











P₀

P₁

P₂

P₃

P₄











9

0

Q1

Q2

Q3

Q4

$MR = P$

$$MR = P$$

MR=RP

$$MR = P$$

If Price $>$ AVC

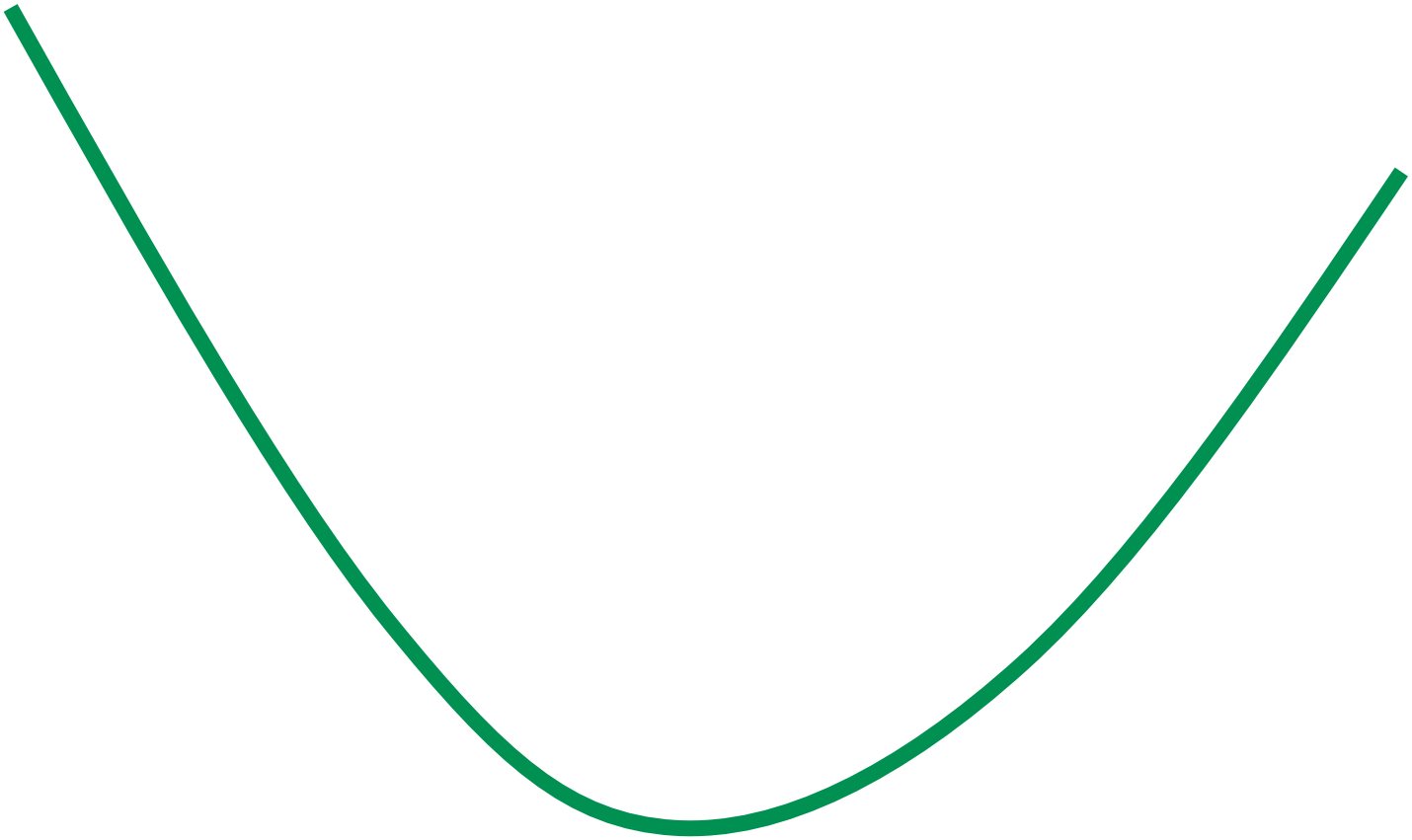
Produce

MC

$$MR=P$$

If Price = AVC
Indifferent
between shut
down and q_0





AVC





MR=RP



9

=

0

If Price < AVC

The firm should
shut down



The Firm's Short Run Decision





As long as the Price $>$ AVC the firm should
produce q^* (where $MC = MR$)















q

=

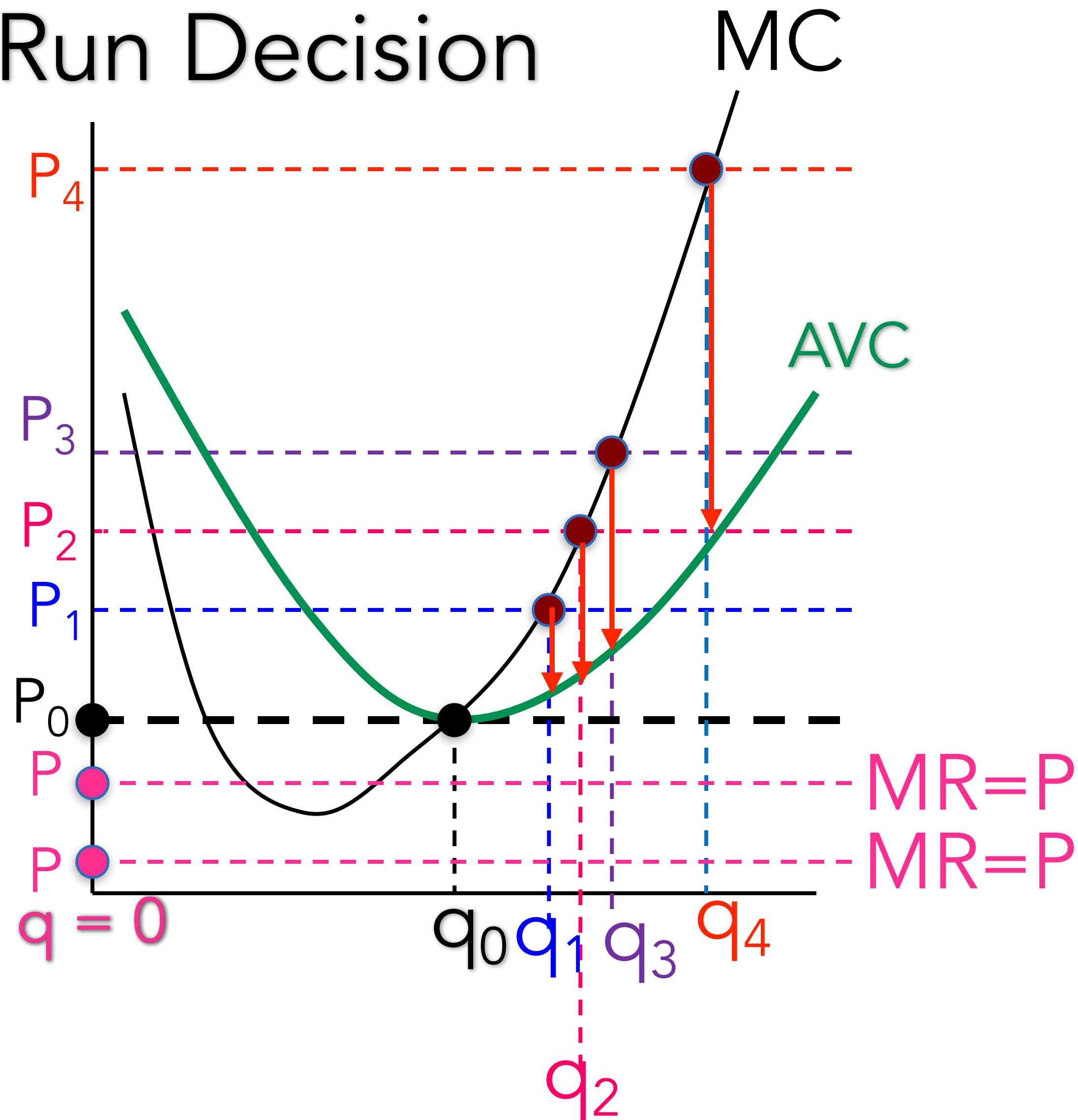
0

The Firm's Short Run Decision

If Price > AVC
Produce

If Price = AVC
Indifferent
between shut
down and q_0

If Price < AVC
The firm should
shut down



As long as the Price > AVC the firm should
produce q^* (where $MC = MR$)

