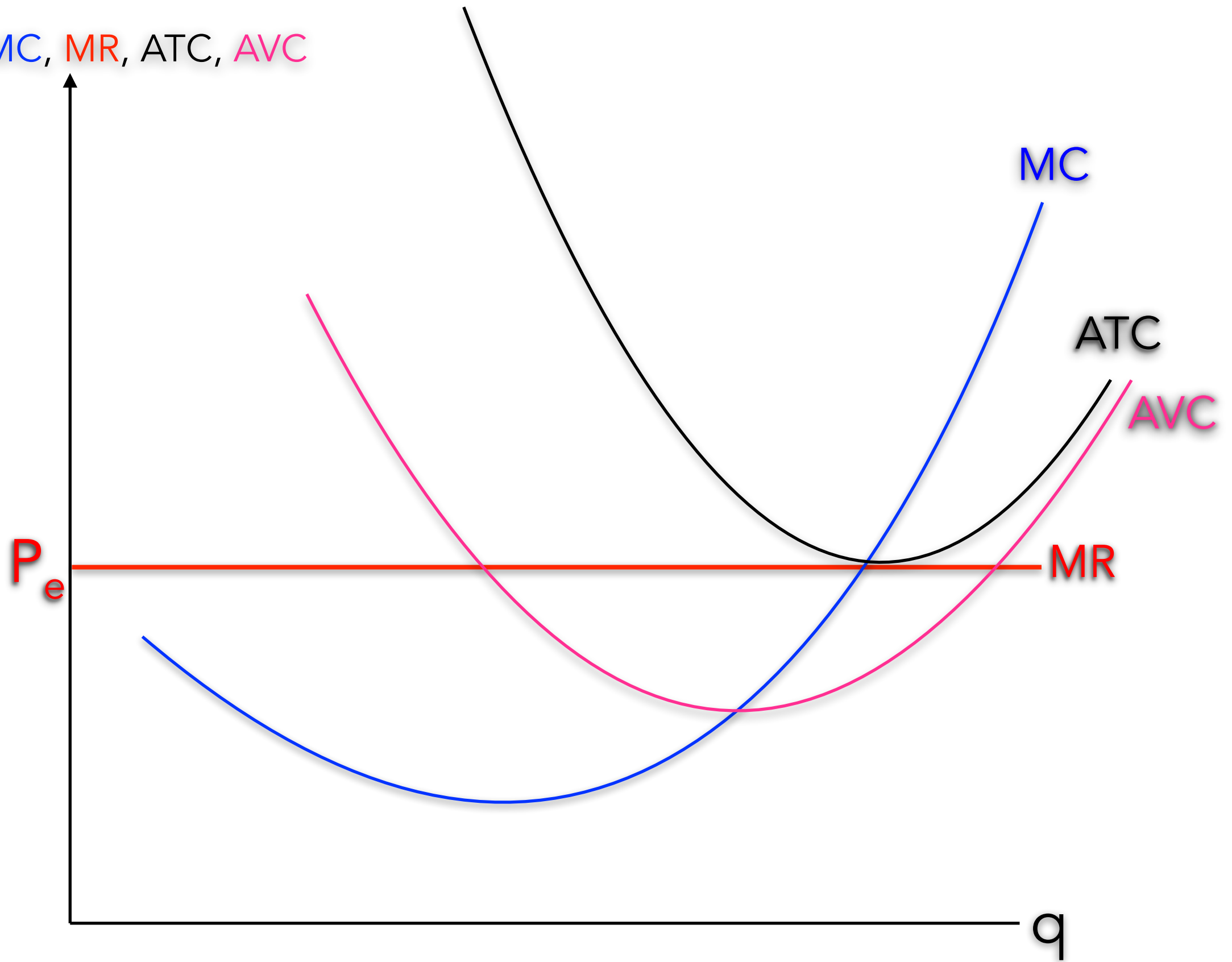


P, MC, MR, ATC, AVC



$$ATC \times q_0 = TC$$

1

2

3

4

5

6

7

8

9

0

90

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

Loss if the firm
produce $q_0 = \text{zero}$ Less
than

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

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S

h



u



d

p





d

u





a



a





S

S





S

h

u

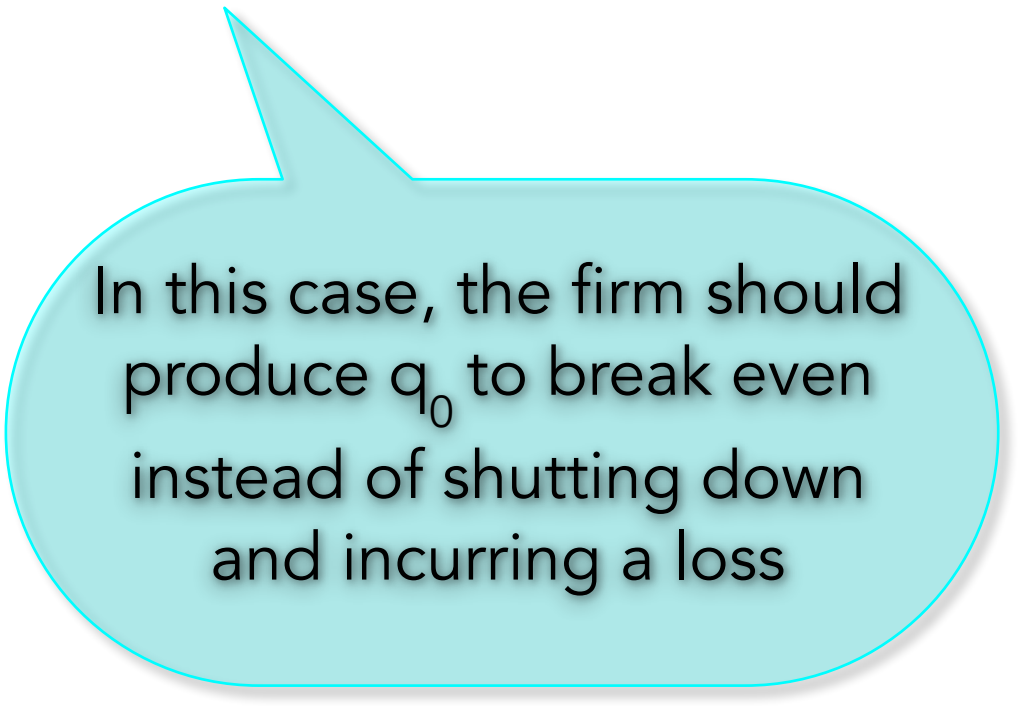


d



W

n



In this case, the firm should
produce q_0 to break even
instead of shutting down
and incurring a loss

|

AFC

Loss if the firm shuts down = FC

R

u



e



T



C

h





S

e

j

h

e





S

S

m



n



m



Z



n

g



u



p

u





e

V

e





h







m



h





S

e

S

9

W

h

e



e

M



[REDACTED]

[REDACTED]

M

R



$$TR = TC$$

ATC=



If the **Price** = ATC the
firm breaks even

Loss if the firm
produce $q_0 = \text{zero}$

To minimize the
loss, the firm must
produce q_0

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**

