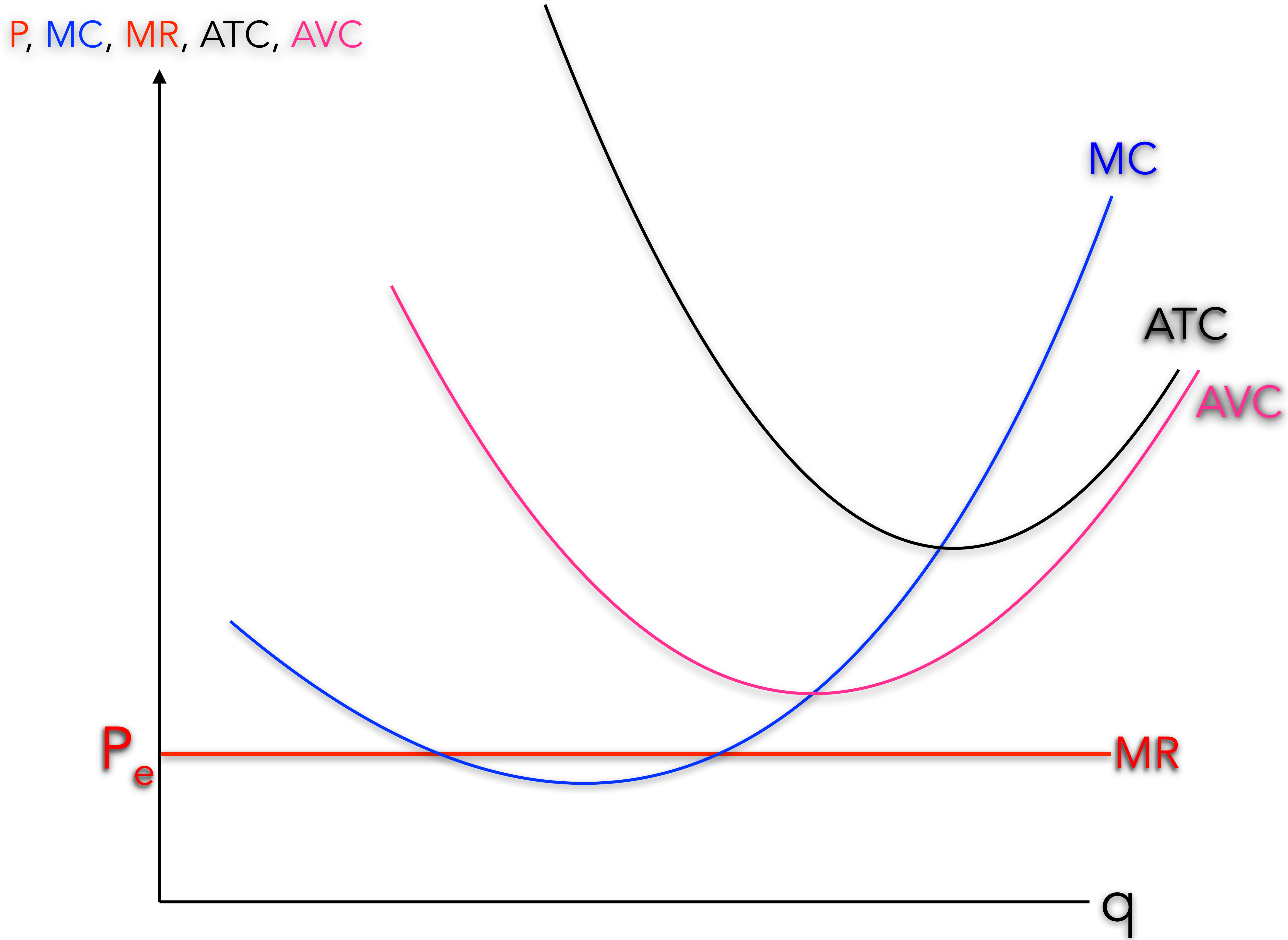

P, MC, MR, ATC, AVC
MC
ATC
AVC
Pe
MR
q

q_0

$$ATC \times q_0 = TC$$

$$\text{Loss} = \text{TR} - \text{TC}$$

To minimize the loss, the firm must produce q_0

$$\text{Price} \times q_0 = TR$$

Loss if the firm produce q_0

Loss if the firm produce q_0

Larger than

Loss if the firm shuts down = FC

W

h

e

n

t

h

e

p

r

i

C

e

i

S

t

O

O

O

W

/

t

h

e

f

i

r

m

m

u

S

t

d

C

i

d

e

W

h

e

r

i

t

S

h

O

u

I

d

p

r

O

d

u

C

e

a

t

a

I

O

S

S

O

r

S

h

u

t

d

O

W

n

In this case, the firm should shut down instead of producing q_0 and incur a bigger loss

ATC=

AFC

Loss if the firm shuts down = FC

R

u

I

e

:

T

O

C

h

O

O

S

e

t

h

e

I

O

S

S

m

i

n

i

m

i

Z

i

n

g

O

u

t

p

u

t

I

e

V

e

I

t

h

f

i

r

m

C

h

O

O

S

e

S

q

W

h

e

r

e

M

C

=

M

R

Shutting down the plant is a "short run" decision: The firm would not want to continue forever to keep a plant producing zero units and paying the Fixed Cost

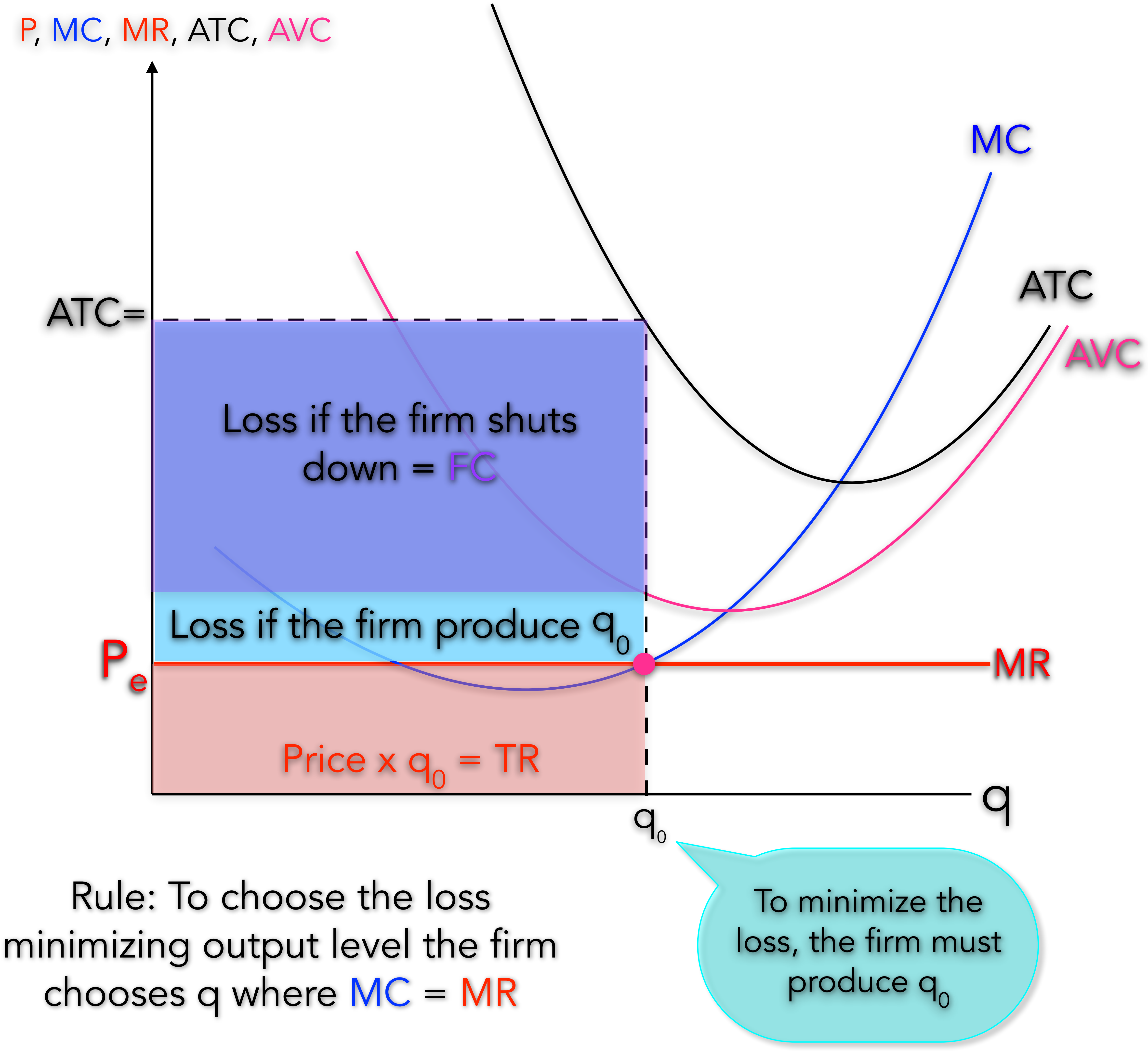
The firm waits and if in the “long run” the price is still too low to make a profit, the firms then closes the plant and leaves the industry

The firm “exits” the industry in the long run

When the price is too low, the firm must decide whether it should produce at a loss or shut down

Rule: To choose the loss minimizing output level the firm chooses q where MC = MR

When the price is too low, the firm must decide whether it should produce at a loss or shut down

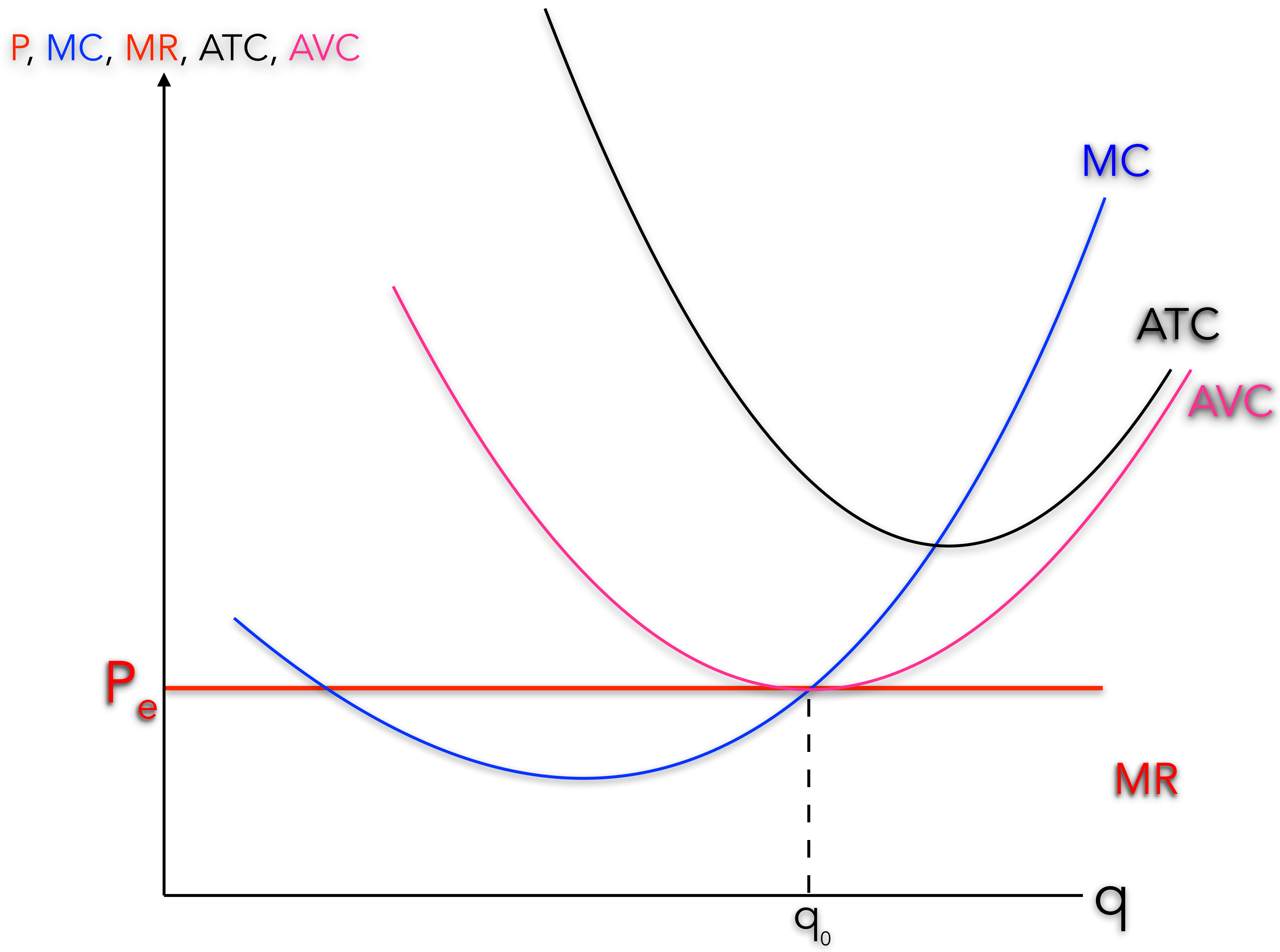


Rule: To choose the loss minimizing output level the firm chooses q where MC = MR

Shutting down the plant is a "short run" decision: The firm would not want to continue forever to keep a plant producing zero units and paying the Fixed Cost

The firm waits and if in the "long run" the price is still too low to make a profit, the firms then closes the plant and leaves the industry

The firm "exits" the industry in the long run


P, MC, MR, ATC, AVC
MC
ATC
AVC
Pe
MR
q
q0