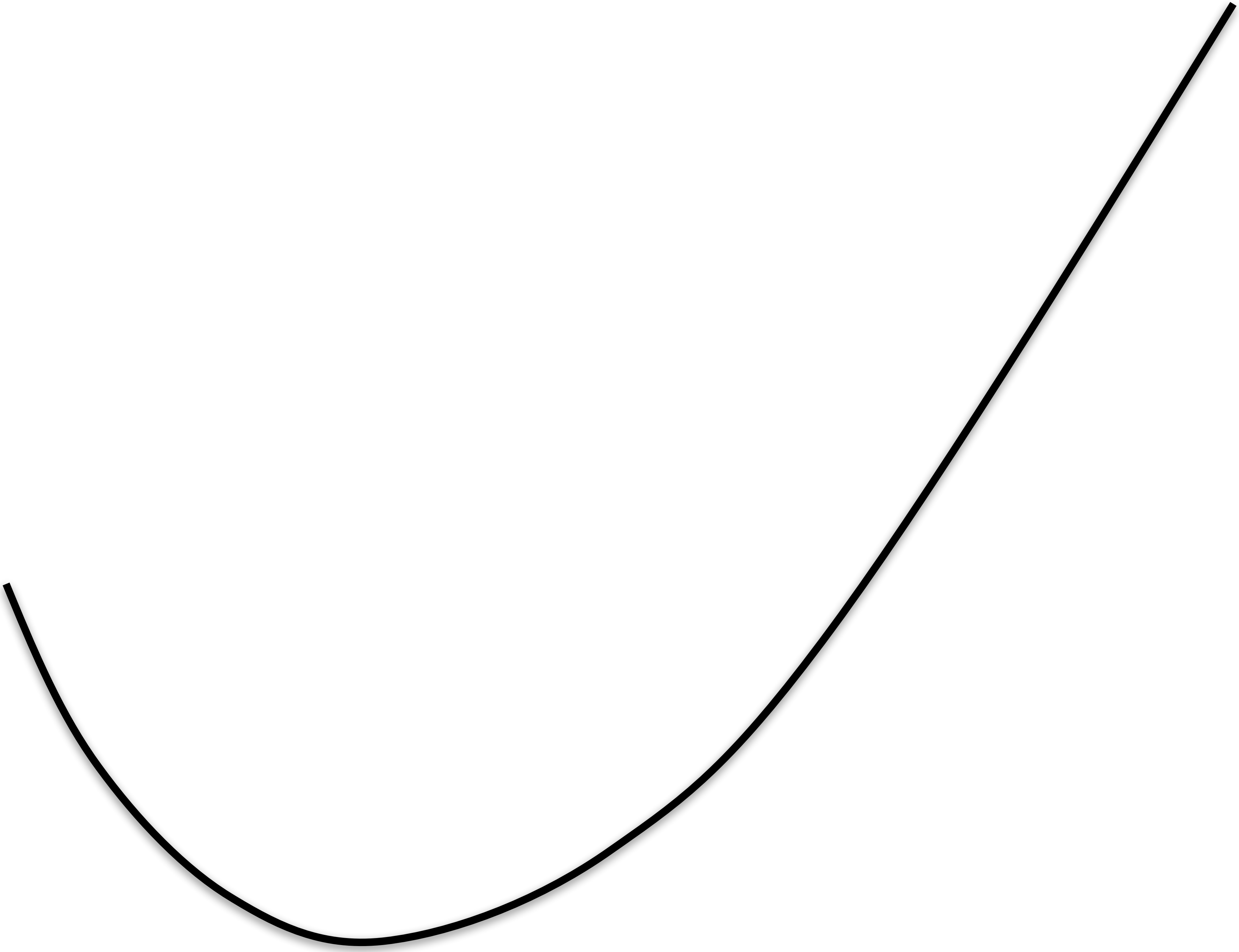


MC

AVC

ATC

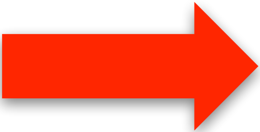
MR

q*

$$P_e$$

$$AVC = P_e < ATC$$

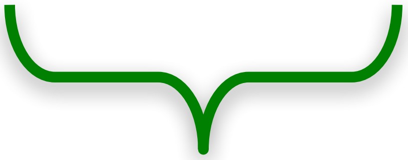
ATC



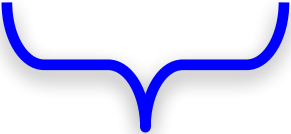
Revenue covers ONLY VC

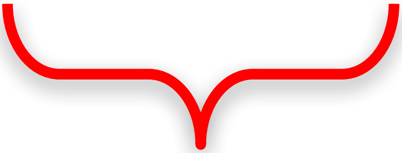
$AVC =$

$$\mathrm{AVC} \times q = P_e \times q < \mathrm{ATC} \times q$$



$$VC = TR < TC$$





Firm incurs a loss equal to the FC

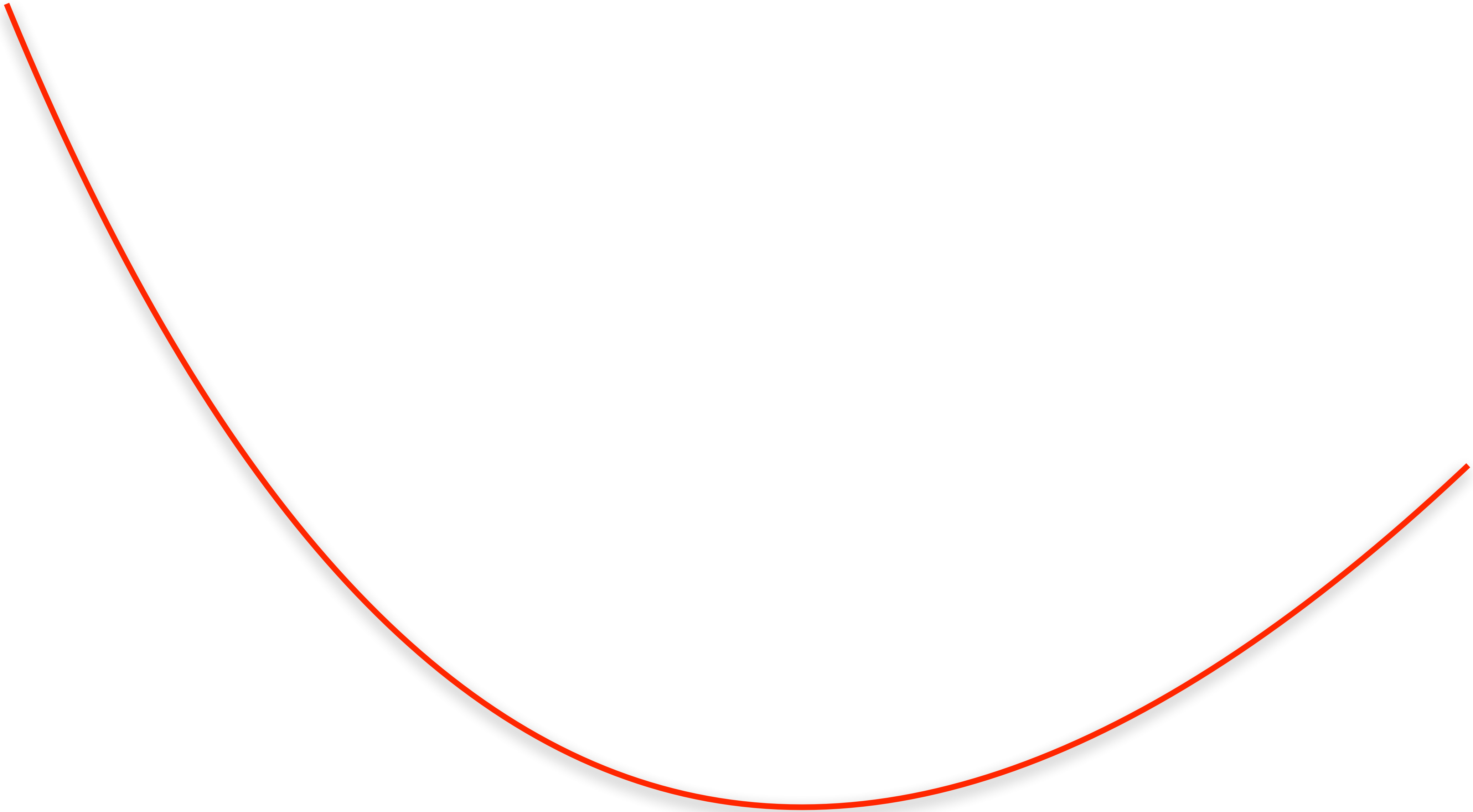
VC

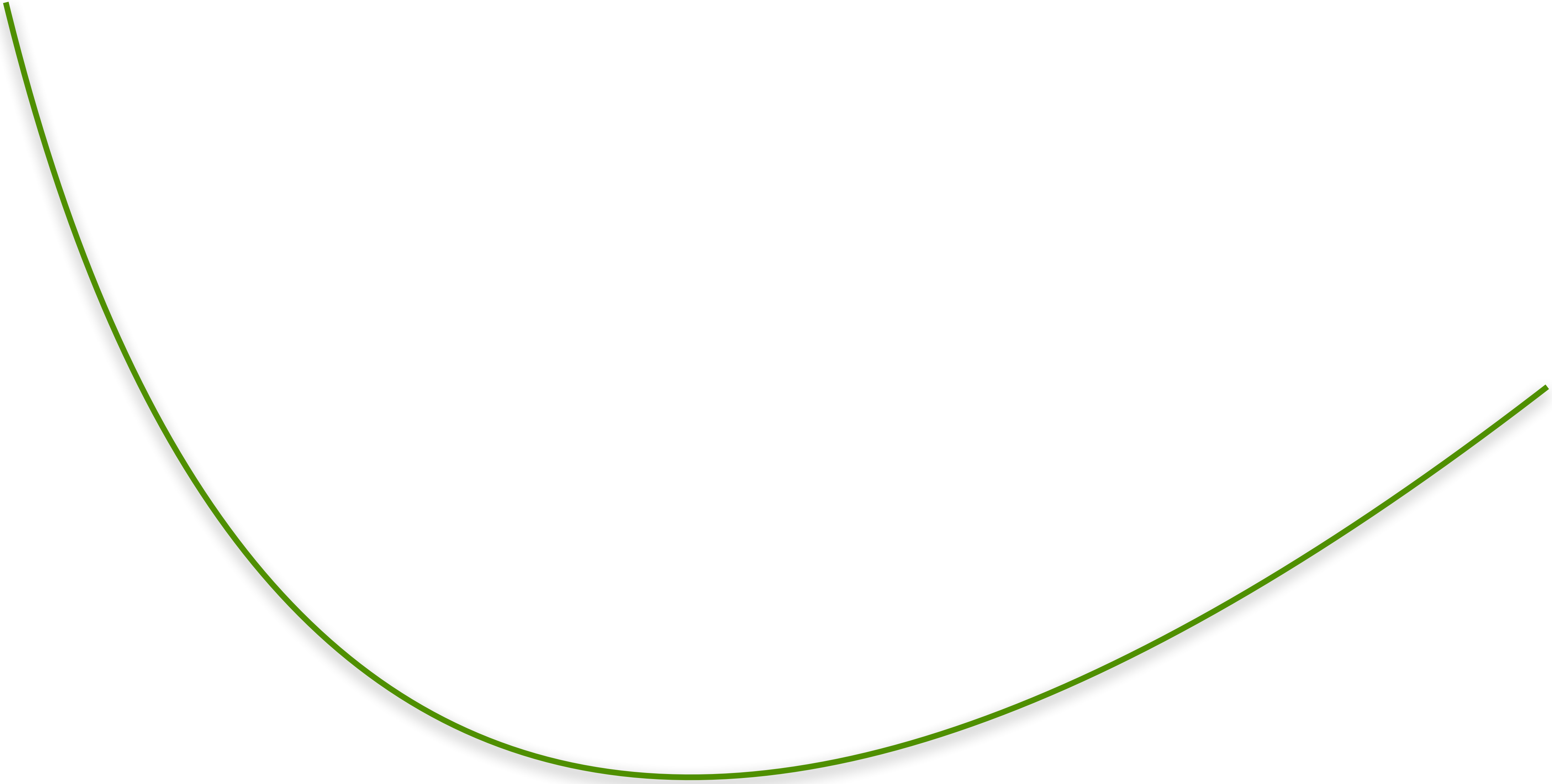
FC

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

In the long run: The firm should exit the industry





=TR

Loss =

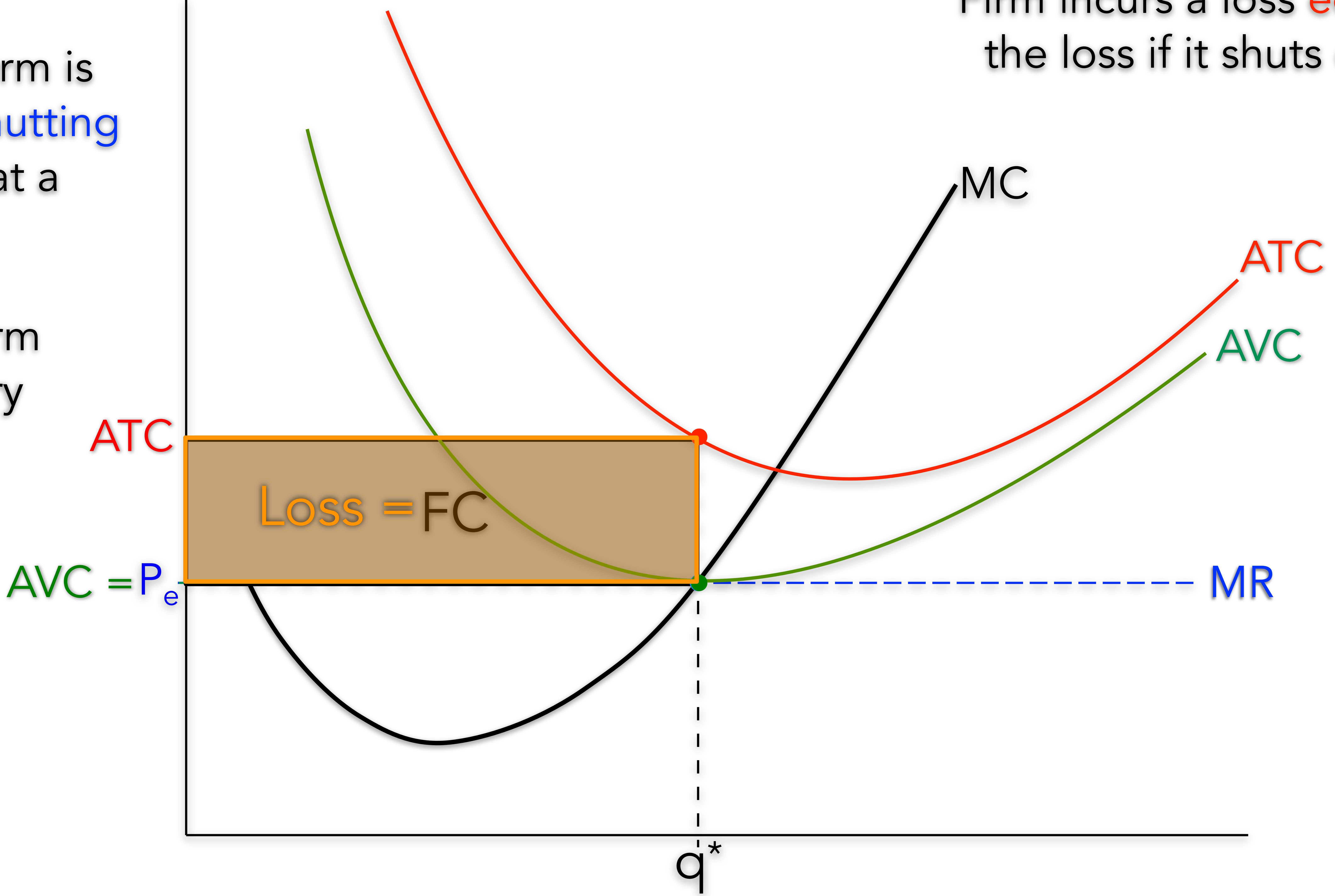
$$AVC = P_e < ATC \Rightarrow \underbrace{AVC \times q}_{VC} = \underbrace{P_e \times q}_{TR} < \underbrace{ATC \times q}_{TC} \Rightarrow$$

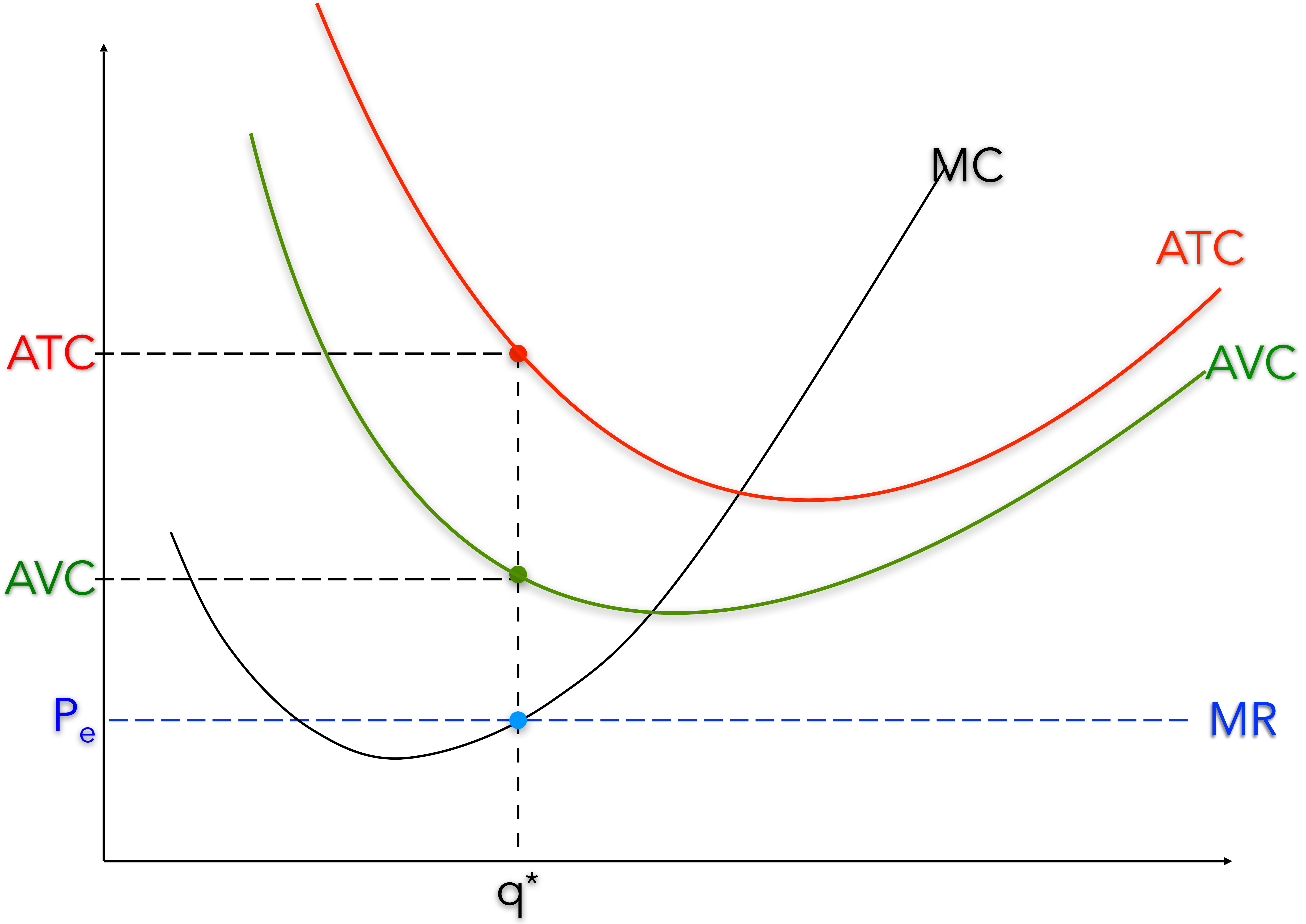
Firm incurs a loss equal to the FC

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




MC
ATC
AVC
ATC
AVC
Pe
MR
q*