

1

2

3

4

5

6

90

$$ATC \times q_0 = TC$$

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

To minimize the
loss, the firm must
produce q_0

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

Loss if the firm produce q_0

Loss if the firm produce q_0

Equal
to

Loss if the firm shuts
down = FC

W

h

e

n



h

e

P







e



S











W





h

e







m

m

u

S



d





d

e

W

h

e







S

h



u



d

p





d

u





a



a





S

S





S

h

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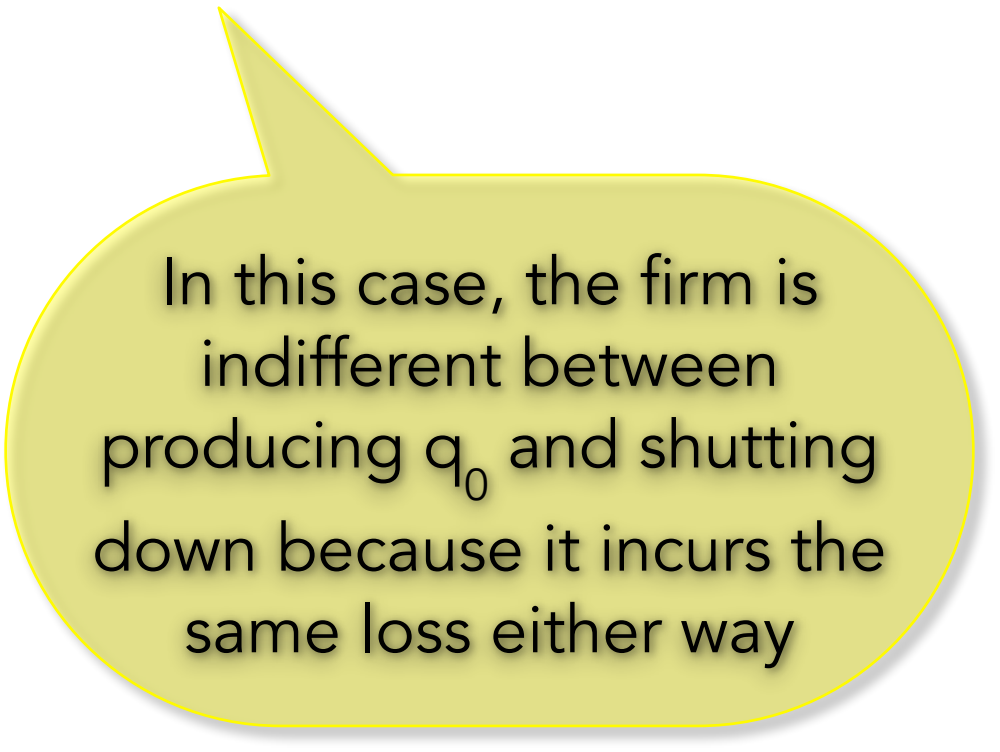


d



W

n



In this case, the firm is indifferent between producing q_0 and shutting down because it incurs the same loss either way

ATC=





AFC

Loss if the firm shuts
down = FC

R

u



e



T



C

h





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Z



n

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M

R



P, MC, MR, ATC, AVC

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**

