

MC

AVC

ATC

MR



Q



Pe

Firm should Produce
 q^* (at a loss) in the
short run

If the price does not
increase, the firm
should exit in the
long run

AVC

<

P_e

<

ATC



Revenue covers
all VC and some
FC

AVC



$$AVC \times q \leq P_e \times q \leq ATC \times q$$



VC

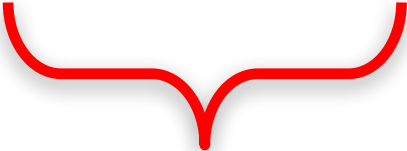
<

TR

<

TC





Firm incurs a loss
smaller than the FC

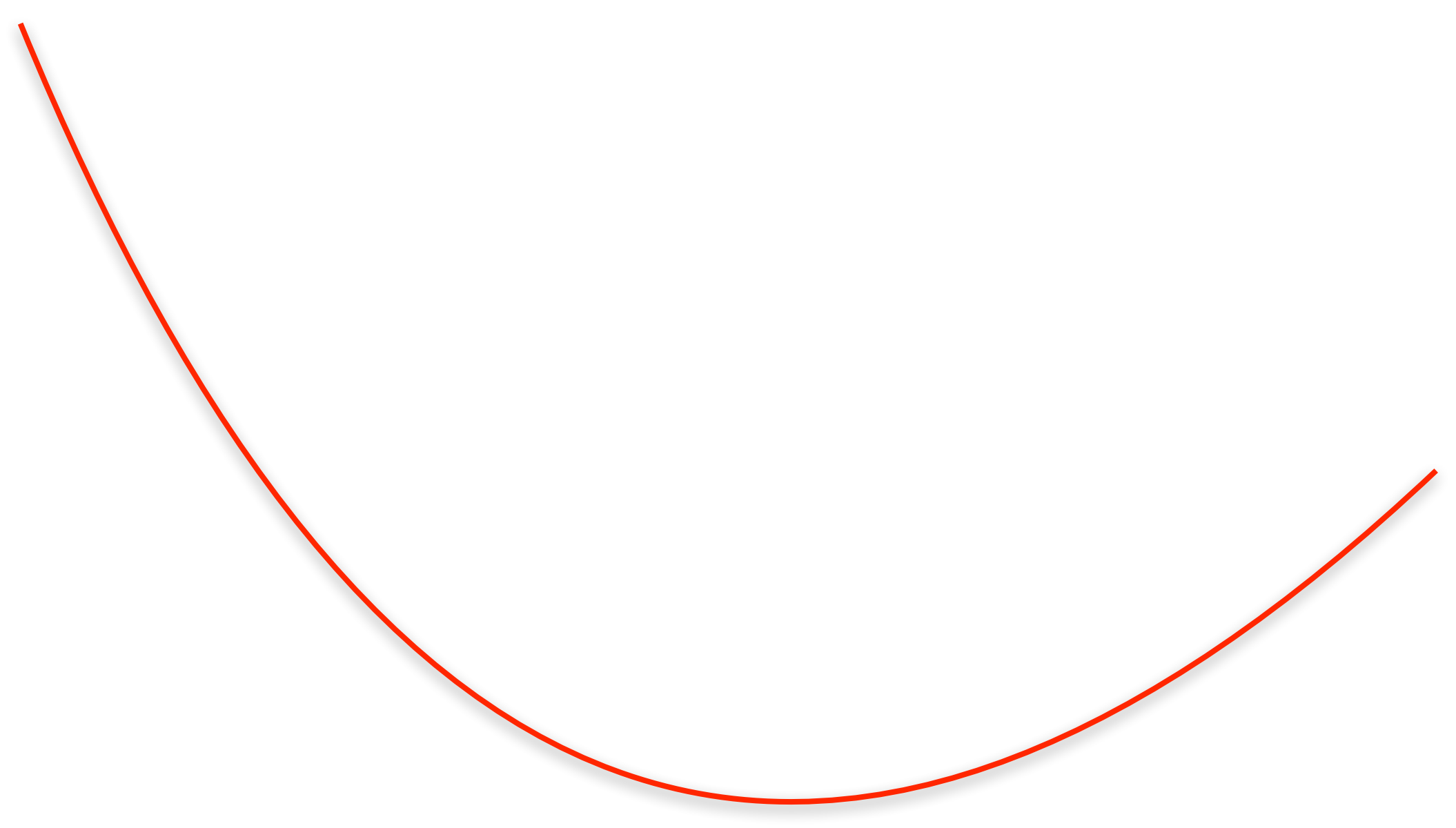


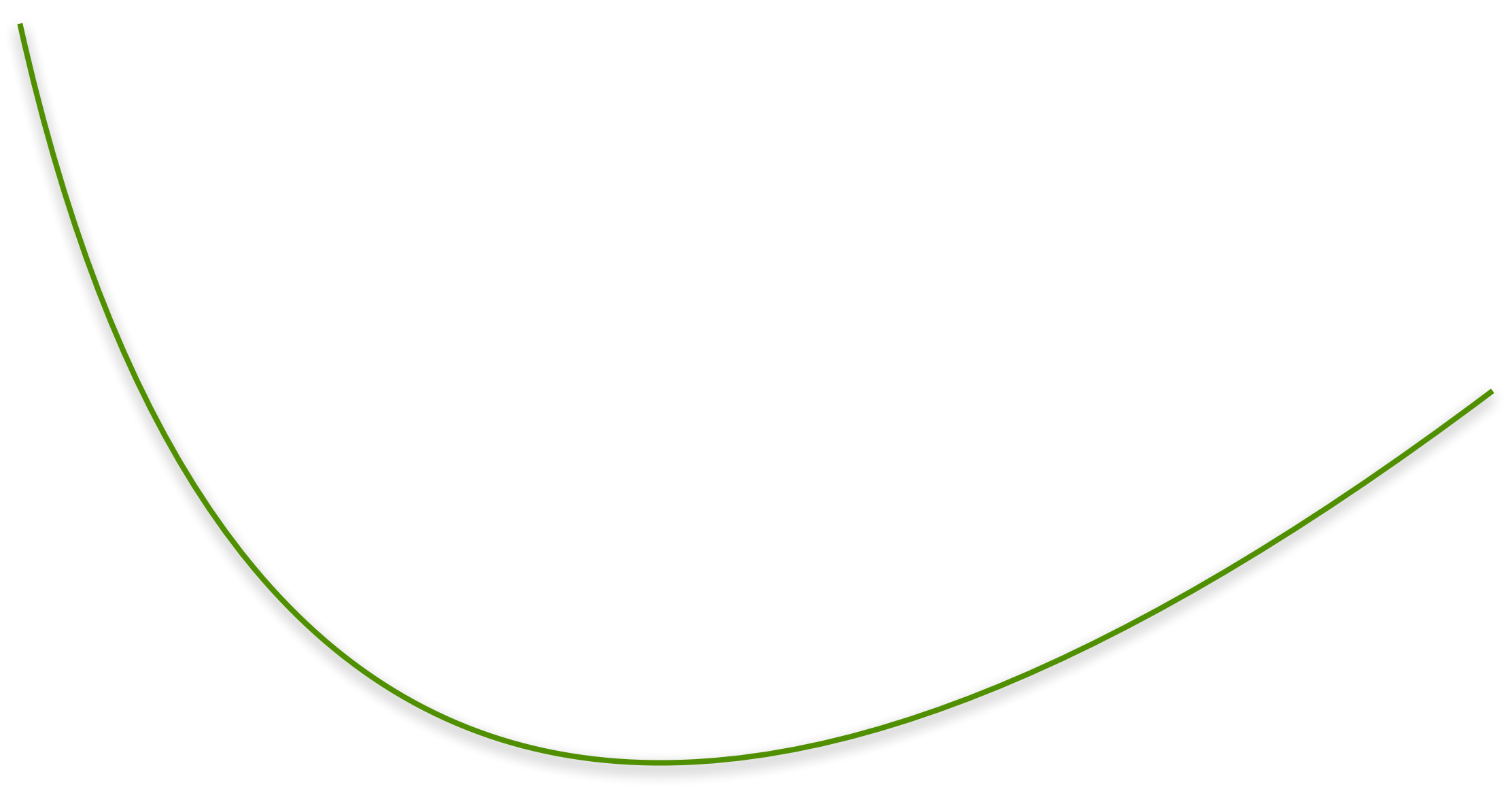
VC

FC

TR

Firm incurs a loss smaller
than the loss if it shuts down









ATC





Loss <

$$AVC < P_e < ATC$$



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



Firm incurs a loss
smaller than the FC

Firm incurs a loss **smaller**
than the loss if it **shuts down**

Firm should **Produce**
 q^* (at a loss) in the
short run

If the price does not
increase, the firm
should **exit** in the
long run

