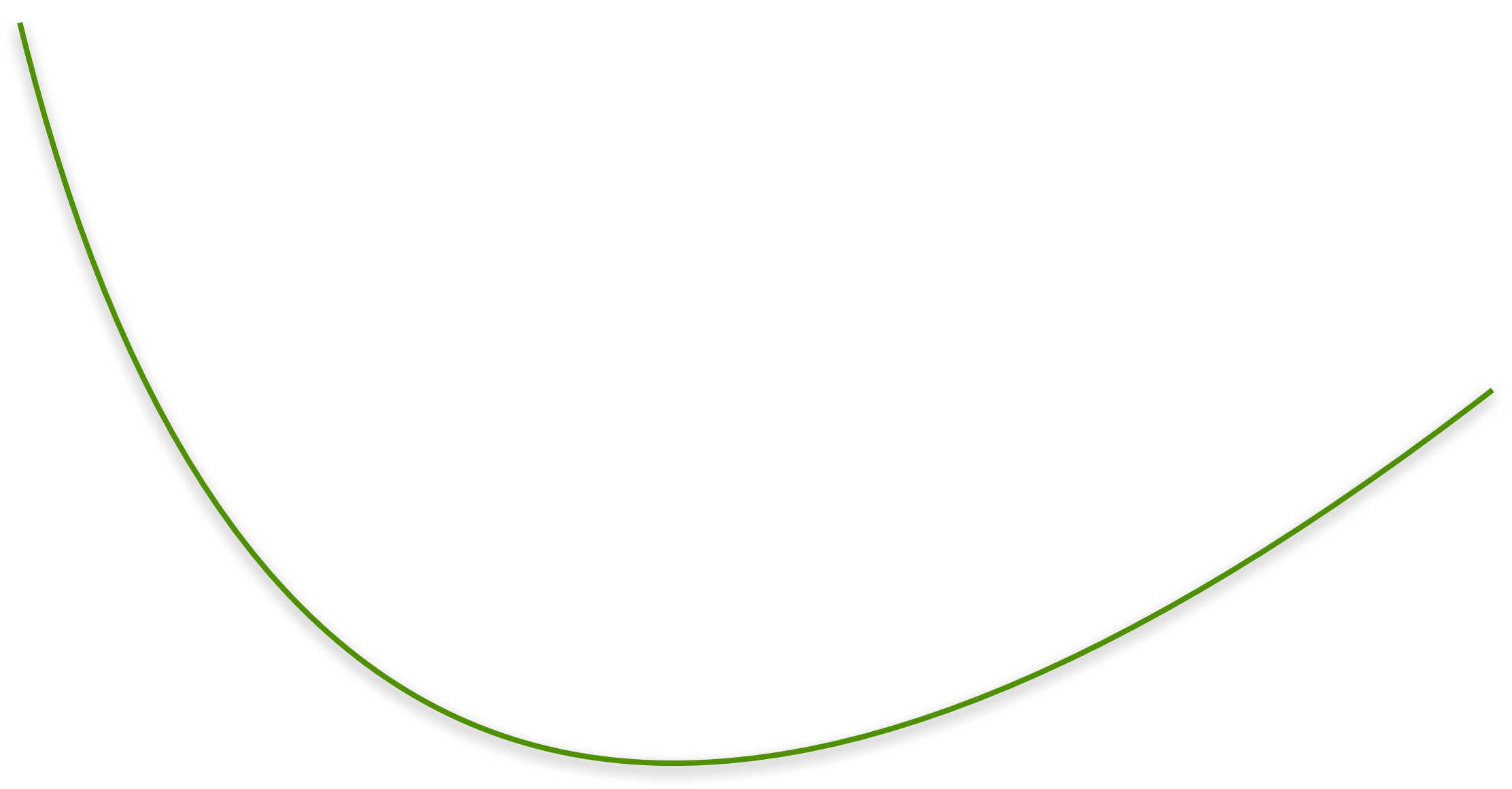
VC

FC

Firm incurs a loss equal to  
the loss if it shuts down

In the short run: The firm is indifferent between shutting down and producing at a loss













=TR

Loss =

In the long run: The firm  
should exit the industry

$$AVC = P_e < ATC \Rightarrow \underbrace{AVC \times q}_{VC} = \underbrace{P_e \times q}_{TR} < \underbrace{ATC \times q}_{TC} \Rightarrow$$

Firm incurs a loss **equal** to the FC

Firm incurs a loss **equal** to the loss if it shuts down

In the **short run**: The firm is **indifferent** between **shutting down** and **producing** at a loss

In the **long run**: The firm should **exit** the industry

