q_4

q_5

96

$$MR = P_6$$

$$MR = P_5$$

$$MR = P_4$$

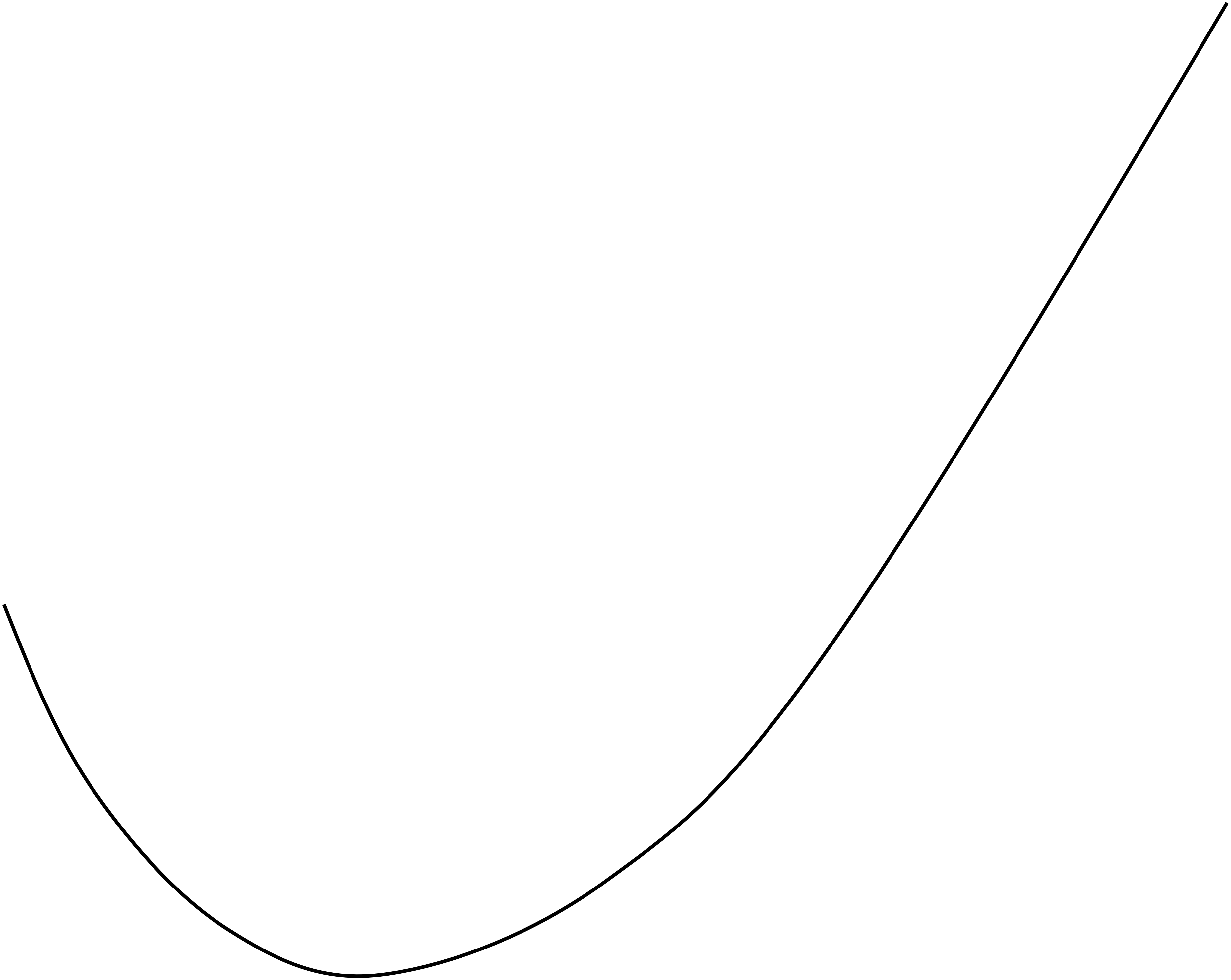
MC

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

P_1 - $MR=P_1$

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

The Firm's Long Run Decision



P_3 - $MR=P_3$

P_2 - $MR=P_2$

P_0 - $MR=P_0$

Quantity Supplied in the Long Run

Price	Q^s

P_6 q_6

P_5 q_5

P_4 0 or q_4

P_3 0

P_2 0

P_1 0

P_0 0

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

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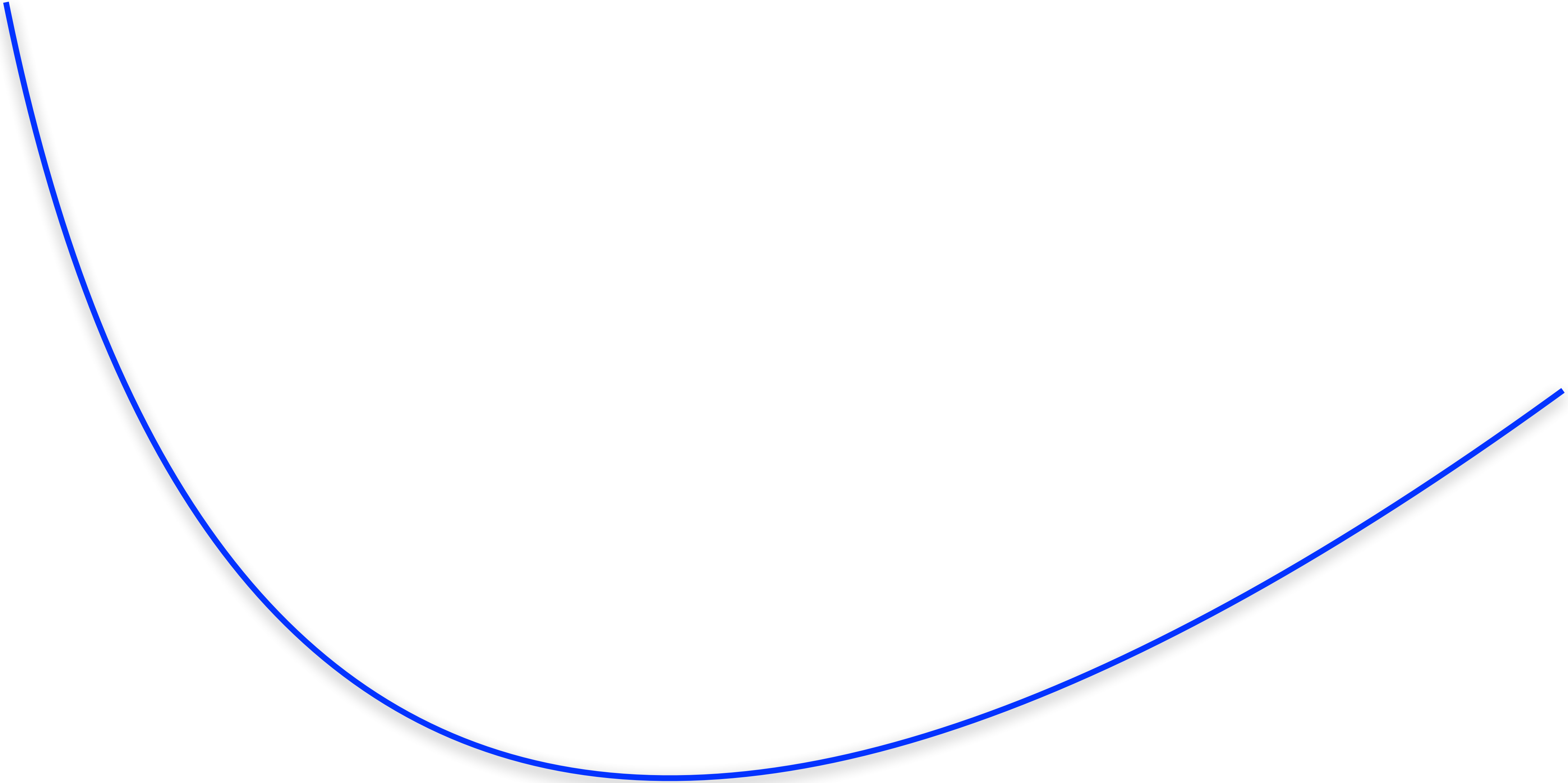


ATC

P_4

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

q

0

q

0

$$q = 0$$

$$q = 0$$

q

=

0

P_6 

P_5

$$q = 0$$

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

$$q = 0$$

$$q = 0$$

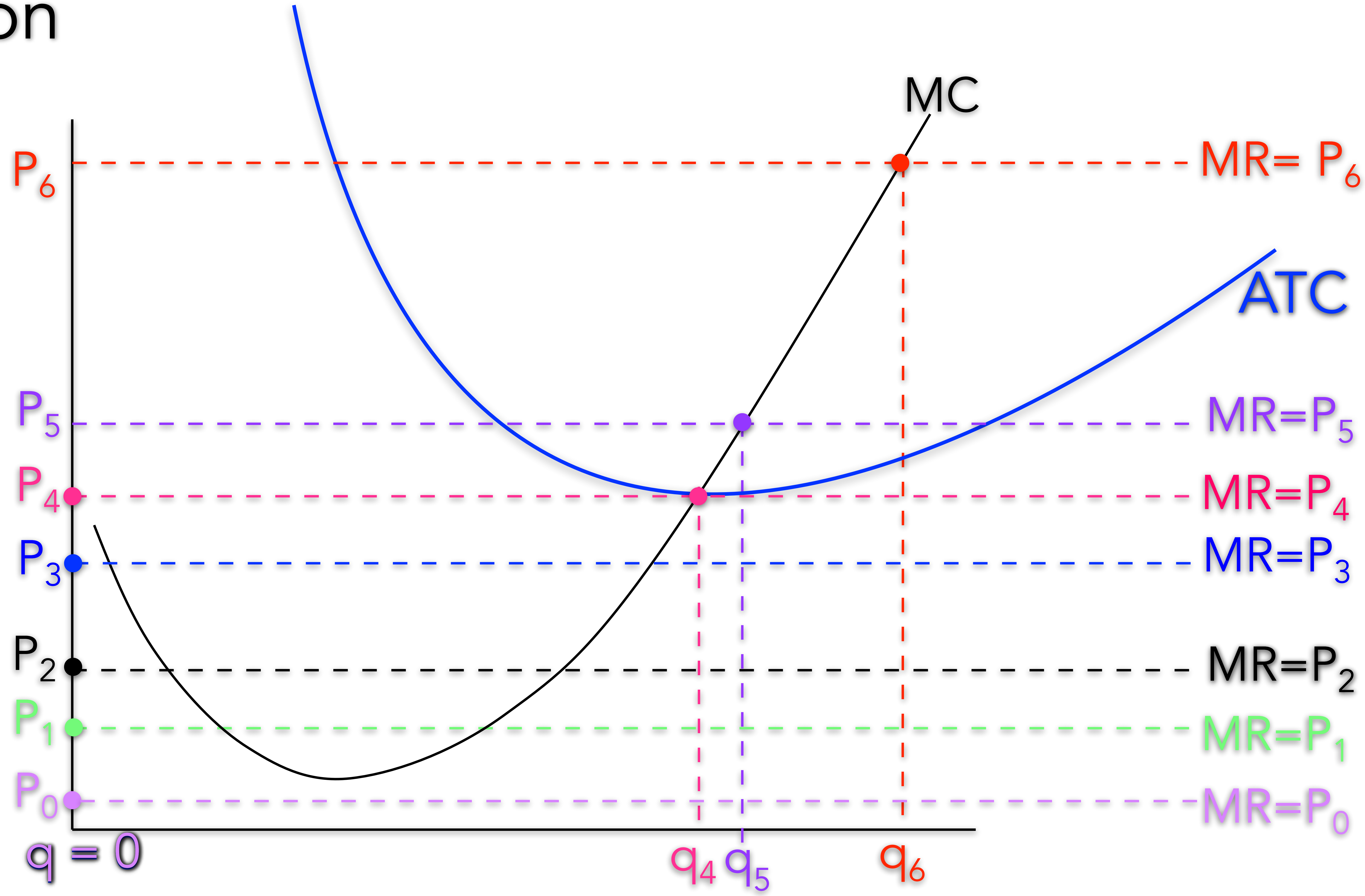
The Firm's Long Run Decision

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

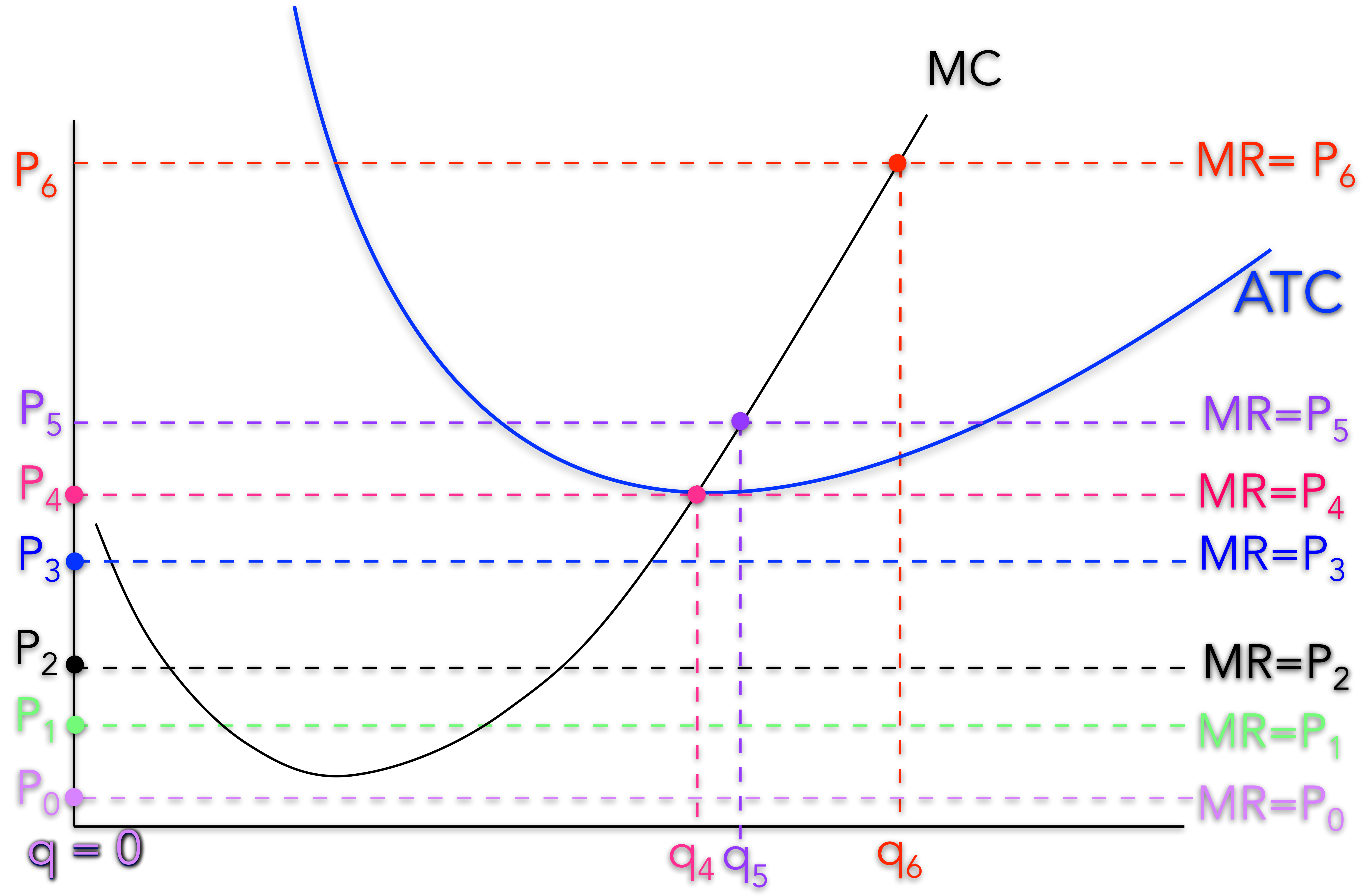
If Price = ATC the firm is Indifferent between exiting the industry and producing q* because it makes zero economic profit either way

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

Price	Q^s (Quantity Supplied in the Long Run)
P_6	q_6
P_5	q_5
P_4	0 or q_4
P_3	0
P_2	0
P_1	0
P_0	0



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



In the Long Run, the firm exits if if incurs a loss