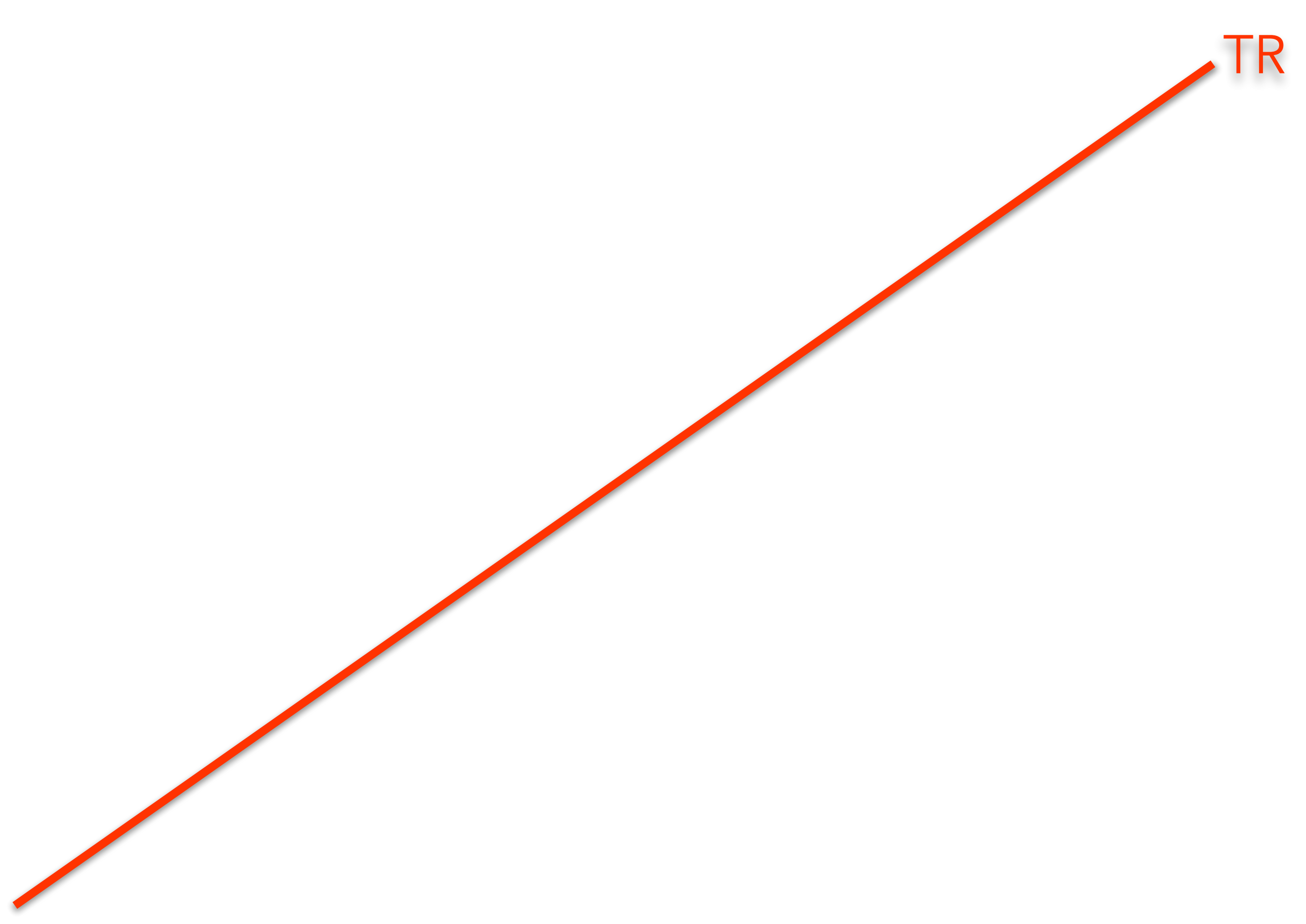
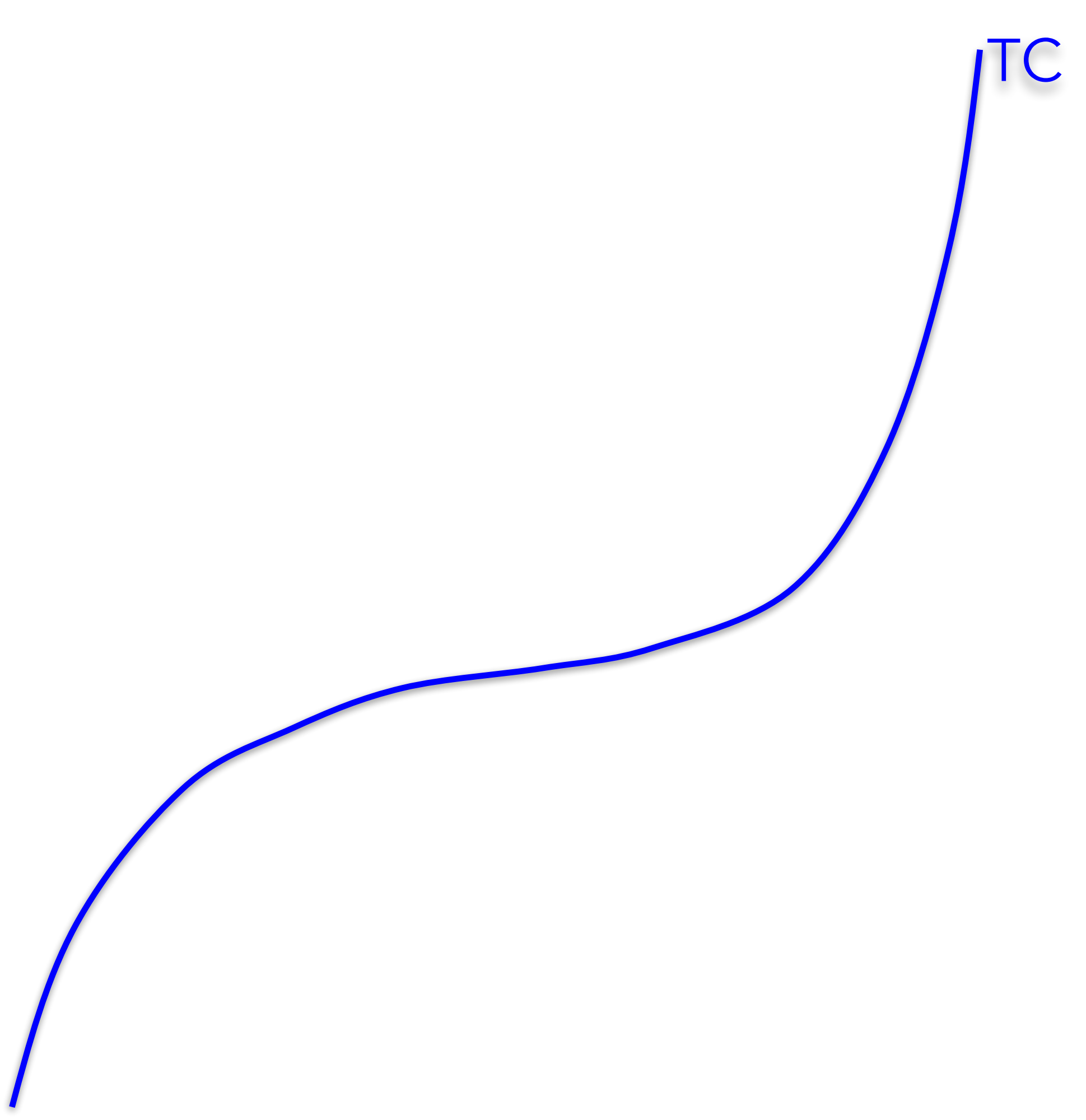
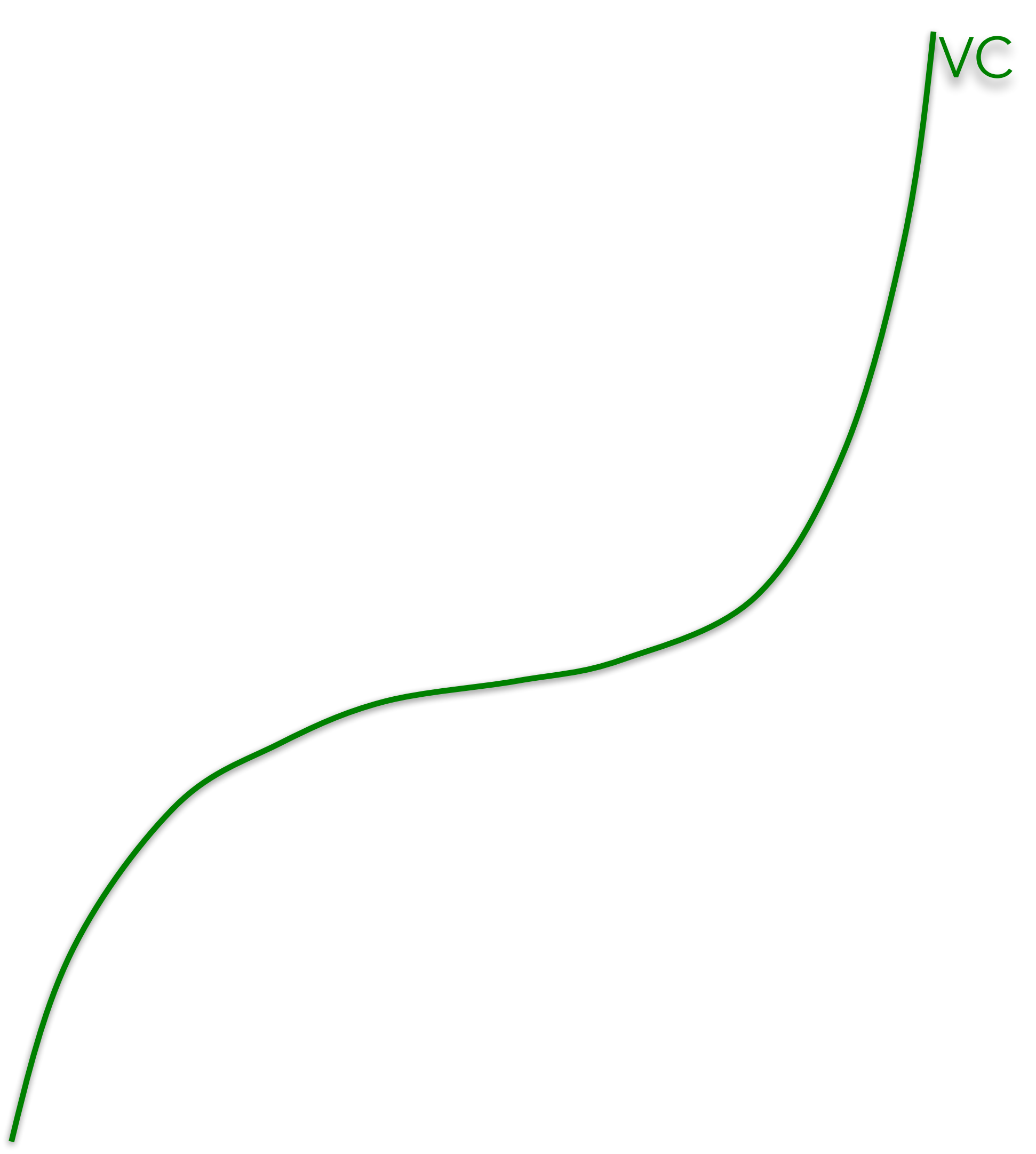


TR





Q*



FC

If the firm produces q^* it incurs a **loss larger** than the loss if it shuts down.

FC





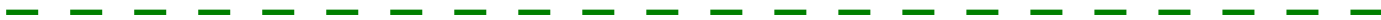


When the price is too low, the firm must decide whether it should produce at a loss or shut down

TC



VC




TR



TR, TC, VC

Output


$$TR < VC$$



VC

If $TR < VC < TC$



In the short run,
the firm should
shut down

The firm should exit the
industry in the long run



Loss greater
than FC

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

If $TR < VC < TC$

If the firm produces q^* it incurs a **loss larger** than the loss if it shuts down.

In the short run,
the firm should
shut down

The firm should **exit** the
industry in the **long run**

