

1

2

3

4

5

6

7

8

9

10

11

12

13

14

94

95

9%



$\text{MR} \equiv \text{P}_6$

$$MR = P_5$$

$MR \equiv P_4$

MC

If $\text{Price} = \text{ATC}$ the firm is Indifferent between exiting the industry and producing q^* because it makes zero economic profit either way

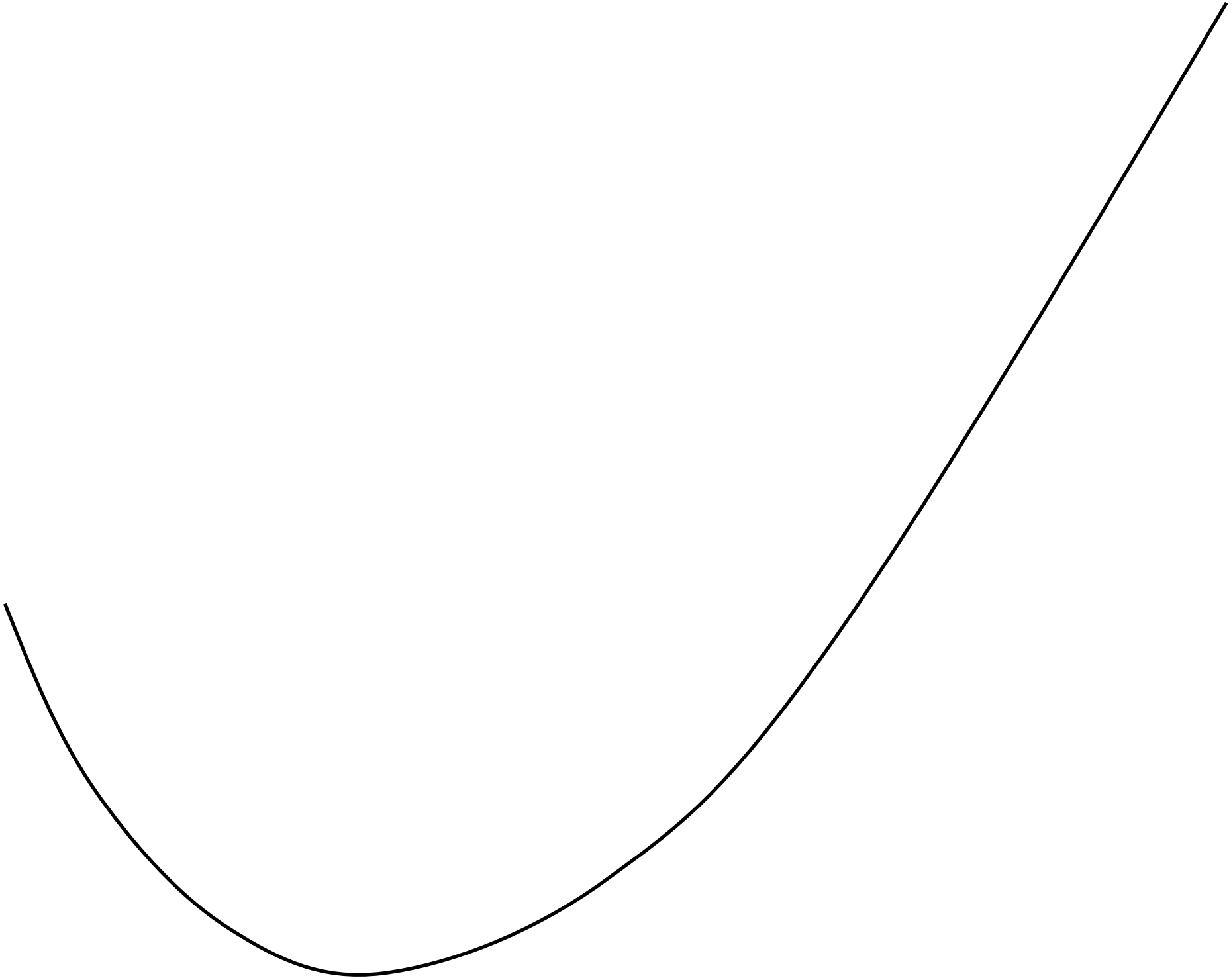
P_1 ----- $MR=P_1$

If **Price** $<$ **ATC** the firm incurs a loss and
should exit the industry

The Firm's Long Run Decision







$$P_3 \text{-----} MR=P_3$$

$$P_2 \text{ ----- } MR=P_2$$

P_0



$MR=P_0$

Quantity Supplied in the Long Run

[illegible]

P_6

q_6

P_5

q_5

P_4

0 or q_4

P_3

0

P_2

0

P_1

0

P₀

0

If $\text{Price} > \text{ATC}$ the firm should produce q^*
(where $\text{MC} = \text{MR}$) because it makes a profit







e



h



P









d





p

S

b

e





W



h



A

T





h

e







m

S

h



u



d











S





a

d





P





d

U





n

g







W

h







M



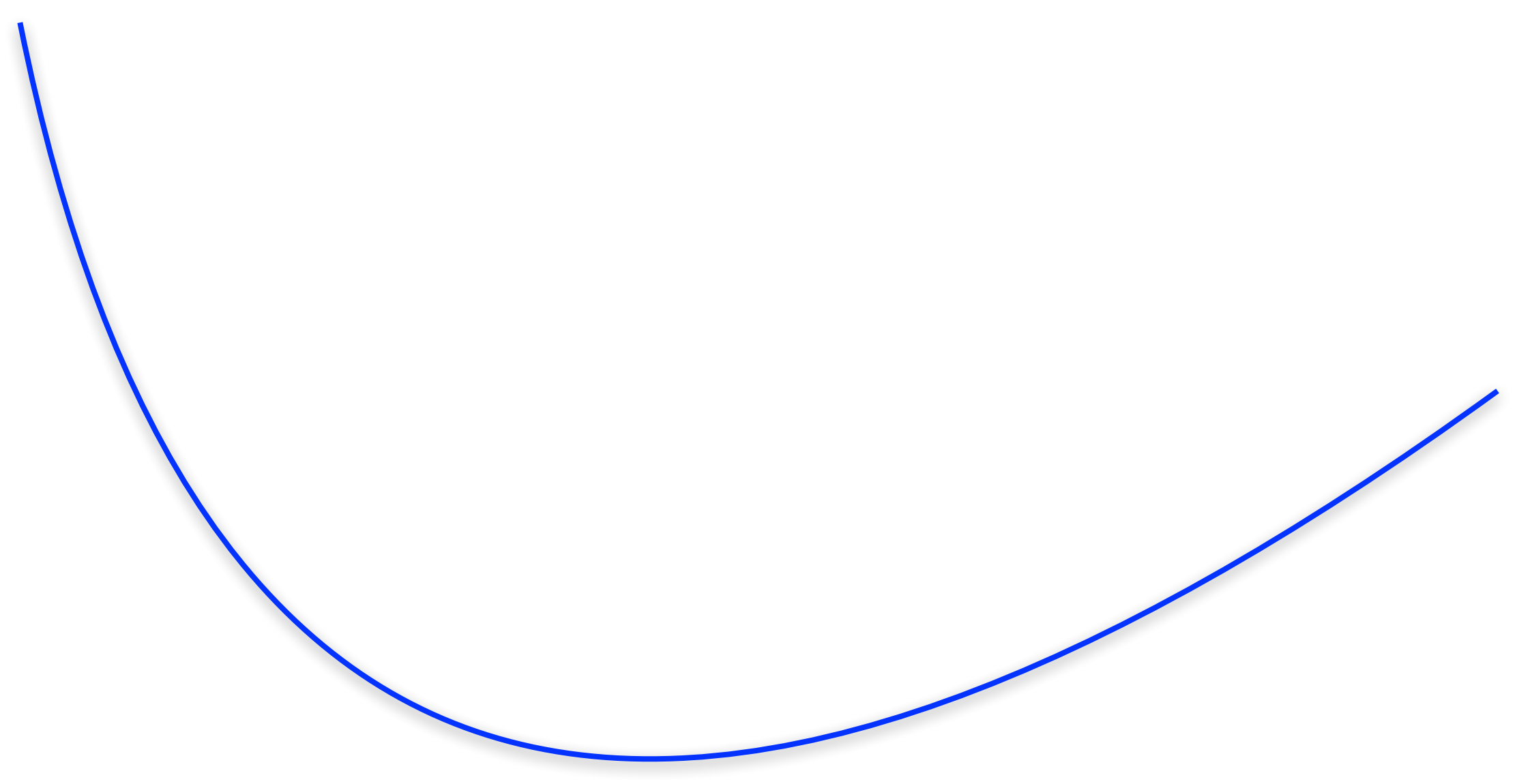
[REDACTED]

[REDACTED]

M

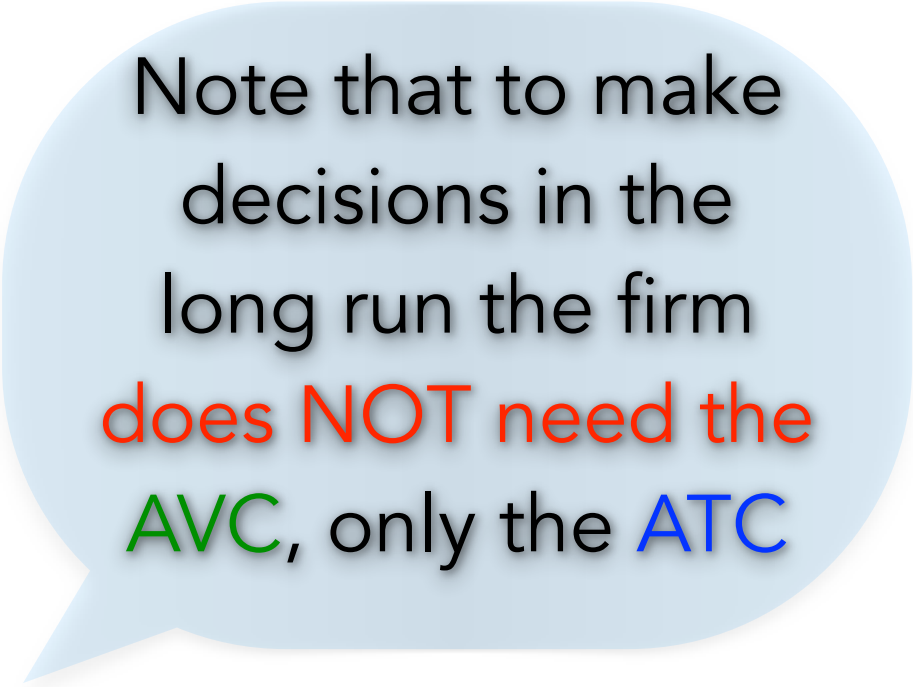
R





ATC

P₄-----



Note that to make
decisions in the
long run the firm
does NOT need the
AVC, only the ATC



Q





Q









$$q = 0$$

q

=

0

Q





P₆



P₅



$$q = 0$$

Once the Price drops below the ATC the firm should exit instead of producing q^* (where $MC = MR$)

q

=

0

$$q = 0$$

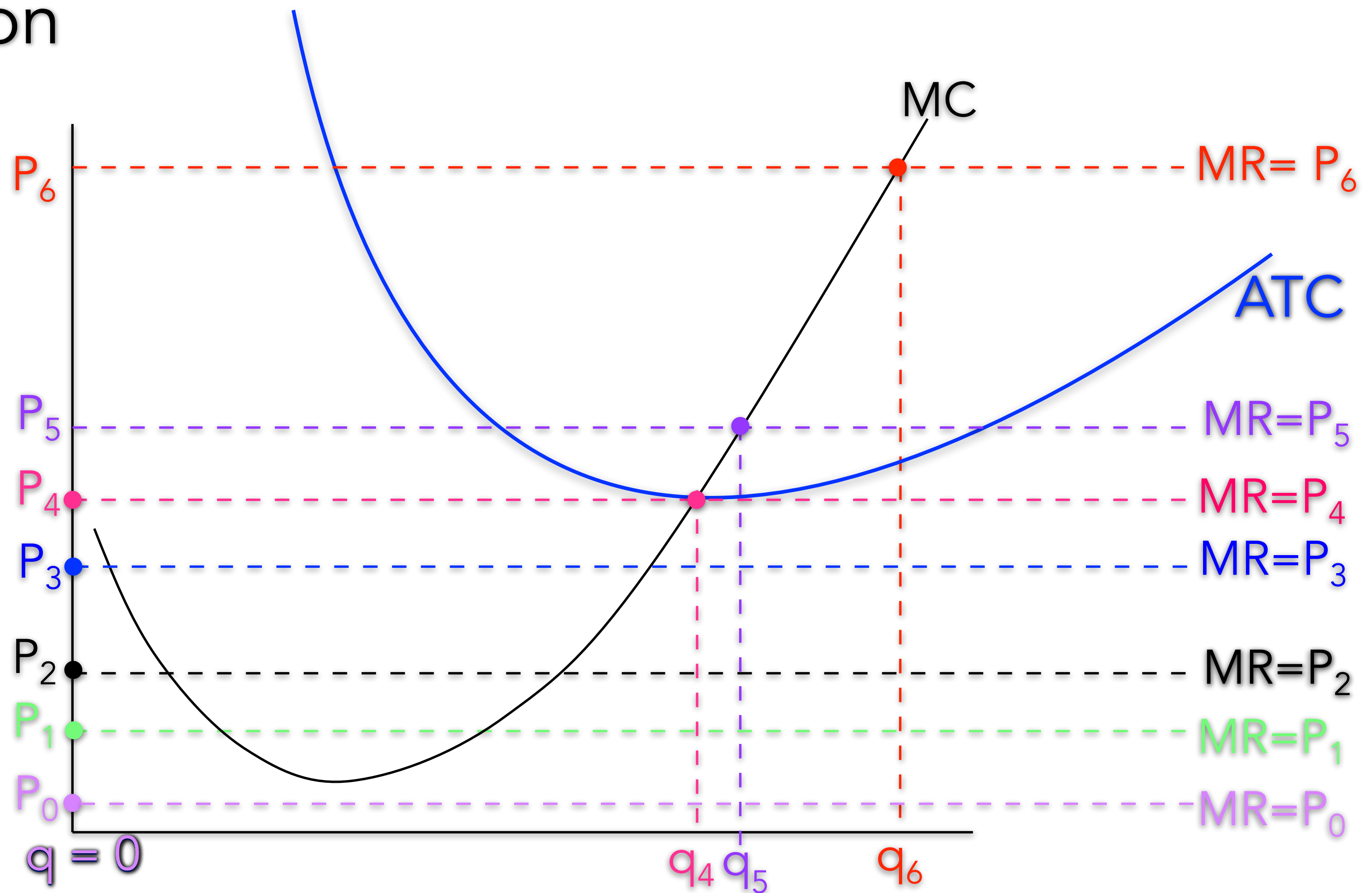
The Firm's Long Run Decision

If **Price** > **ATC** the firm should **produce** q^* (where $MC = MR$) because it makes a profit

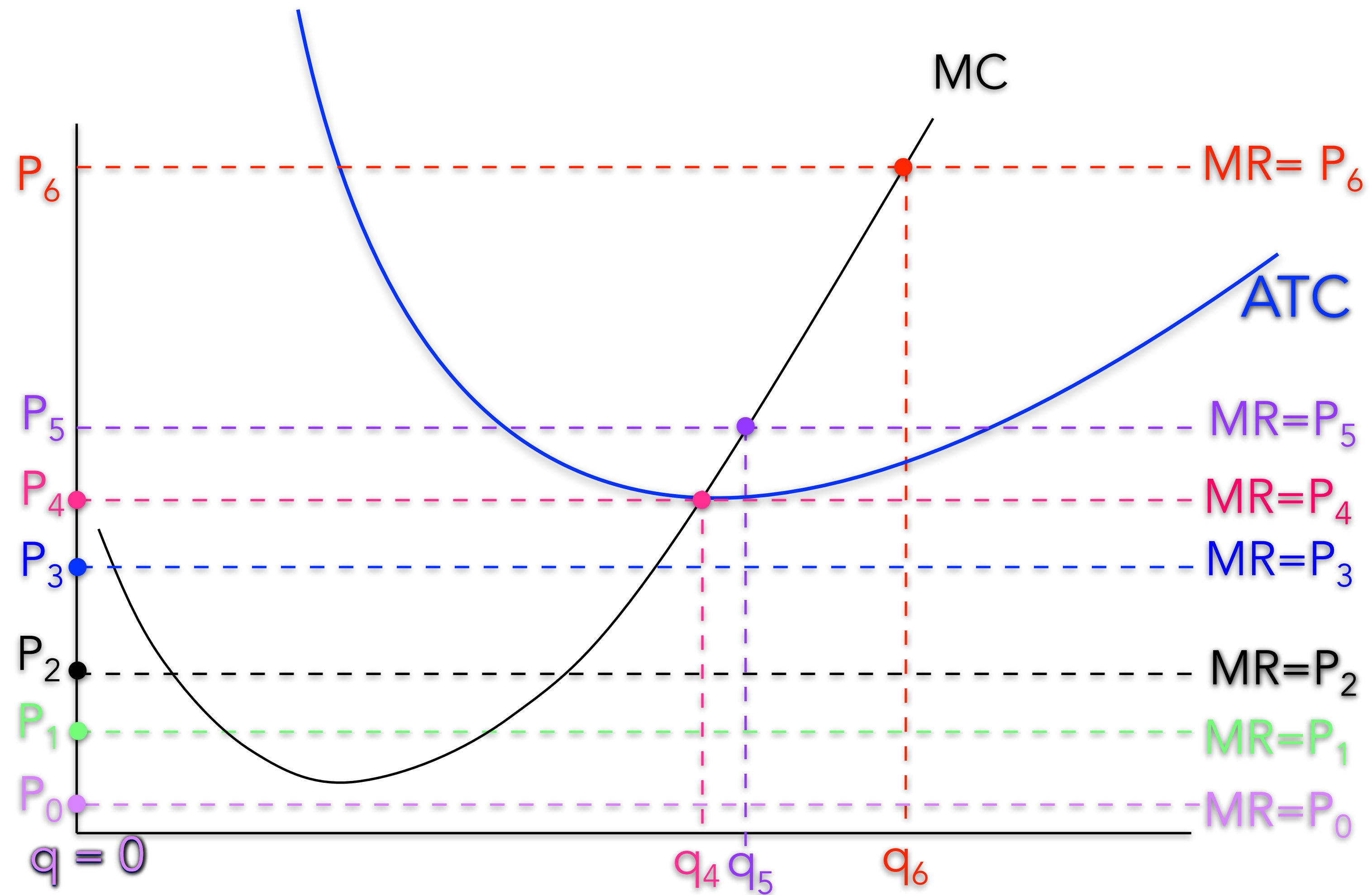
If **Price** = **ATC** the firm is **Indifferent** between exiting the industry and producing q^* because it makes zero economic profit either way

If **Price** < **ATC** the firm incurs a loss and should exit the industry

Price	Quantity Supplied in the Long Run Q^s
P_6	q_6
P_5	q_5
P_4	0 or q_4
P_3	0
P_2	0
P_1	0
P_0	0



Once the **Price drops below** the **ATC** the firm should exit instead of **producing** q^* (where $MC = MR$)



In the Long Run, the firm exits if it incurs a loss