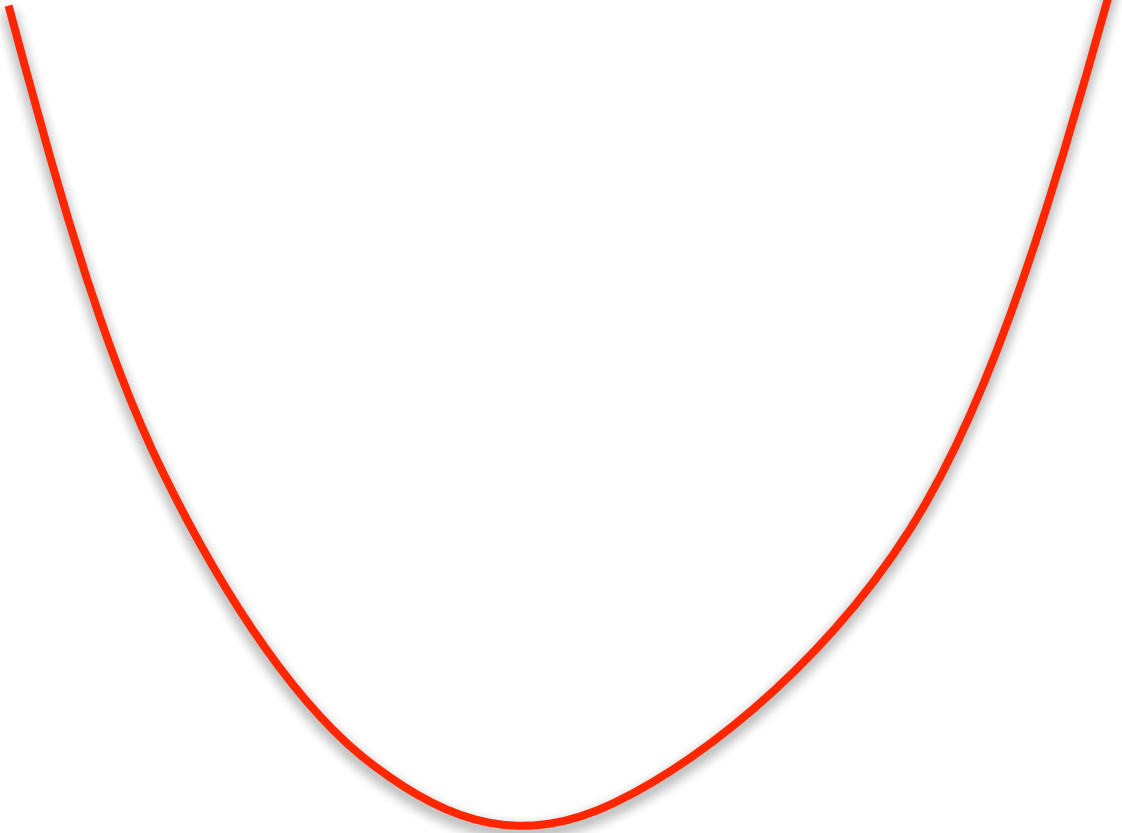
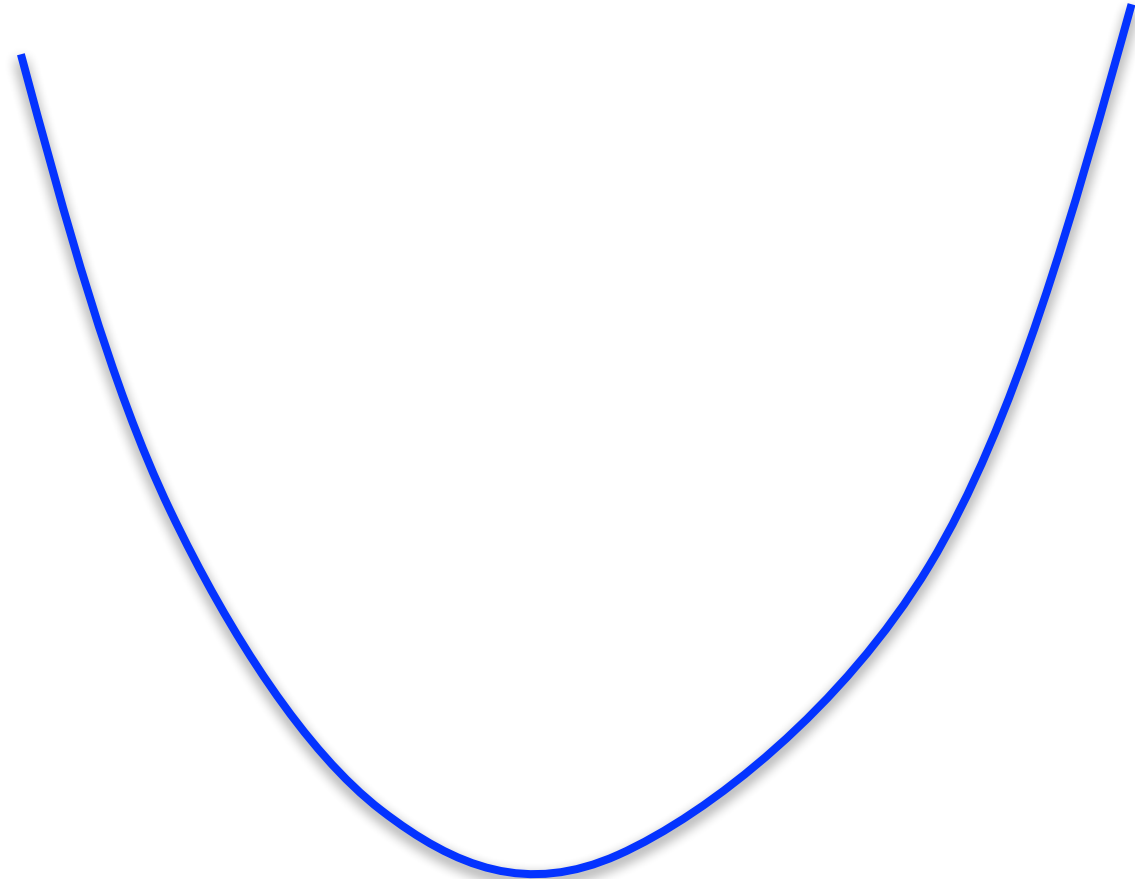


SRATC1



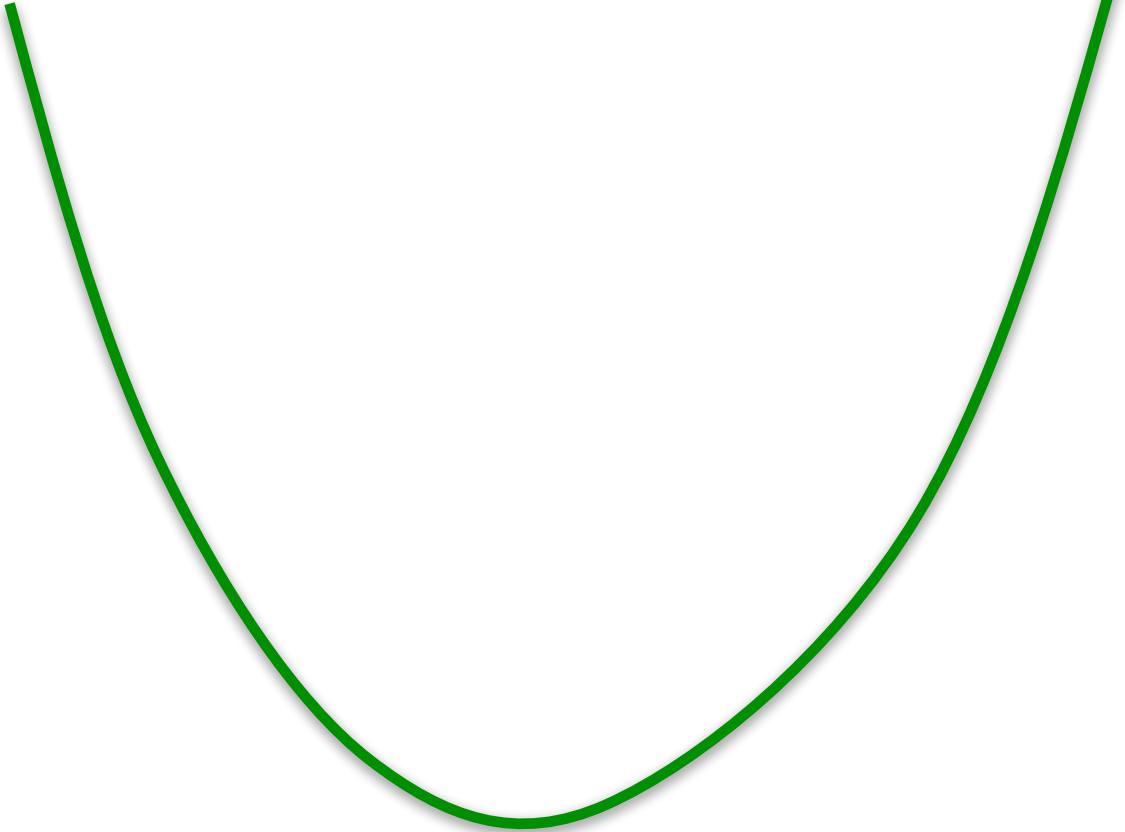
SRATC2

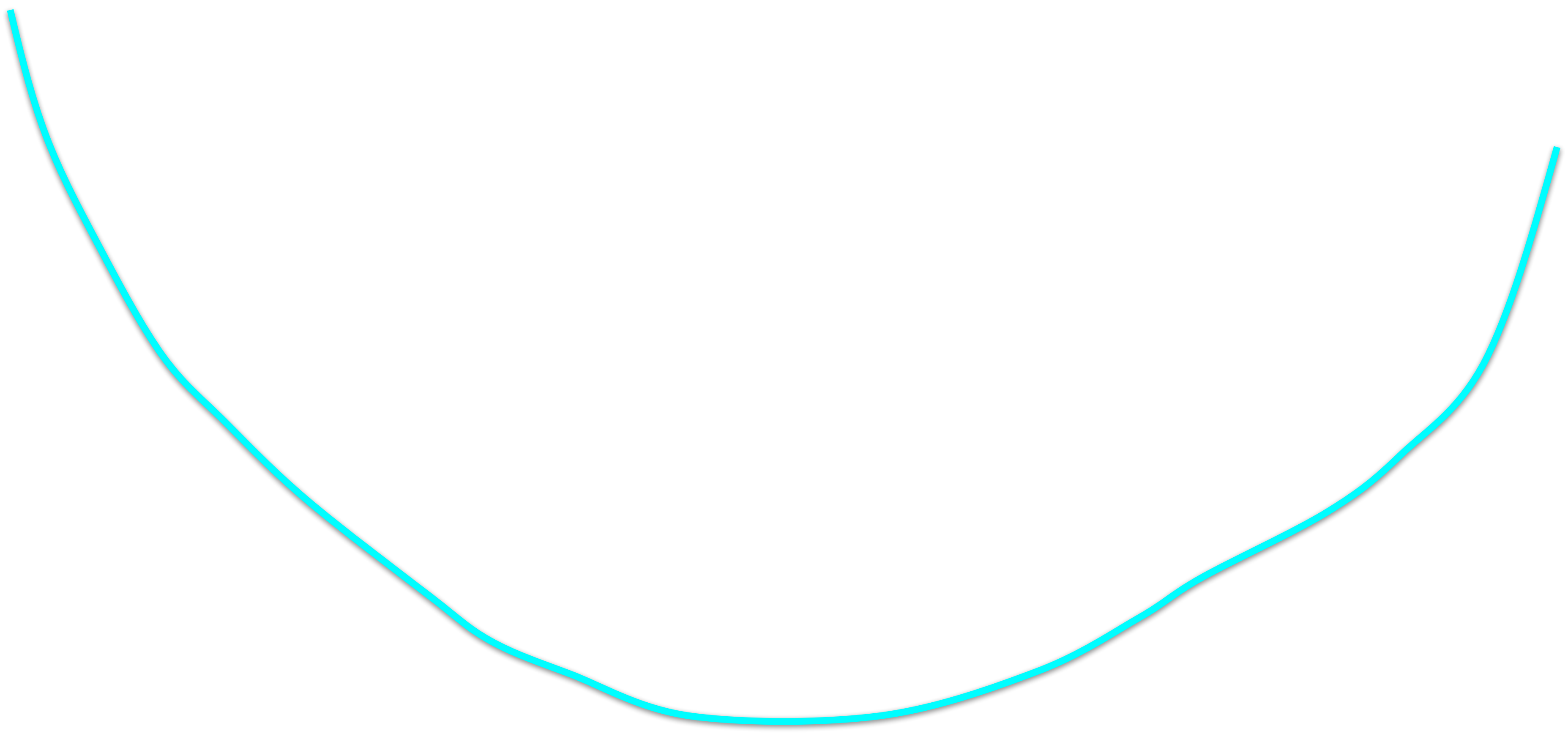


SRATC6



SRATC7





LRATC



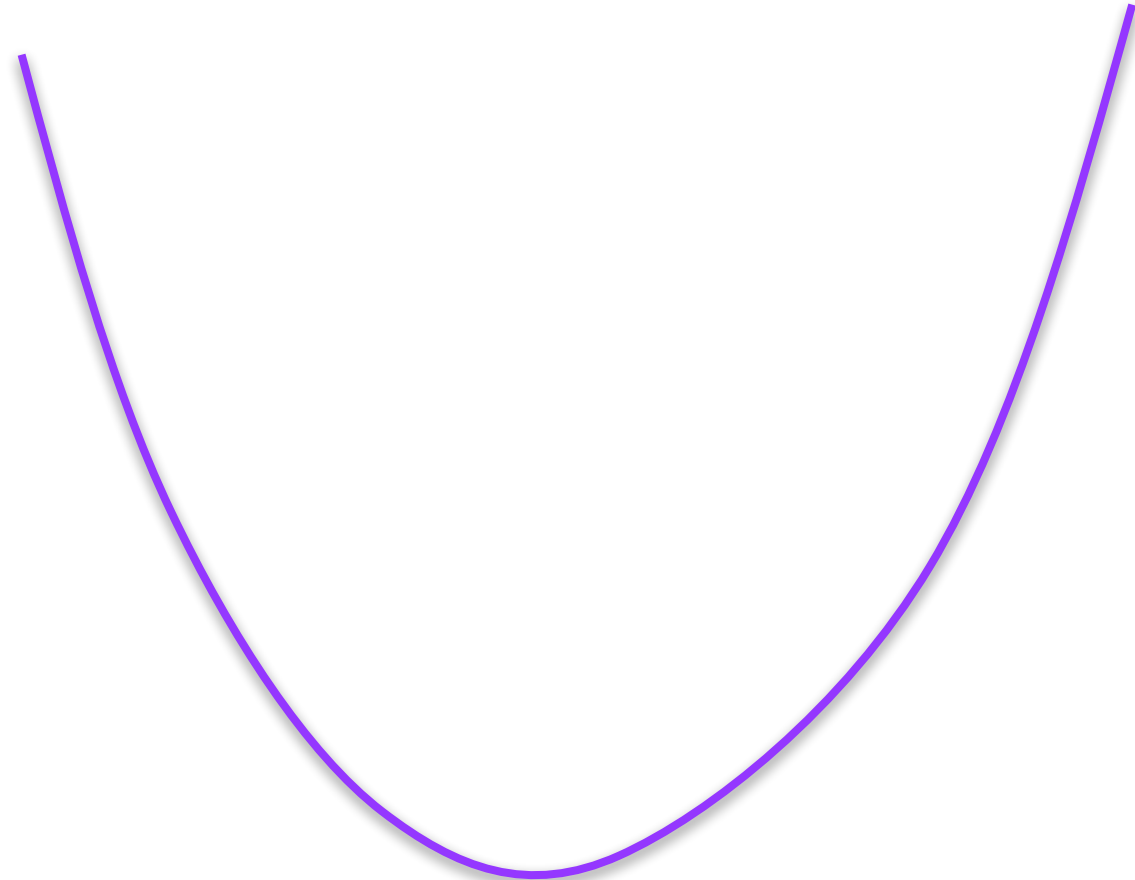
SRATC4



Output

NOTHING BUT
THE CROWN

SRATC3



If firms in the industry are not minimizing the LRATC, firms have an incentive to change the plant size

The firm should
expand the plant

The firm should
contract the plant

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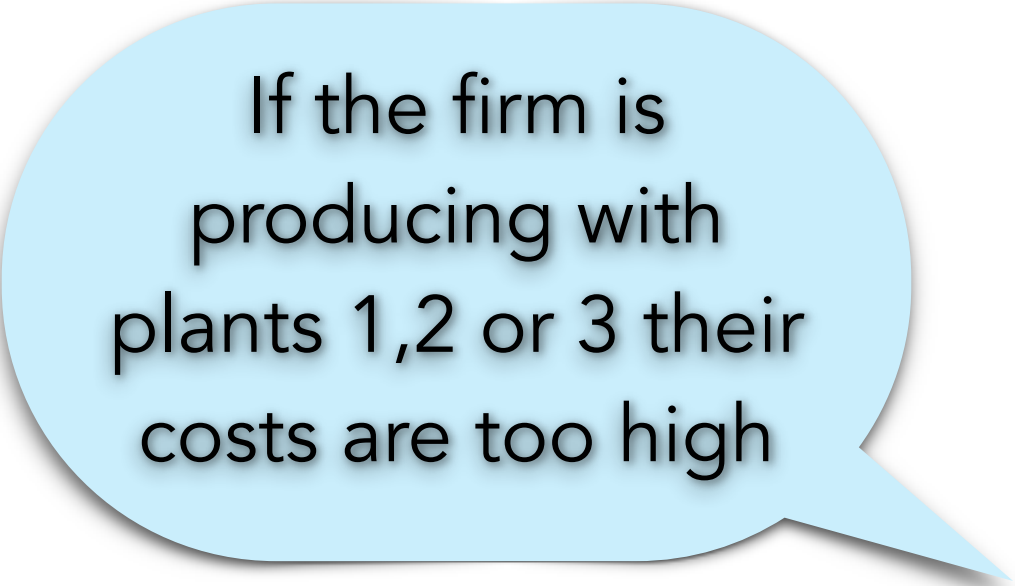


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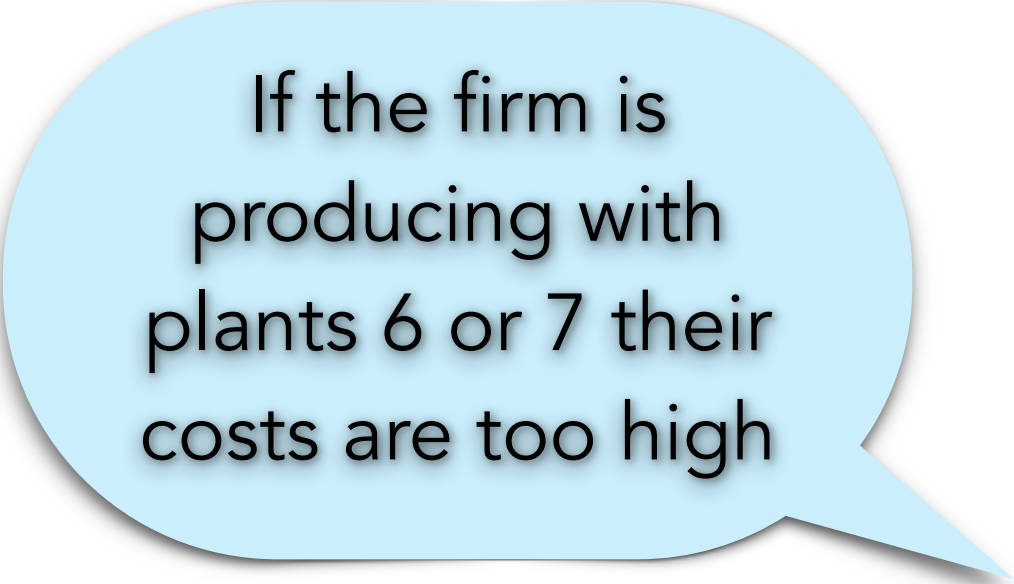
d



Y



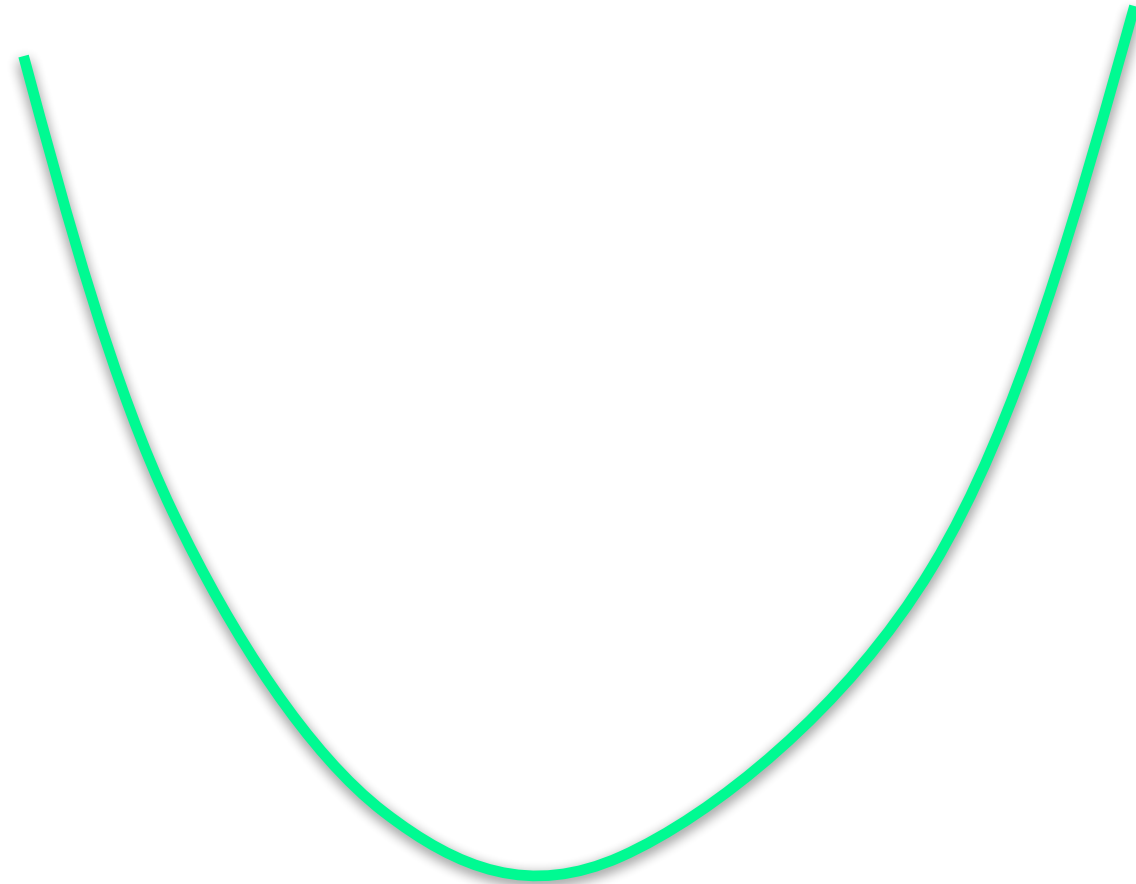
If the firm is
producing with
plants 1,2 or 3 their
costs are too high



If the firm is
producing with
plants 6 or 7 their
costs are too high

Lowest LRATC ← - - - - -

SRATC5

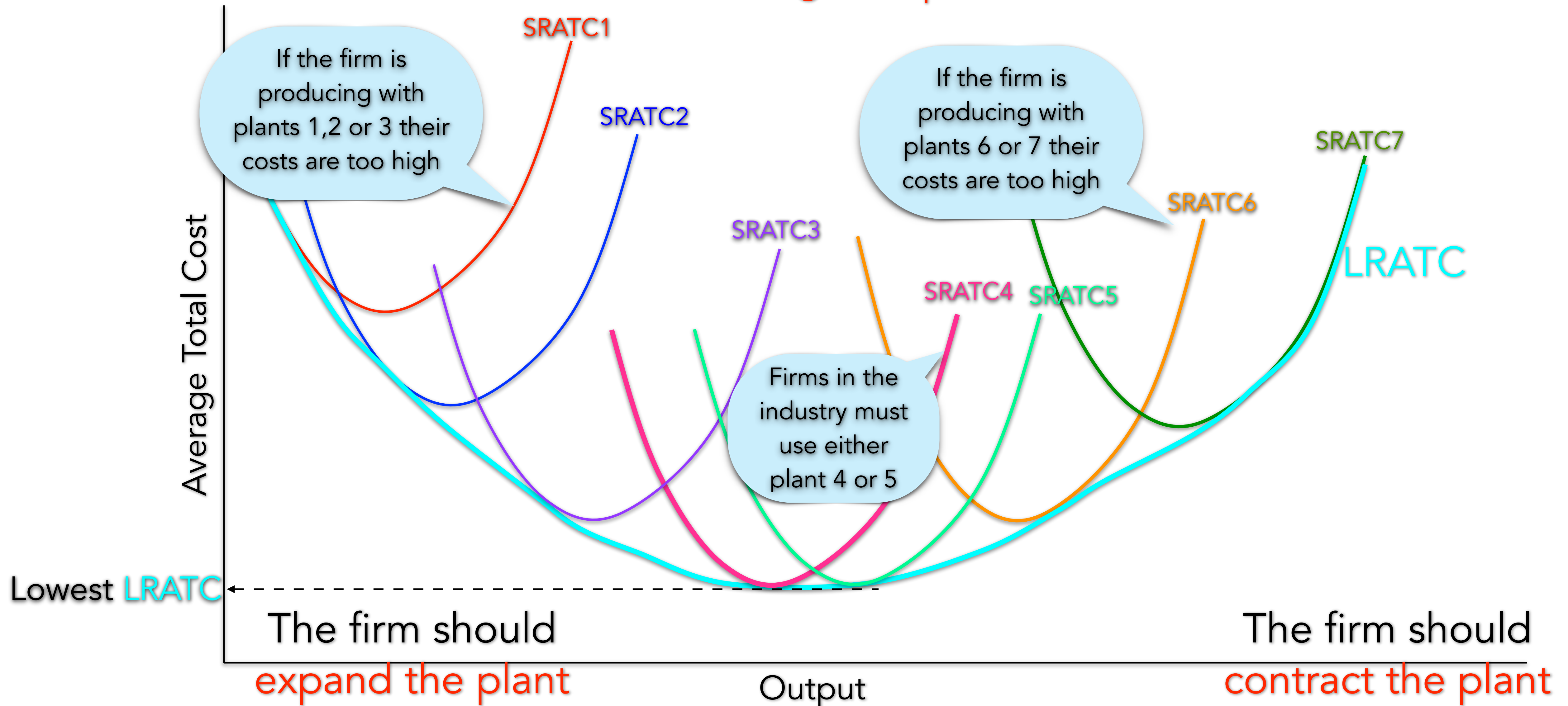




Firms in the
industry must
use either
plant 4 or 5

Firms must use the **lowest cost** plant in order to survive in the industry

If firms in the industry are not minimizing the **LRATC**, firms have an incentive to **change** the **plant** size



Firms must use the **lowest cost** plant in order to survive in the industry

Equilibrium in the Industry