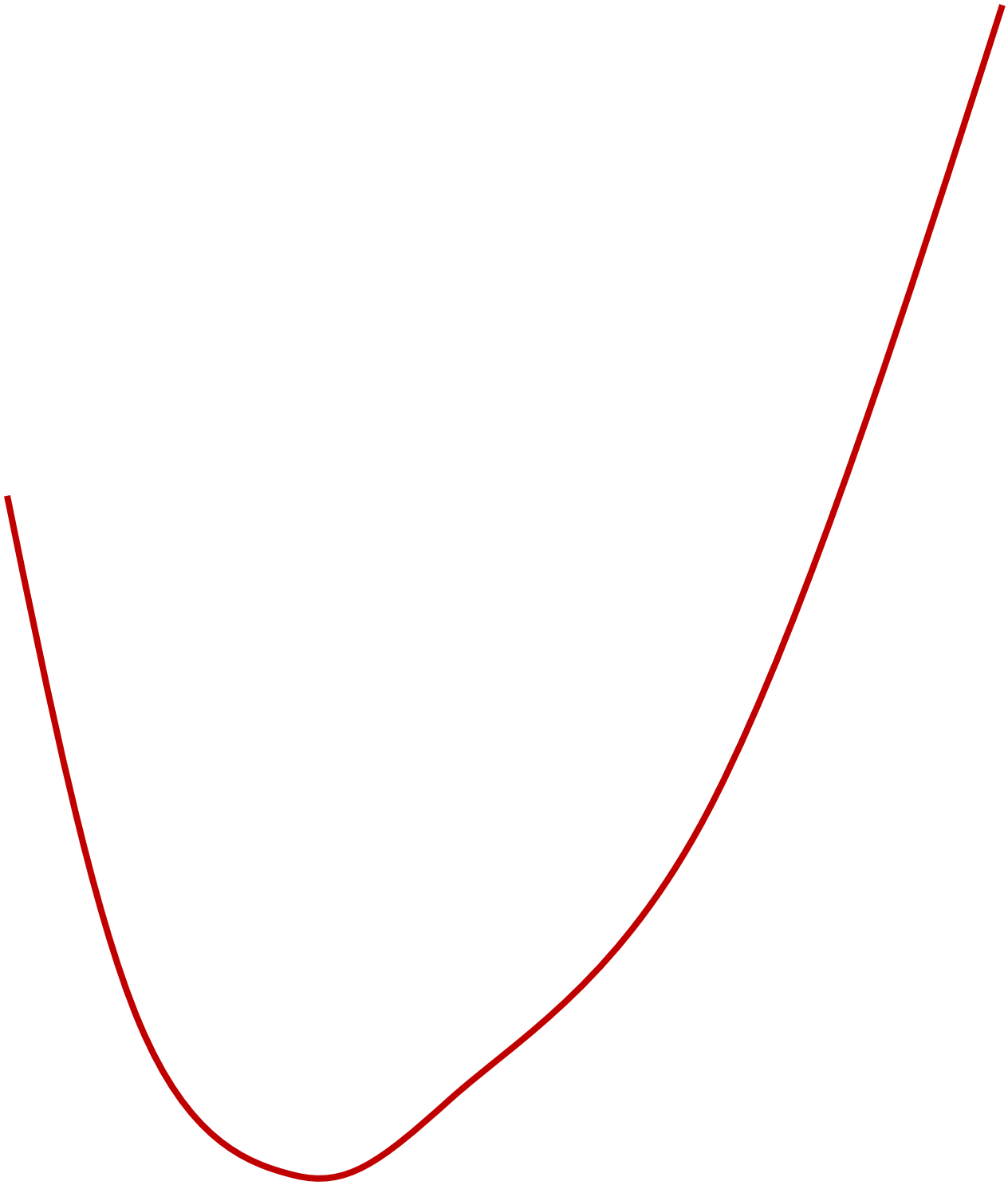


P0

P1

P2

P3

q1

q2

q3

q4

MR

MR

MR

MR

If Price > AVC

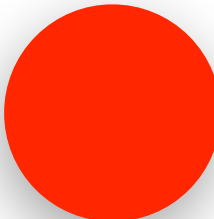
Choose output at:

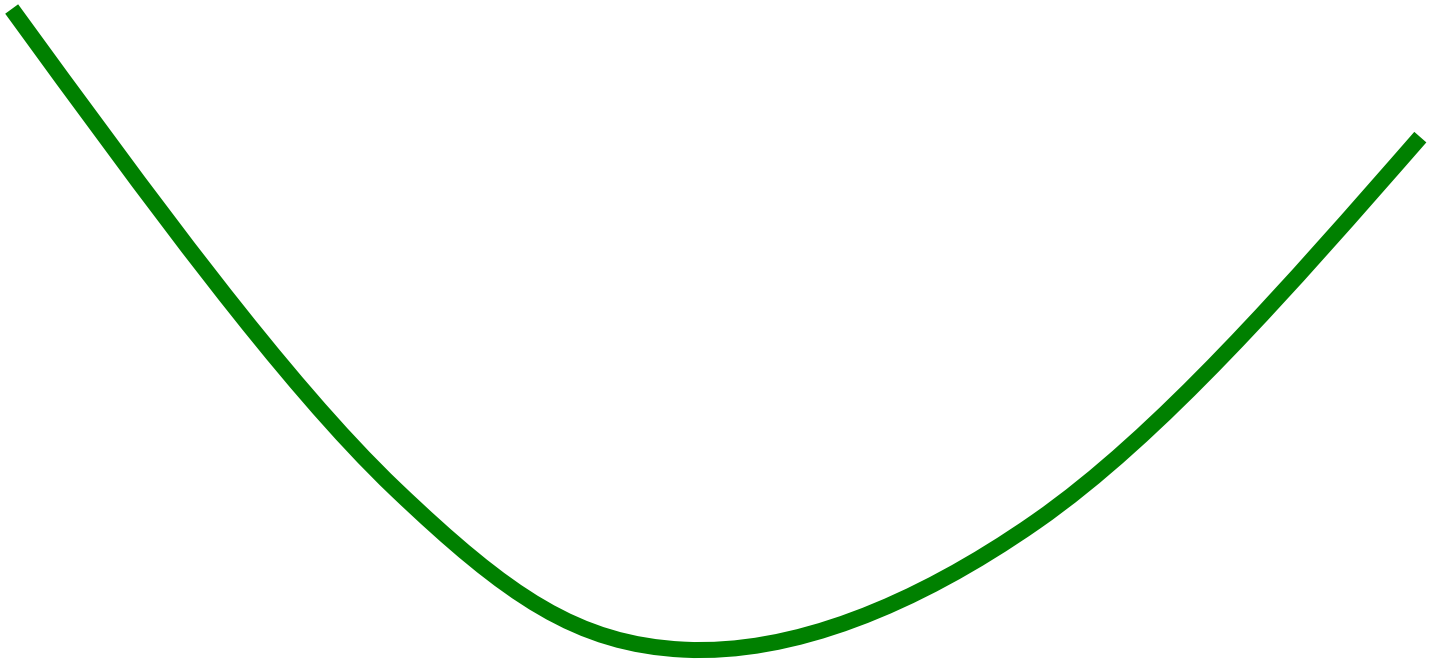
MC = MR = Price

MC

MR

If Price = AVC
Indifferent between
shut down and q_0

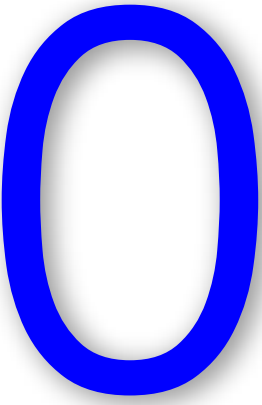




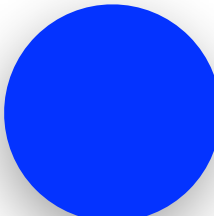
AVC

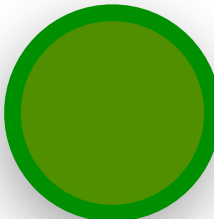
P0

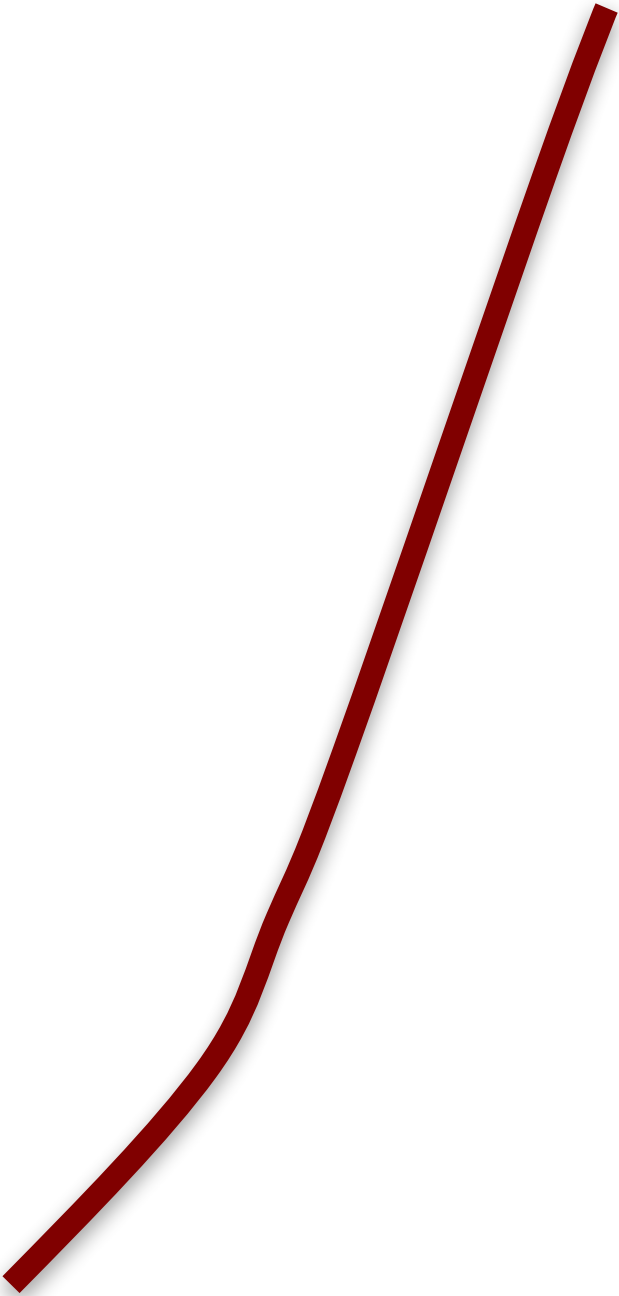
MR



If Price < AVC
The firm should shut down







In the Short Run, Supply = MC Above AVC

Shut Down Price = Min AVC

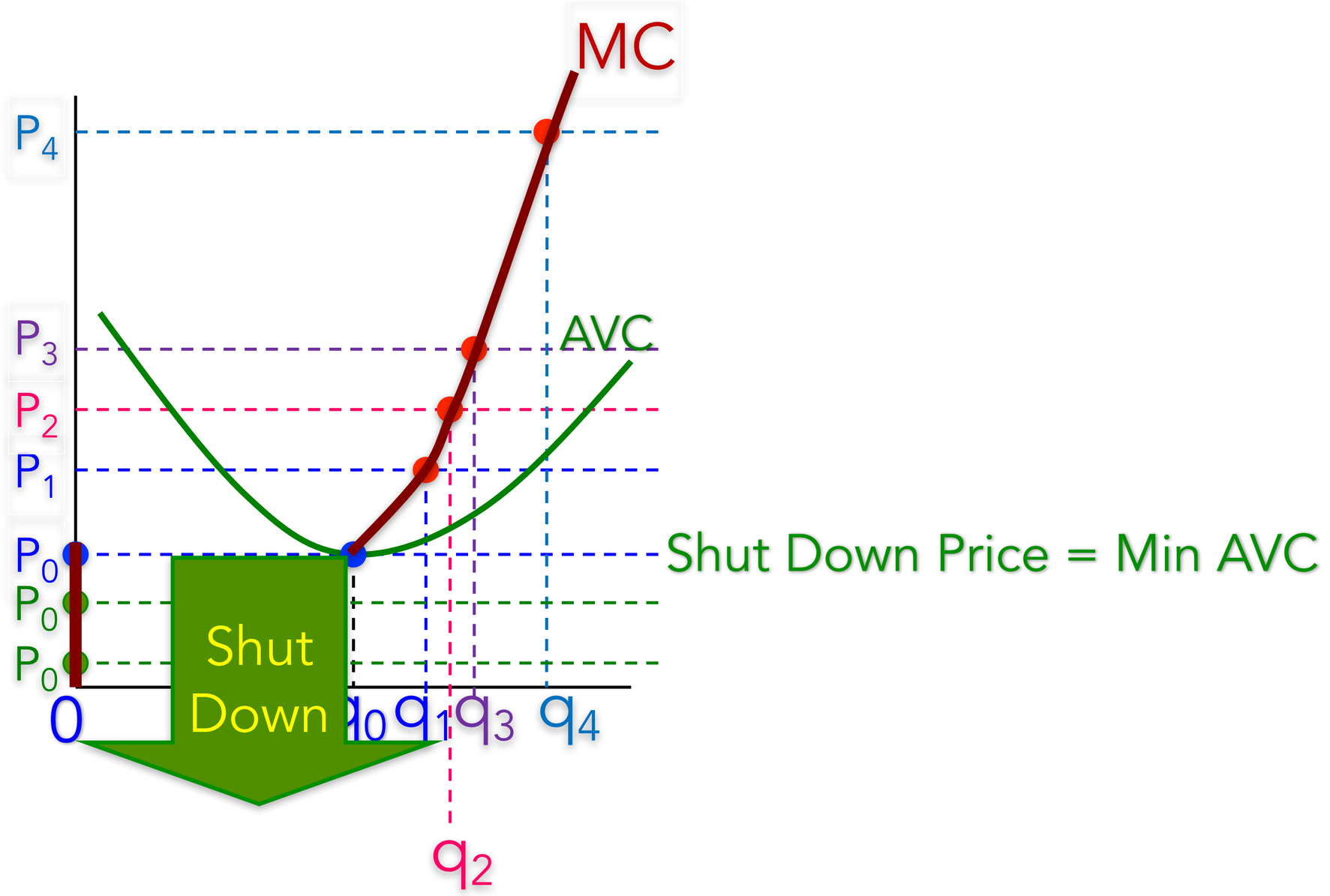
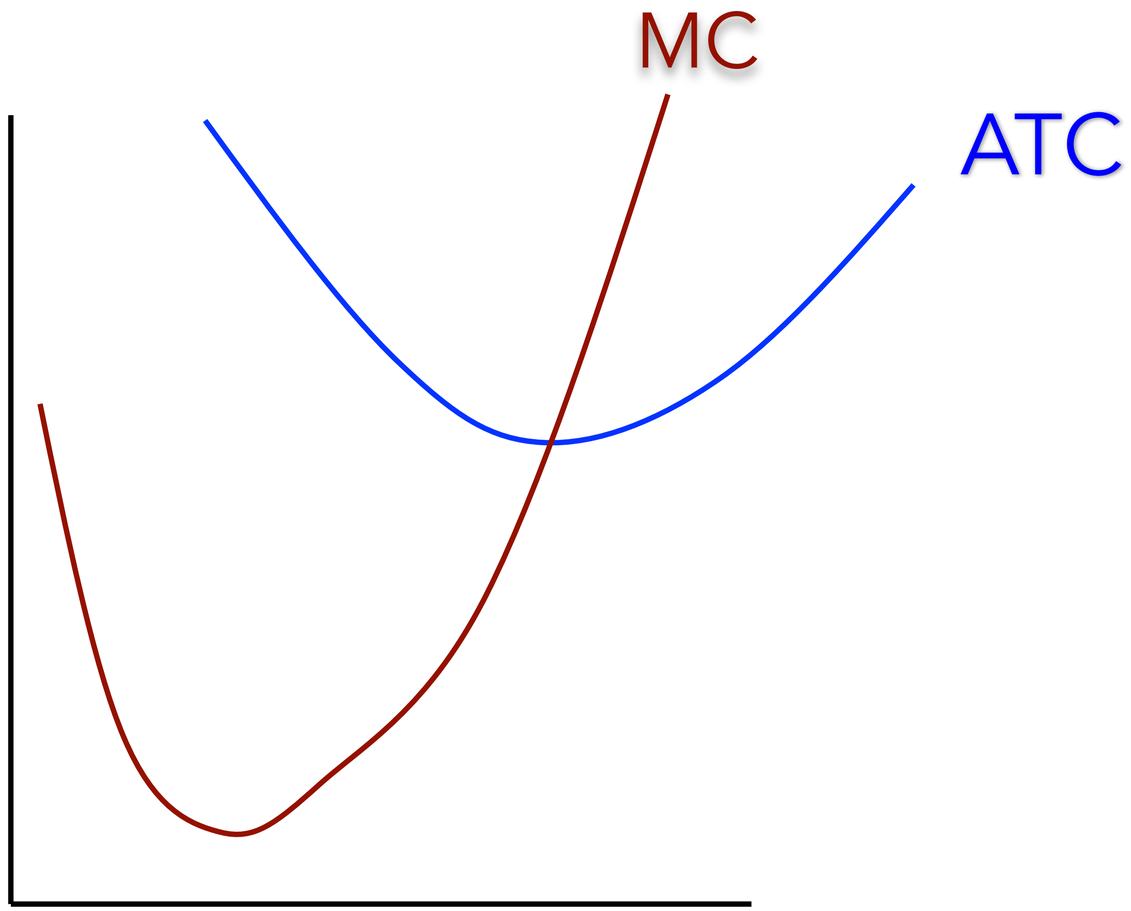
Shut
Down

In the Short Run, Supply = MC Above AVC

If Price > AVC
Choose output at:
MC = MR = Price

If Price = AVC
Indifferent between
shut down and q_0

If Price < AVC
The firm should
shut down



Long Run: EXIT if firms incur losses