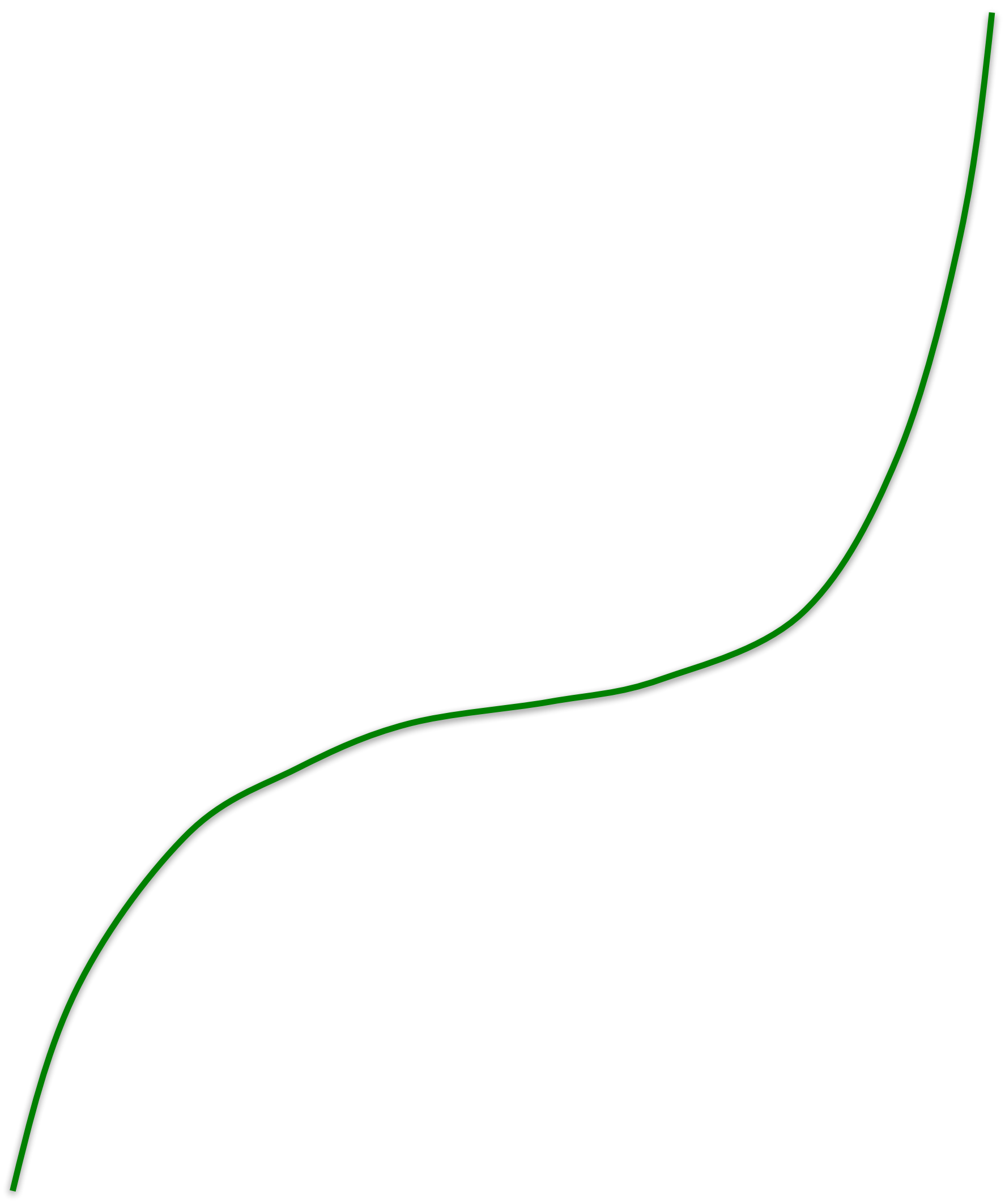


TR

Tc







VC


$$\text{Loss} = \text{FC}$$

FC

TR

=

VC







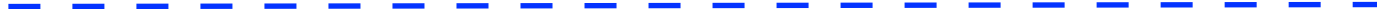
q\*

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

TR, TC, VC

Output

TC



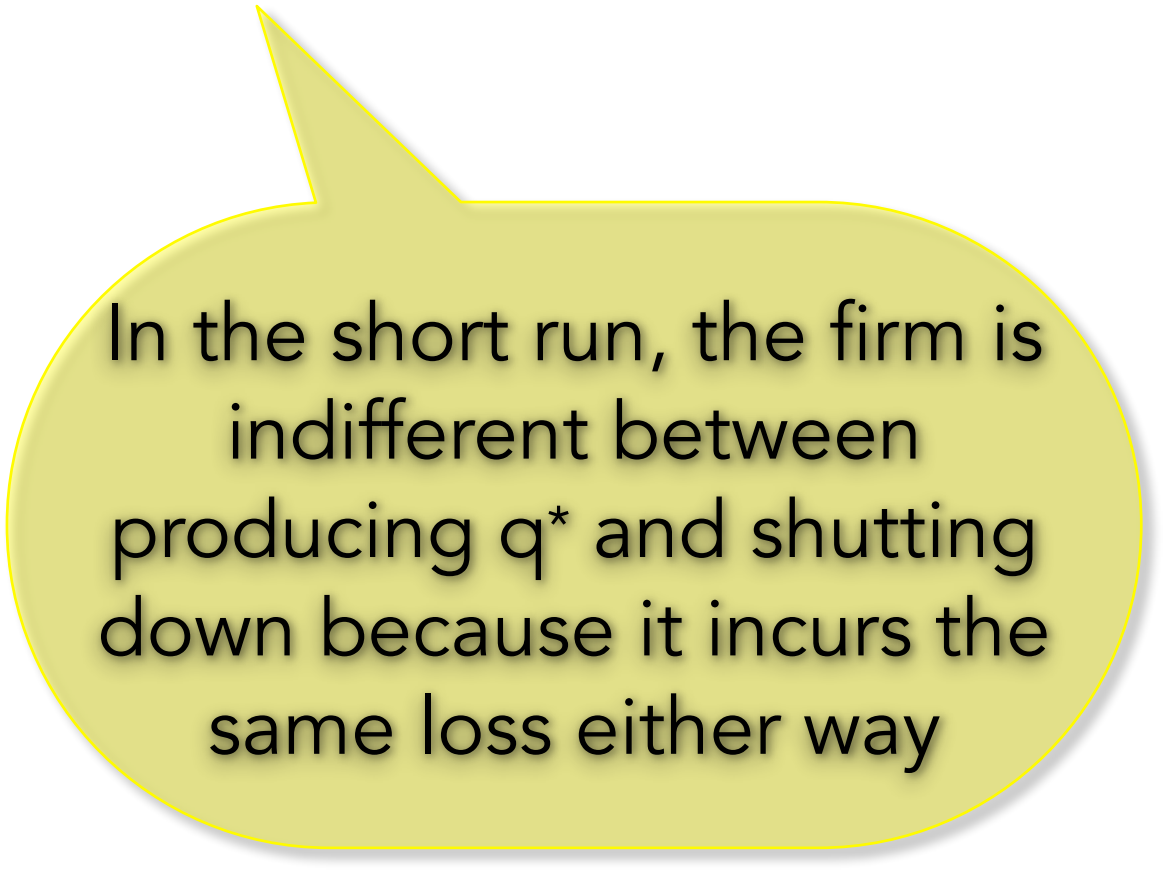
The firm **incurs a loss** equal to FC

FC









In the short run, the firm is indifferent between producing  $q^*$  and shutting down because it incurs the same loss either way

If  $VC = TR < TC$



TR covers all VC and  
none of the FC



VC

The firm should exit the  
industry in the long run

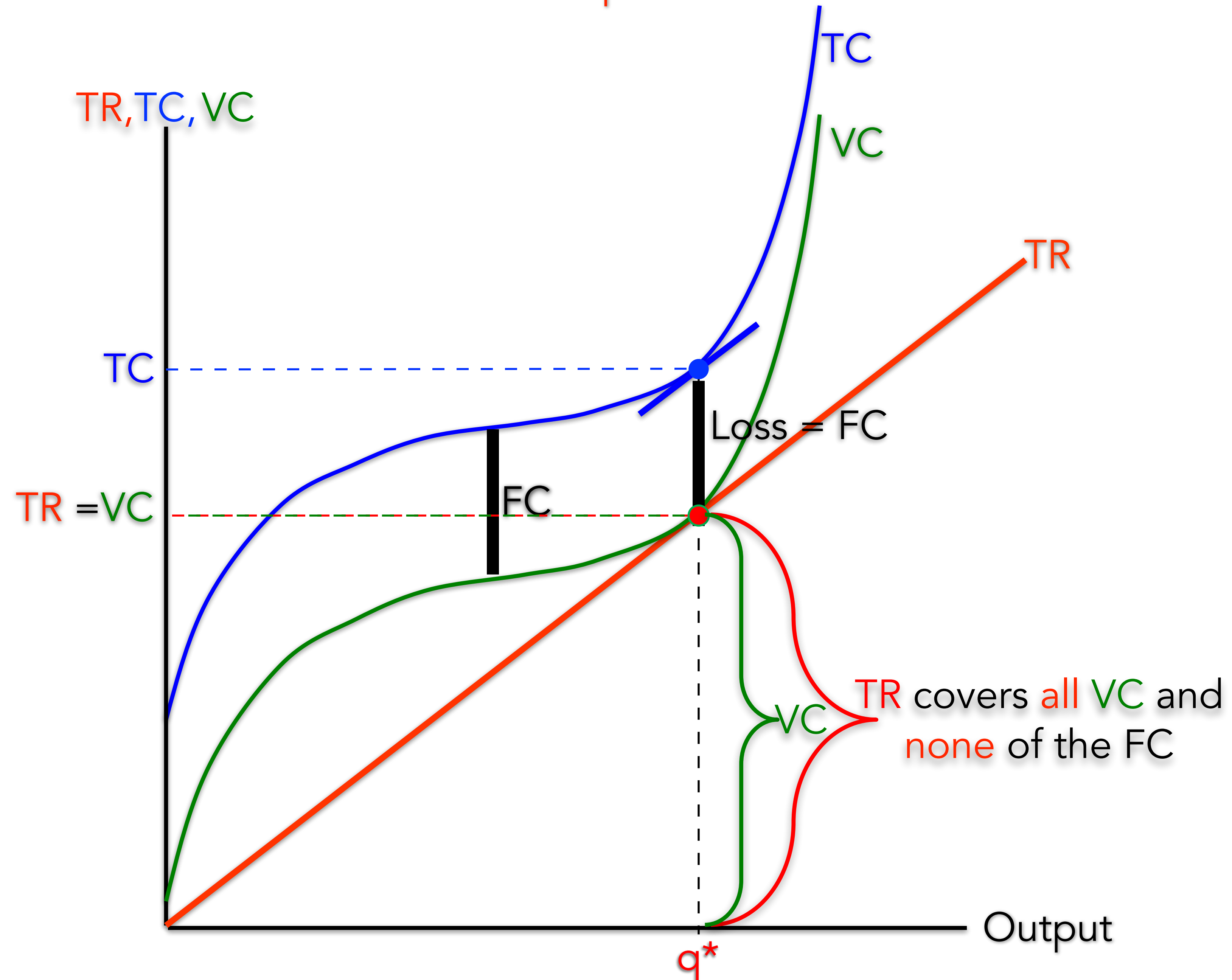
When the **price is too low**, the firm must decide whether it should **produce at a loss** or **shut down**

If  $VC = TR < TC$

The firm **incurs a loss** equal to FC

In the short run, the firm is indifferent between producing  $q^*$  and shutting down because it incurs the same loss either way

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



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

TR, TC, VC

Output