

**MC**

AVC

ATC





MR



Q



Pe

Firm should Produce  
 $q^*$ (at a loss) in the  
short run

Exit in the long run

AVC

<

P<sub>e</sub>

<

ATC



Revenue covers  
all VC and some  
FC



AVC



$$AVC \times q \leq P_e \times q \leq ATC \times q$$



VC

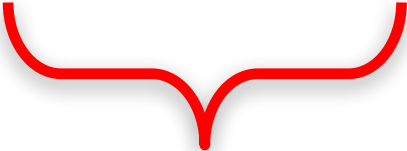
<

TR

<

TC





Firm incurs a loss  
smaller than the FC



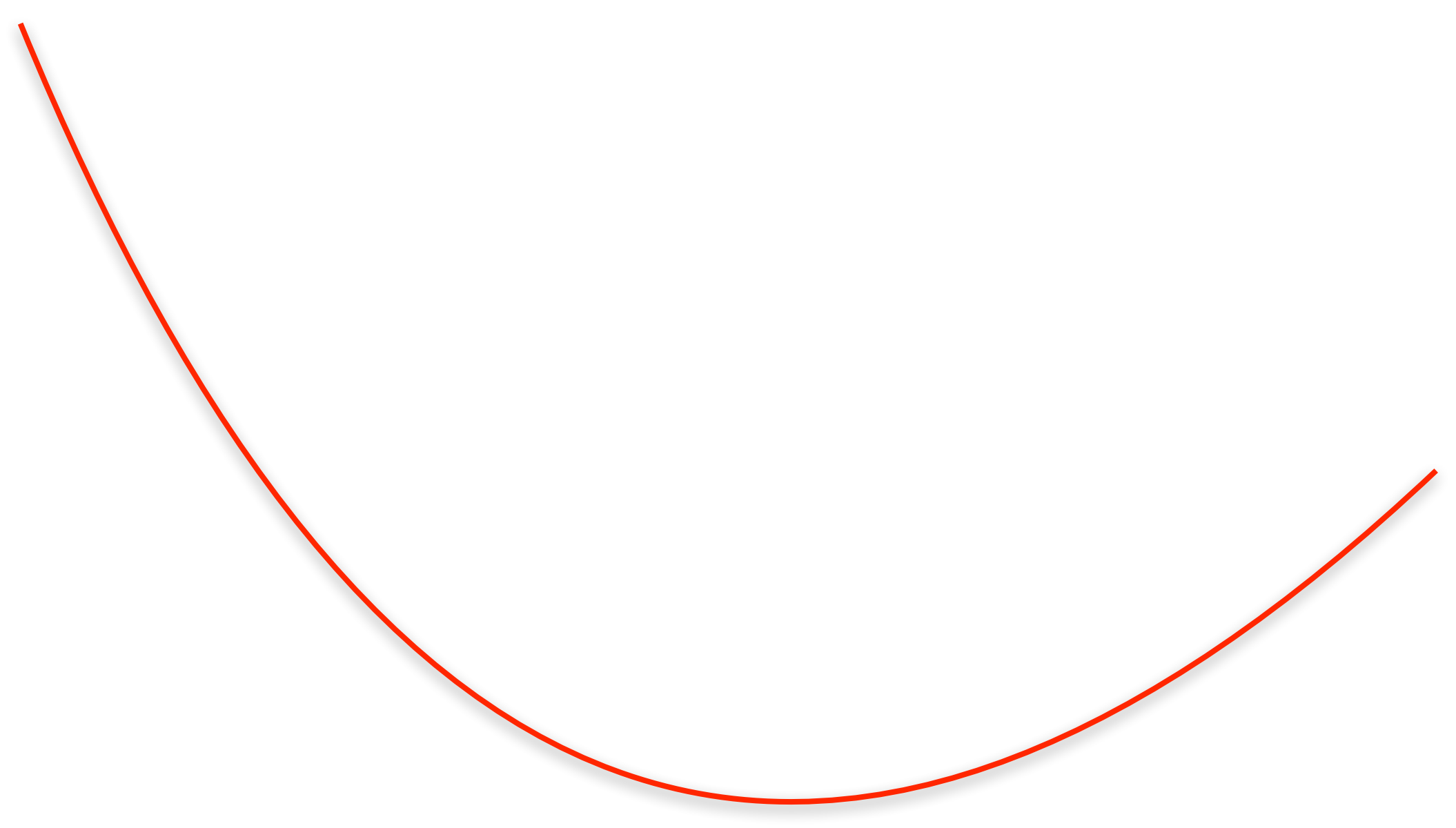


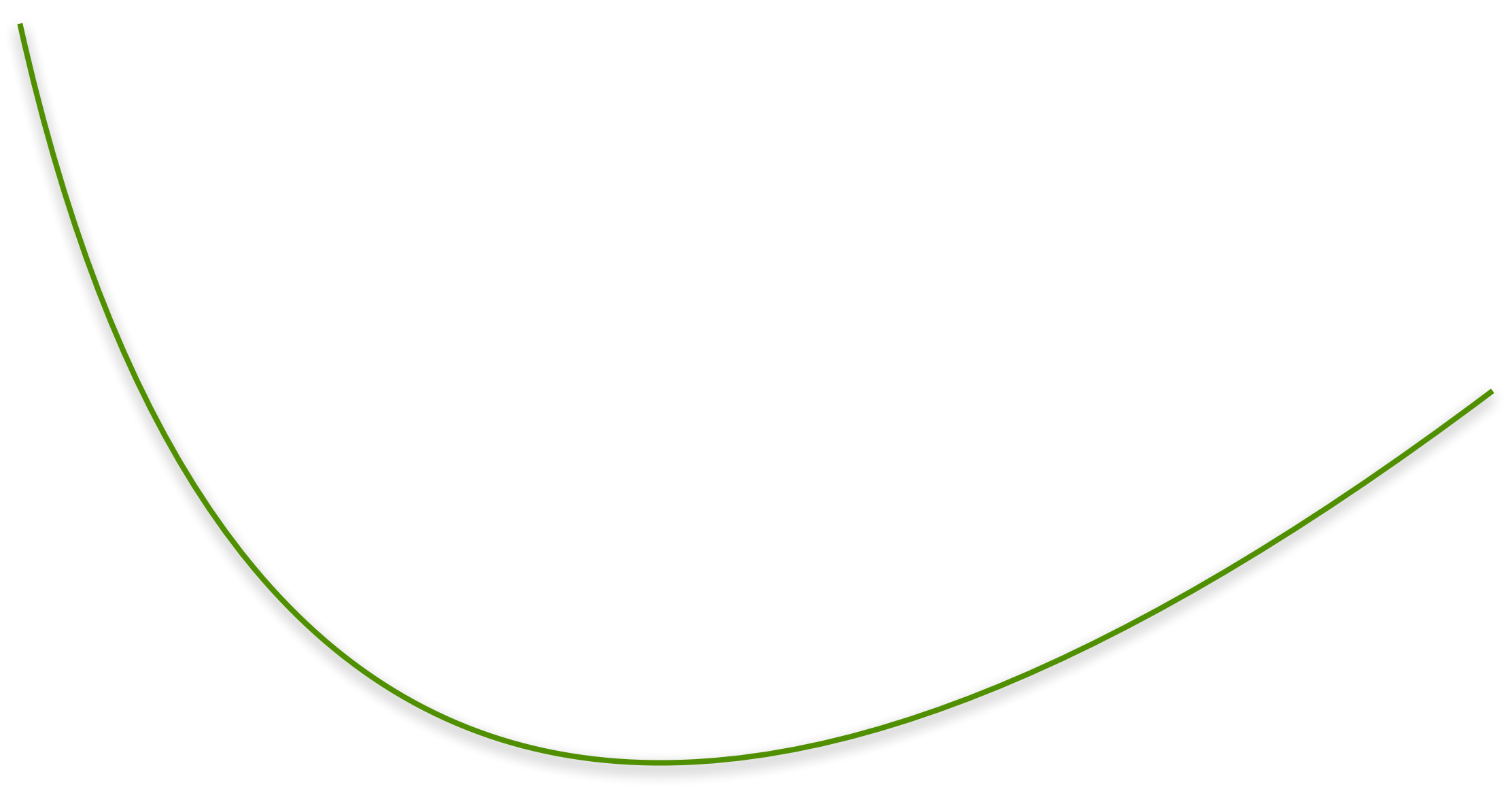
VC

FC

TR

Firm incurs a loss smaller  
than the loss if it shuts down











ATC





Loss <

$$AVC < P_e < ATC$$



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



Firm incurs a loss  
**smaller** than the FC

Firm incurs a loss **smaller**  
than the loss if it **shuts down**

Firm should **Produce**  
 $q^*$  (at a loss) in the  
**short run**

**Exit** in the **long run**

