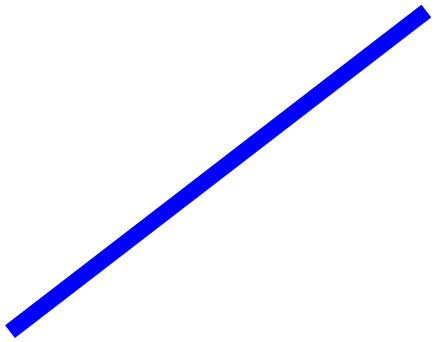
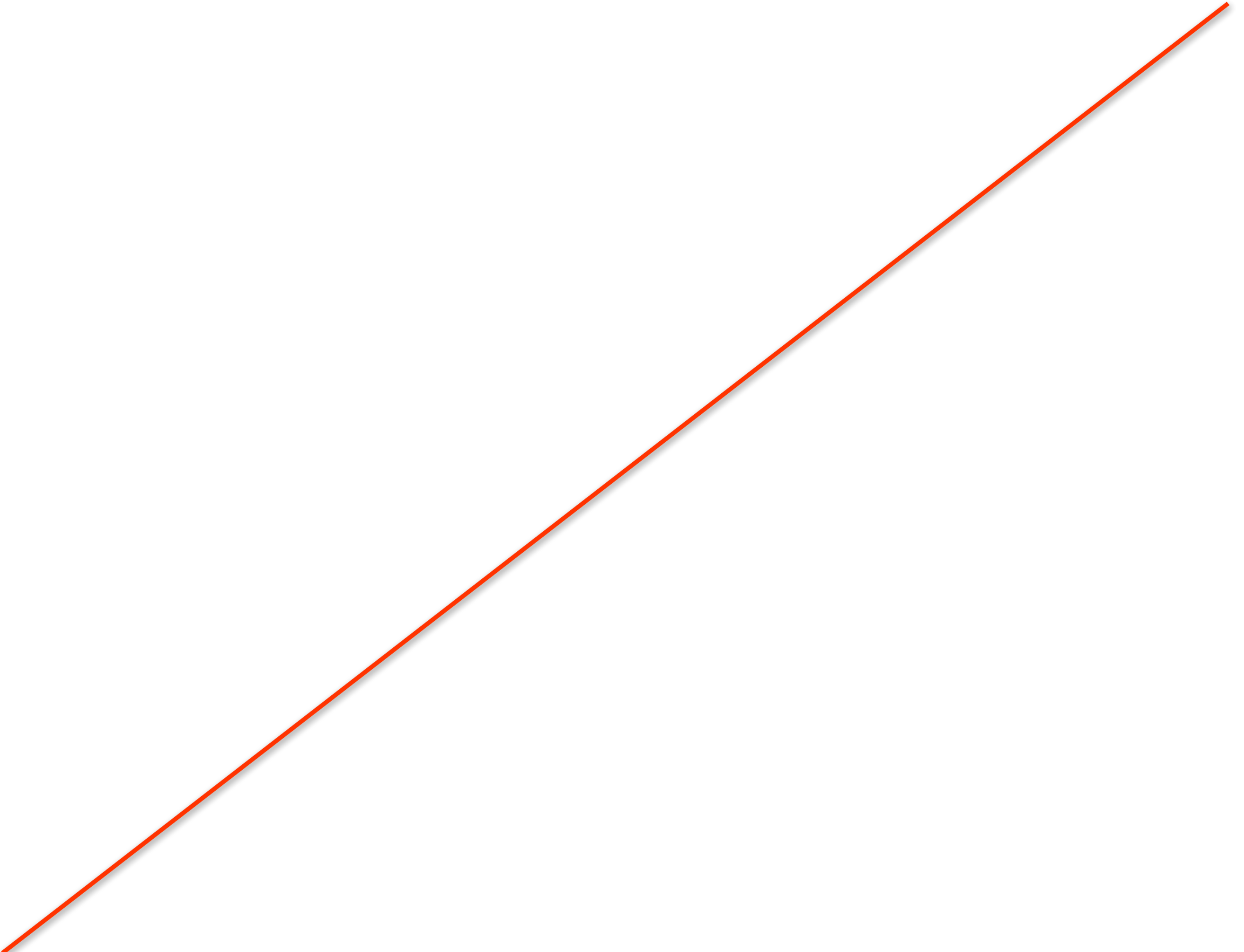


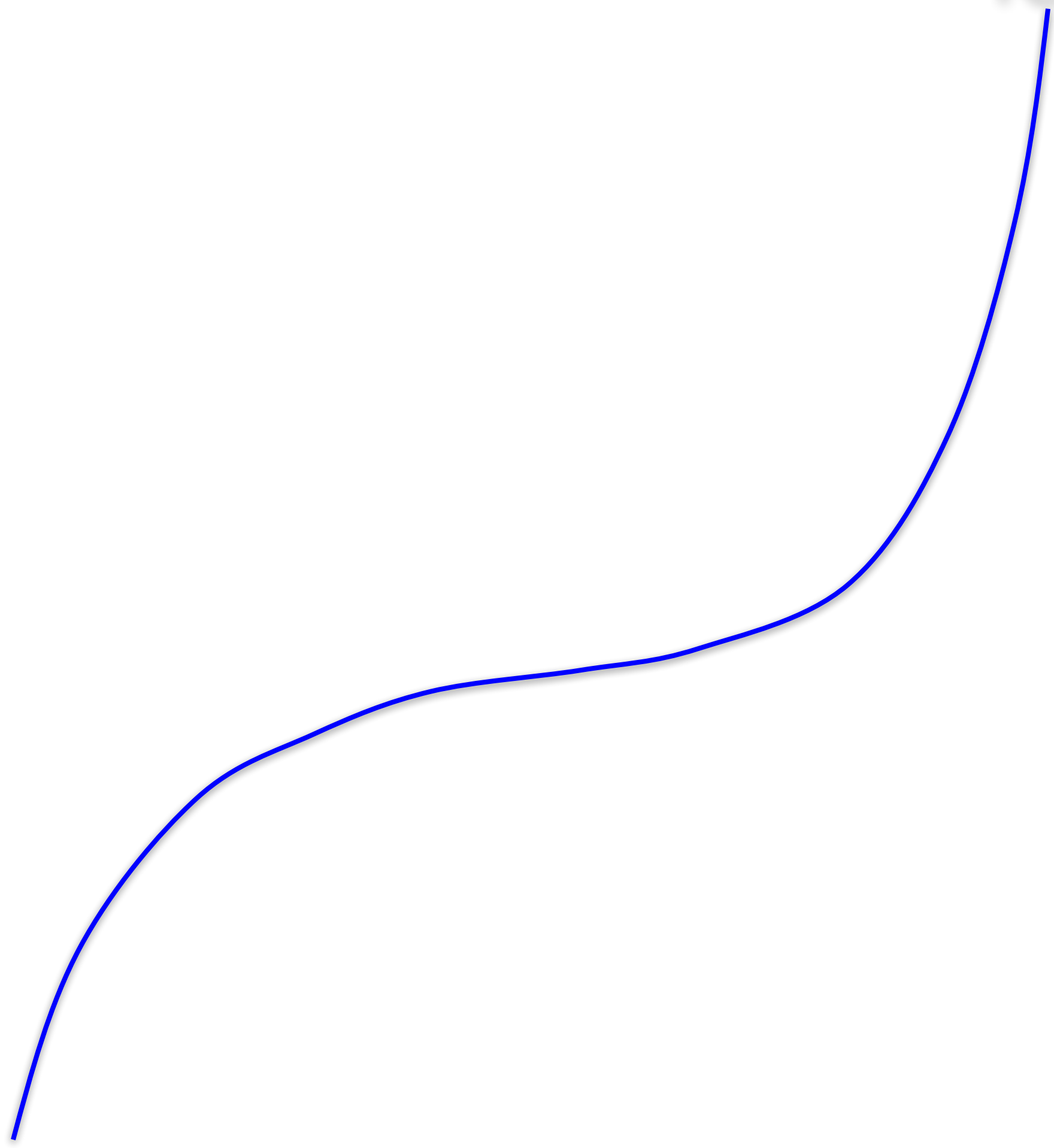
FC



TR

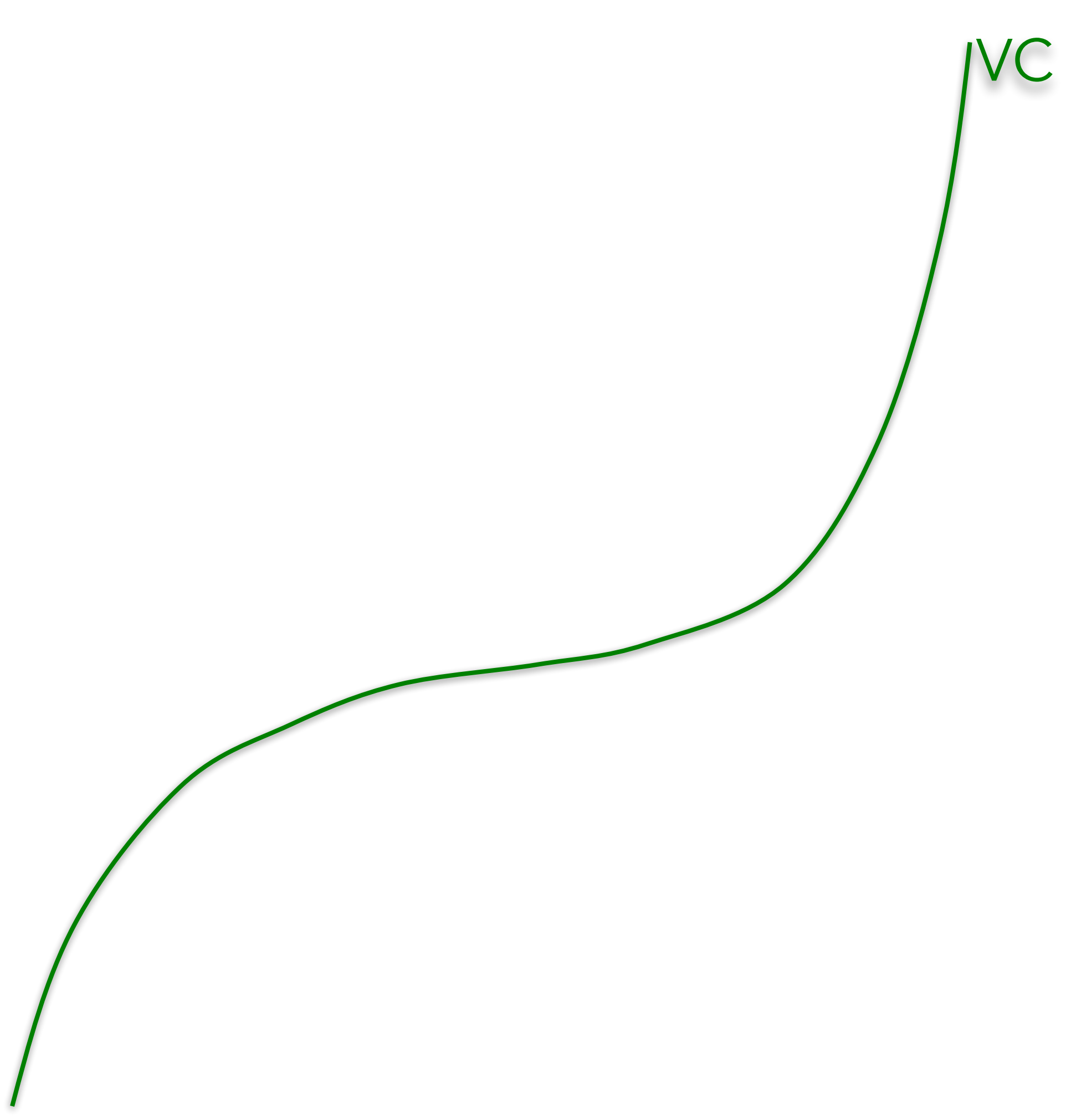


TC





q*





TR covers all VC and
part of the FC

VC



Loss less than FC

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

TR, TC, VC

Output

The firm incurs a loss smaller
than the loss if it shuts down

1

FC

TC



TR



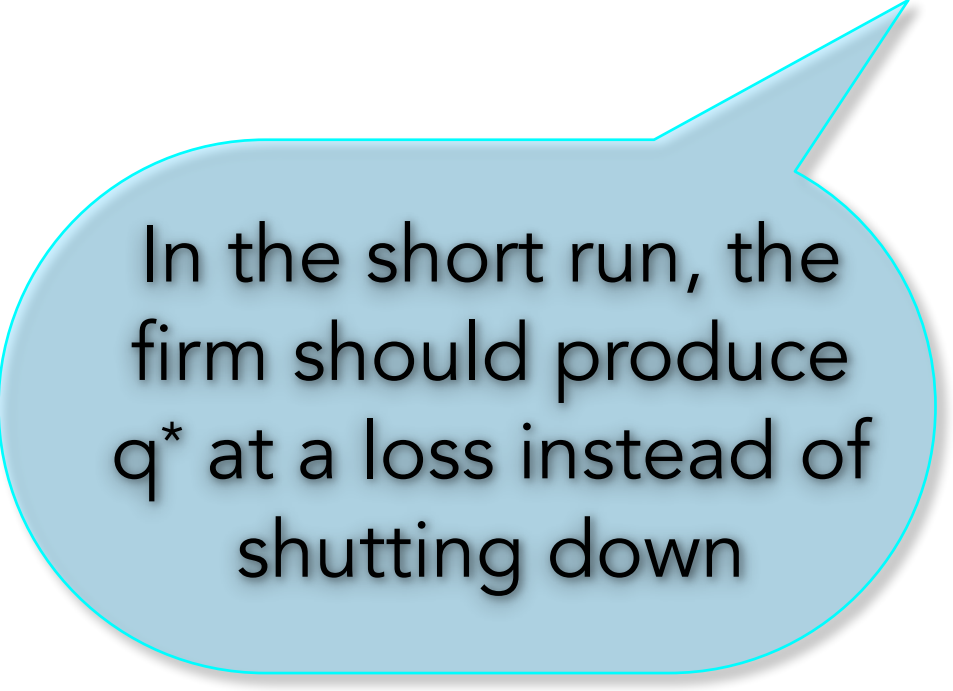
VC











In the short run, the
firm should produce
 q^* at a loss instead of
shutting down

If $VC < TR < TC$

The firm should exit the
industry in the long run

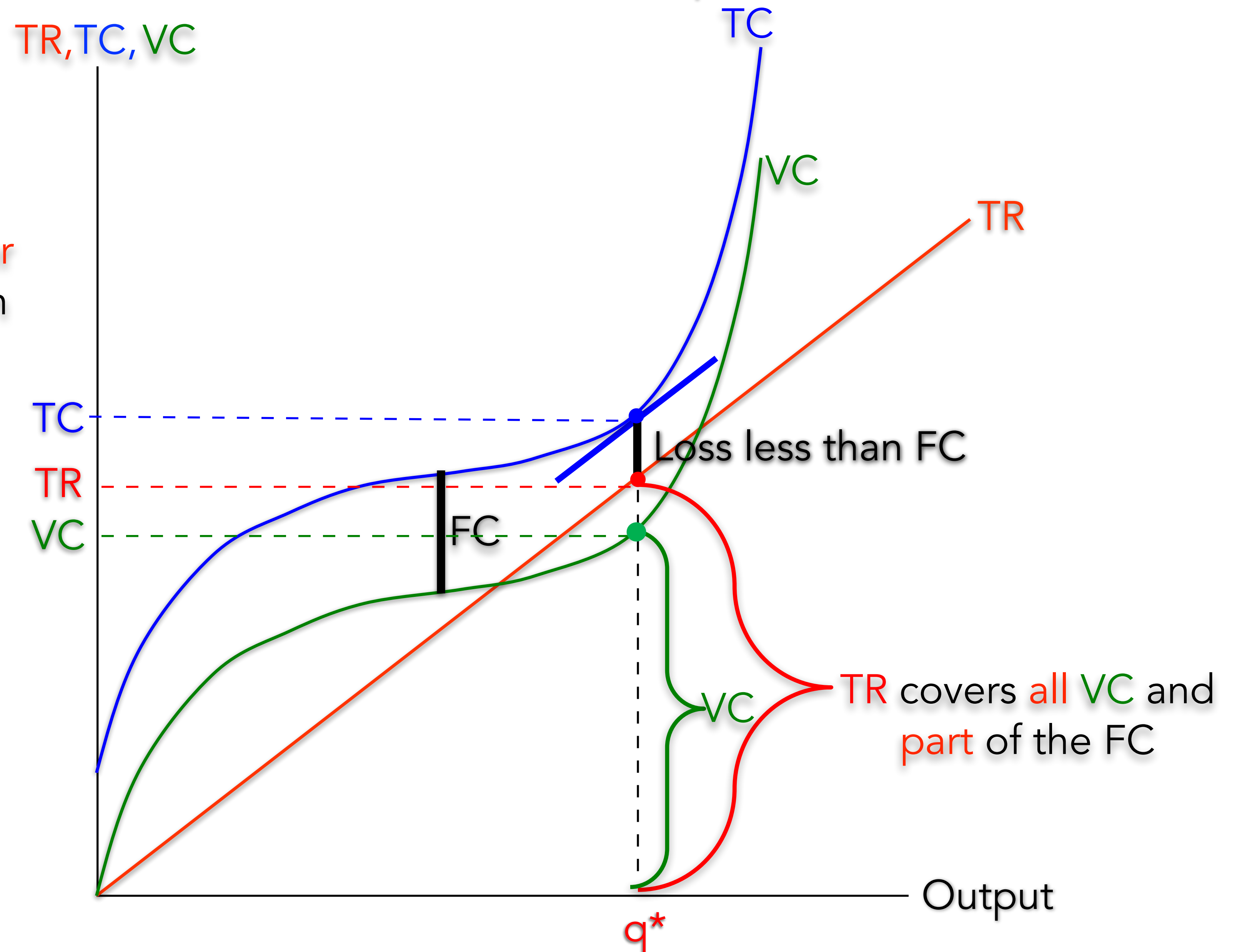
When the **price is too low**, the firm must decide whether it should **produce at a loss** or **shut down**

If $VC < TR < TC$

The firm incurs a loss **smaller** than the loss if it shuts down

In the short run, the firm should produce q^* at a loss instead of shutting down

The firm should **exit** 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

TR, TC, VC

Output