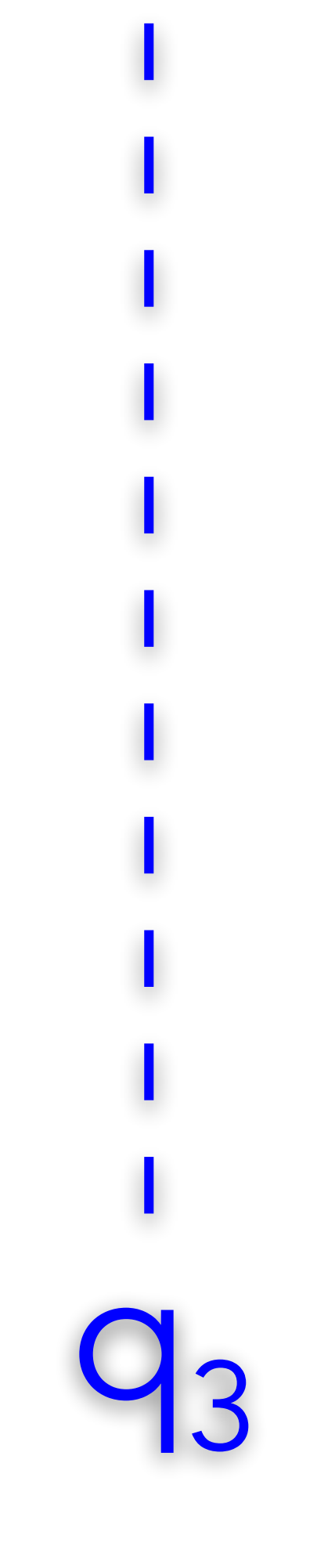
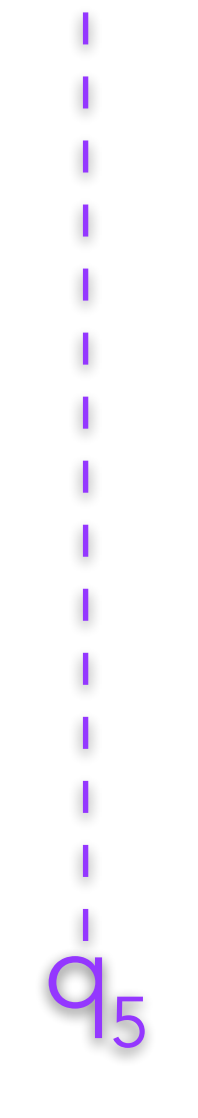
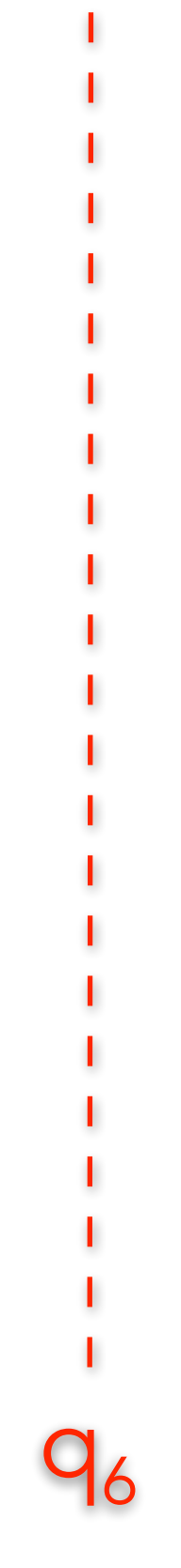
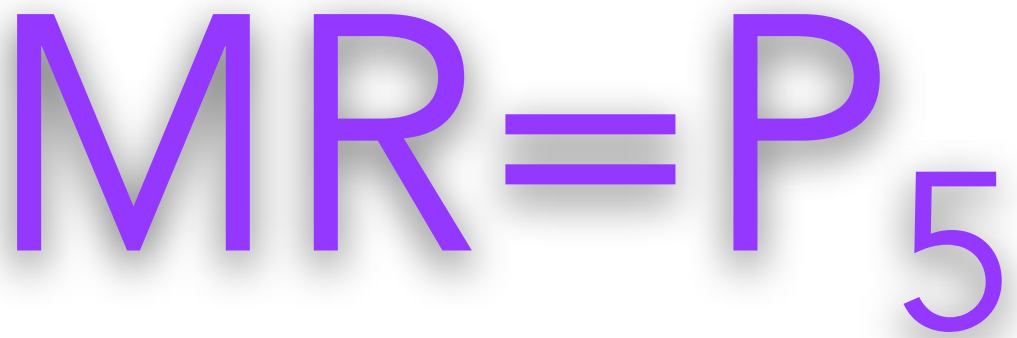

q3

q_4


q_5


q6

$$MR = P_6$$


MR=P5

$$MR = P_4$$

MC

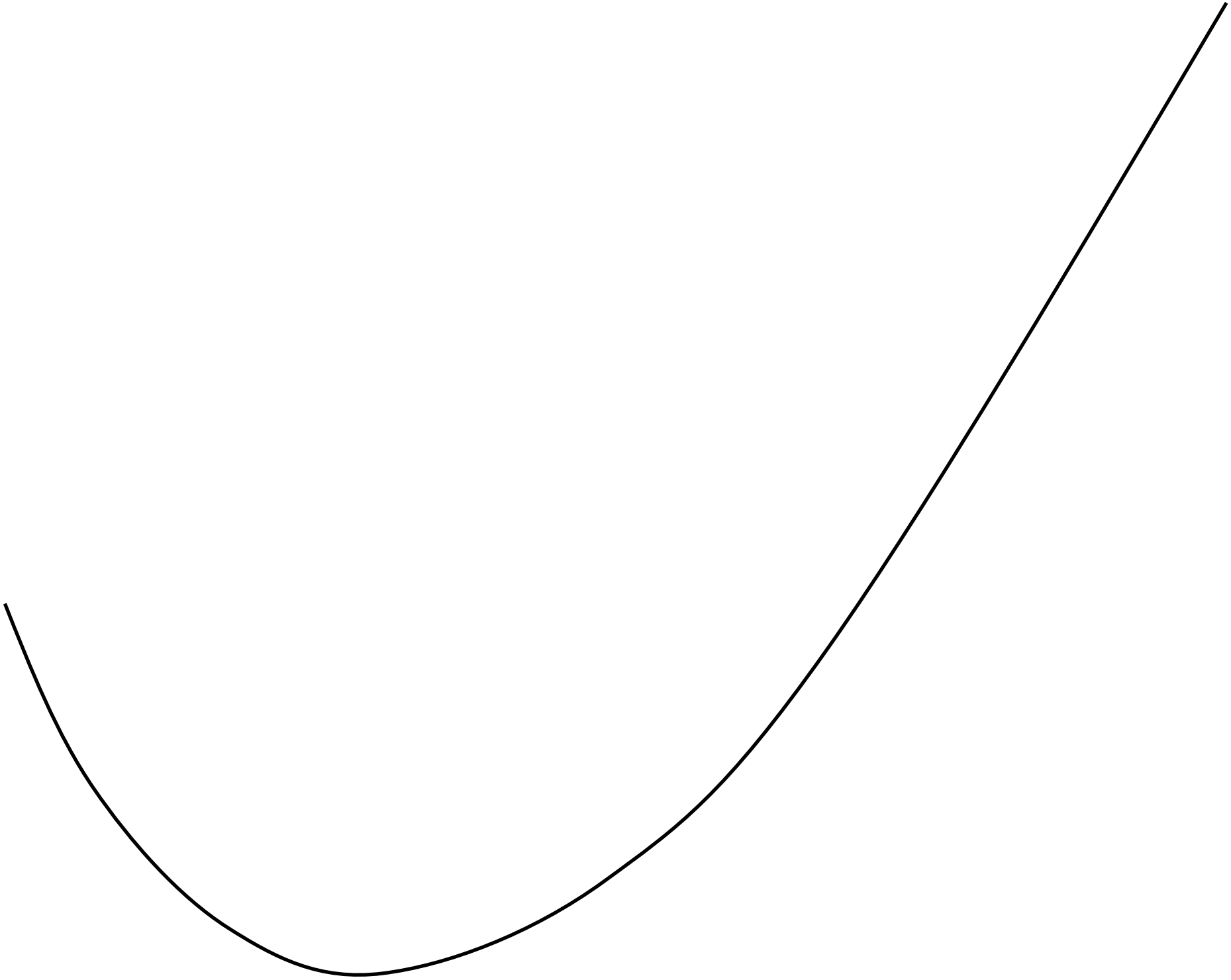
If Price = AVC the firm is Indifferent between shutting down and producing q_0

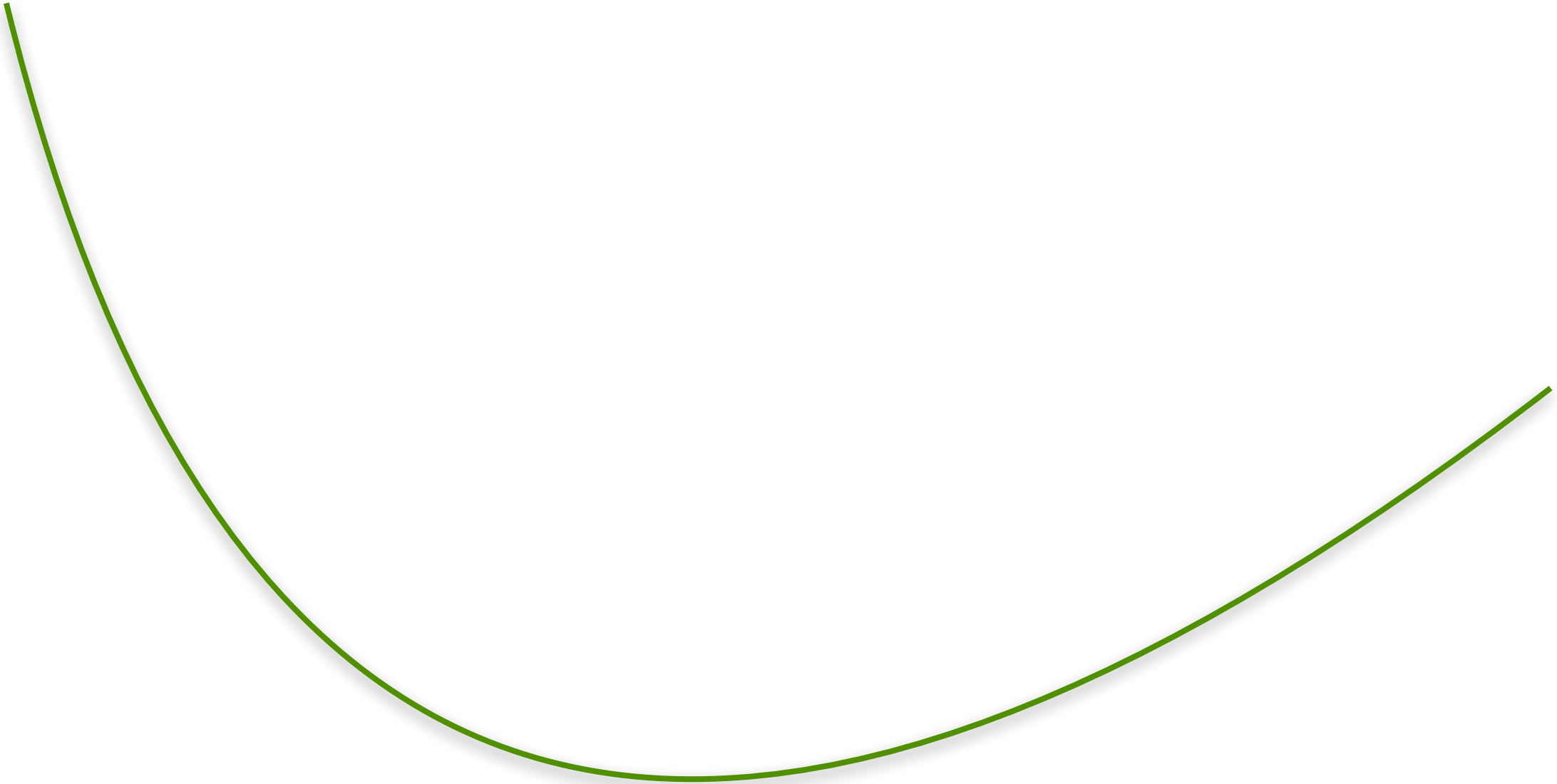
AVC

P_1
$MR=P_1$

If Price < AVC the firm should shut down (produce zero units)

The Firm's Short Run Decision

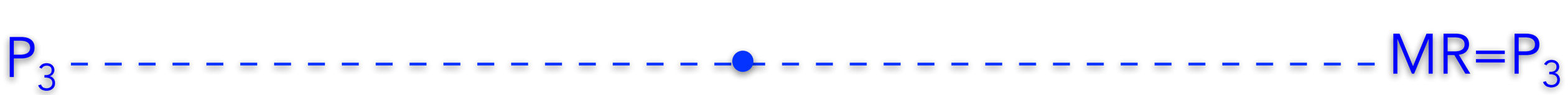




P_6

P_5

P_4


P_3
MR=P_3

P_2
MR=P_2

P_0
$MR=P_0$

Quantity Supplied in the Short Run

Price	Q^s

P6
q6

P5
q5

P4
q4

P3
q3

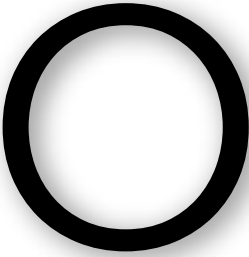
P_2 0 or q_2

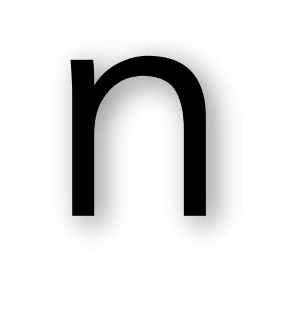
P1
0

P_0

0

If Price > AVC the firm should produce q* (where MC = MR)

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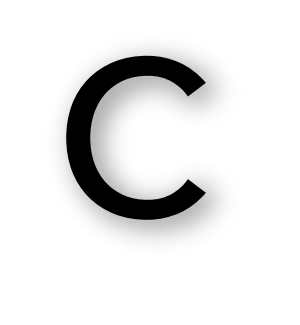
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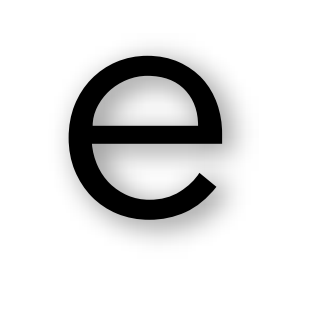

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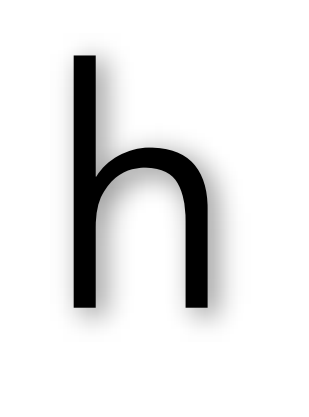

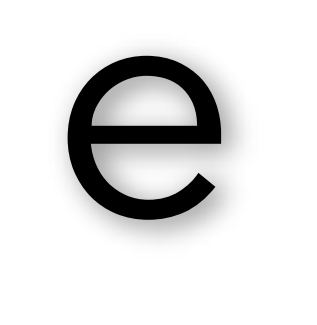

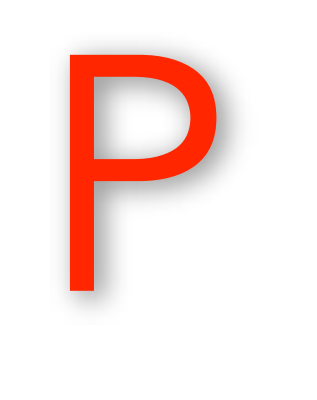
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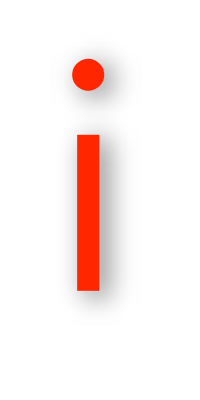

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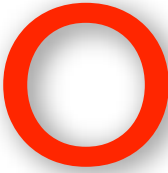

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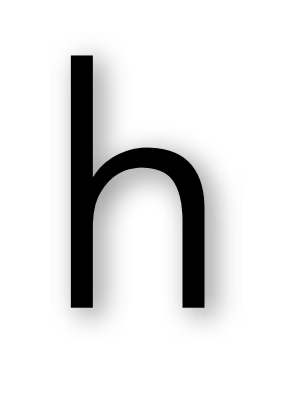

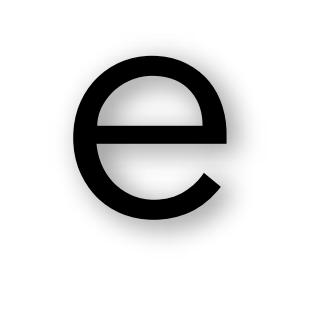

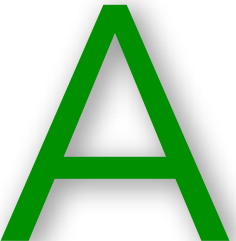

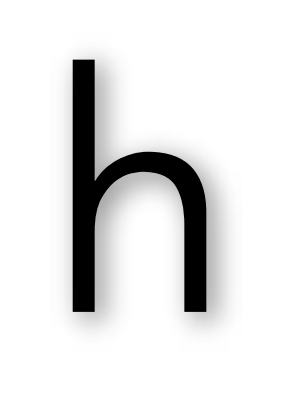

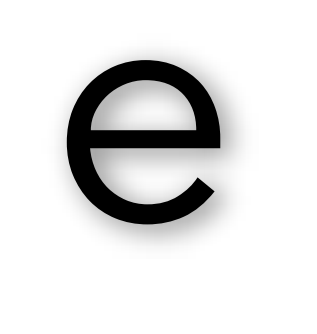

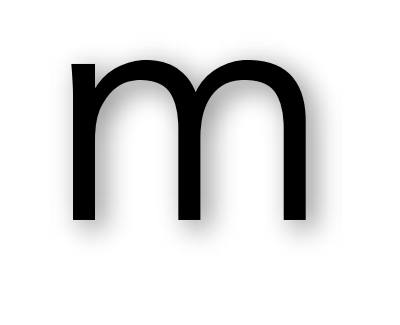

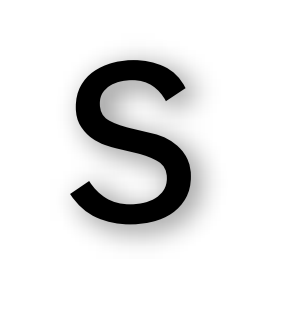
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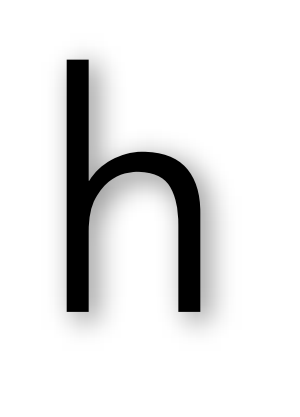

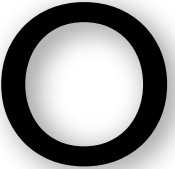

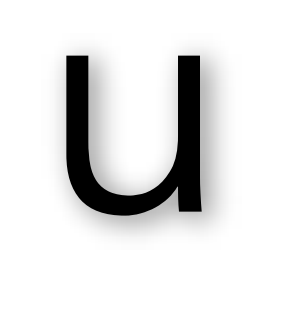

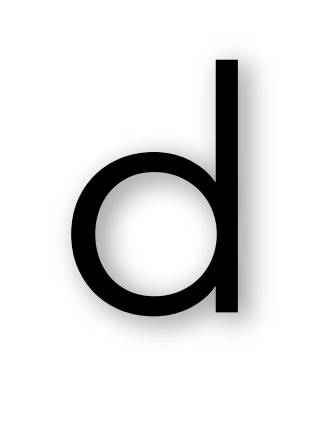

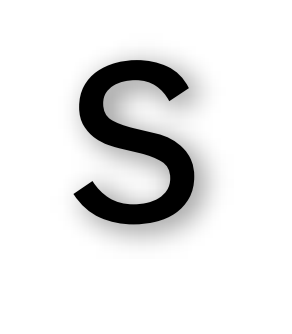
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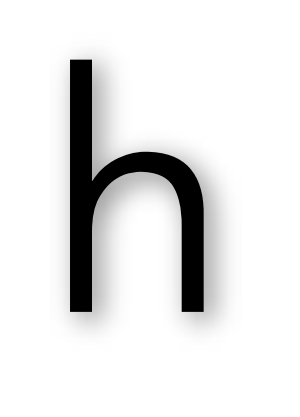

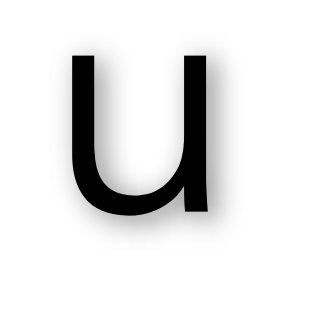

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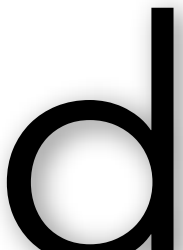

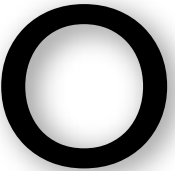

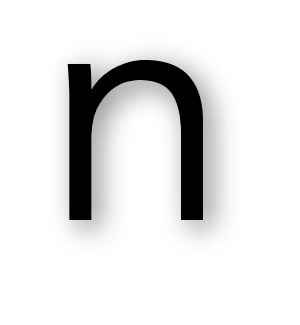
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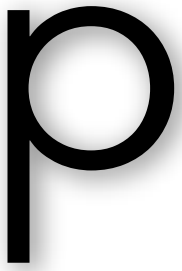

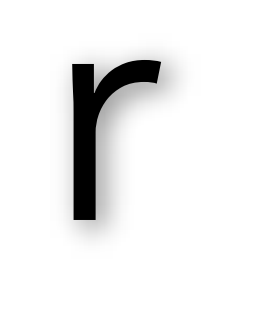
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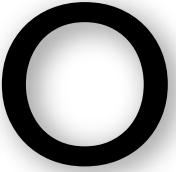

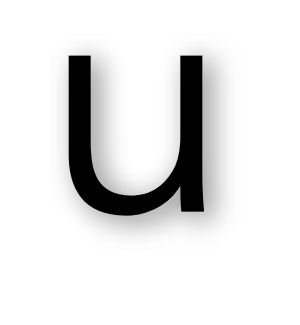

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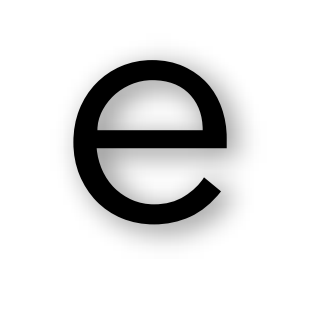

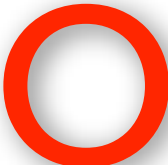

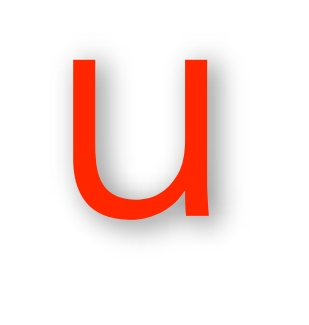

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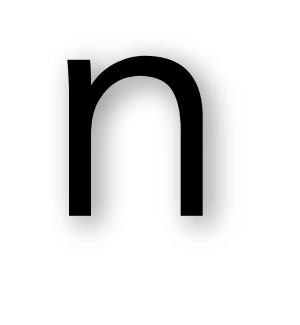
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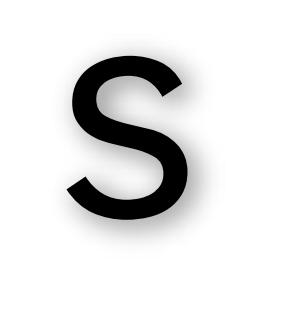
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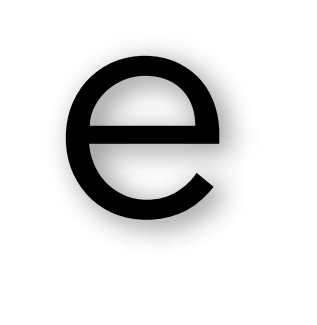

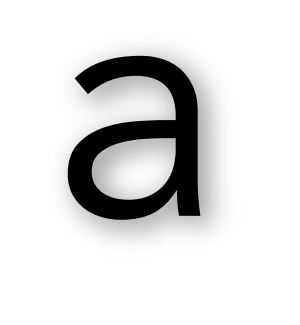
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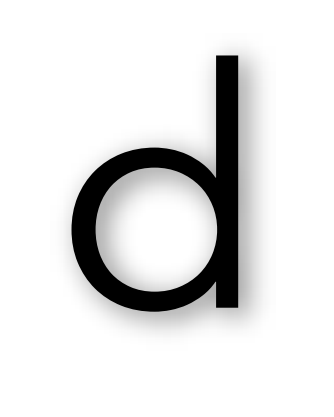

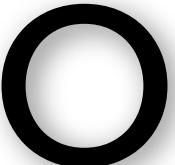

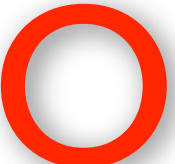

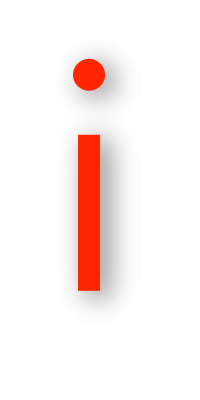

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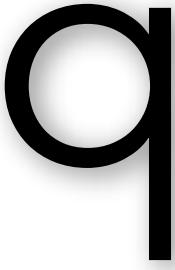

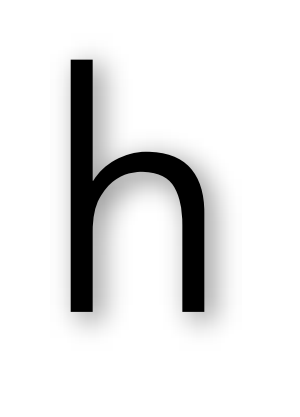

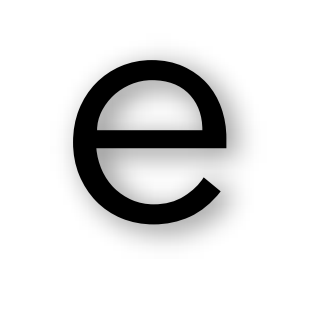

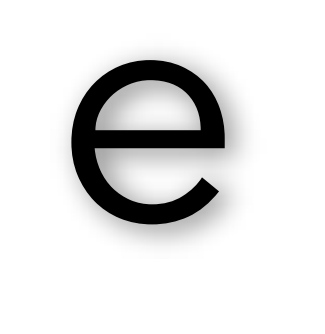

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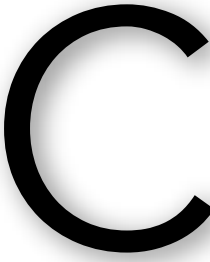

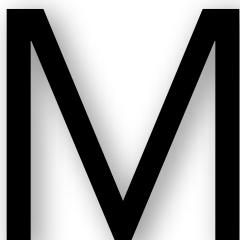
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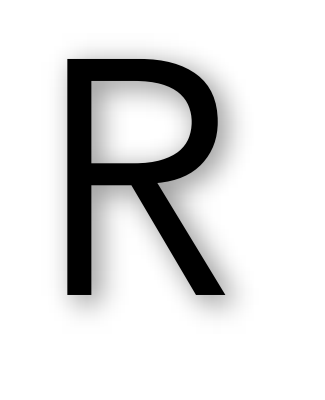
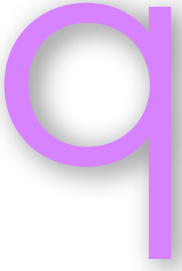
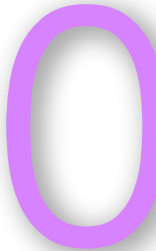

R

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

q = 0
q_2

$$q = 0$$





Once the Price drops below the AVC the firm should shut down (produce zero units) instead of producing q* (where MC = MR)

$$q = 0$$

The Firm's Short Run Decision

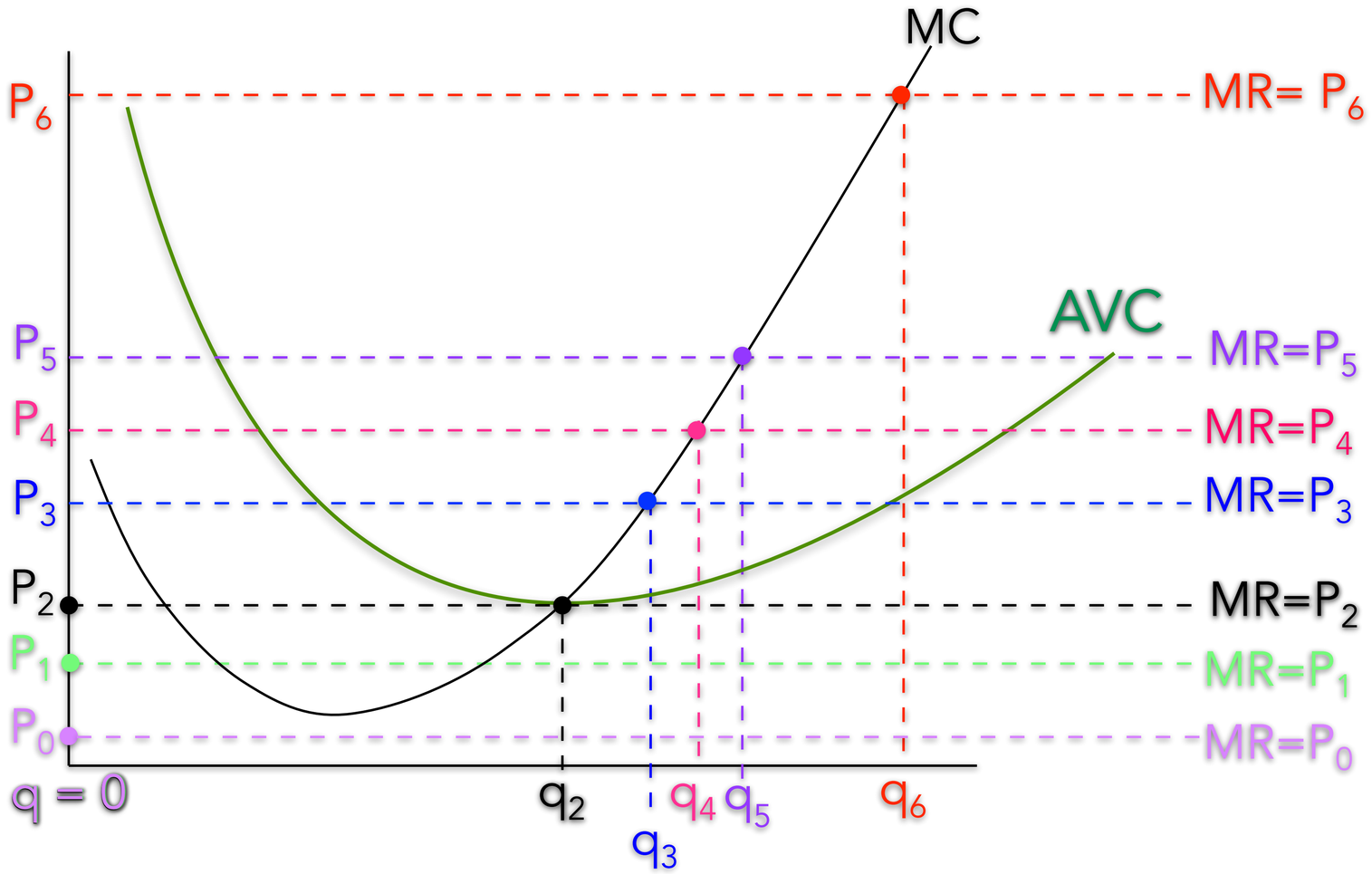
If Price > AVC the firm should produce q* (where MC = MR)

If Price = AVC the firm is Indifferent between shutting down and producing q_0

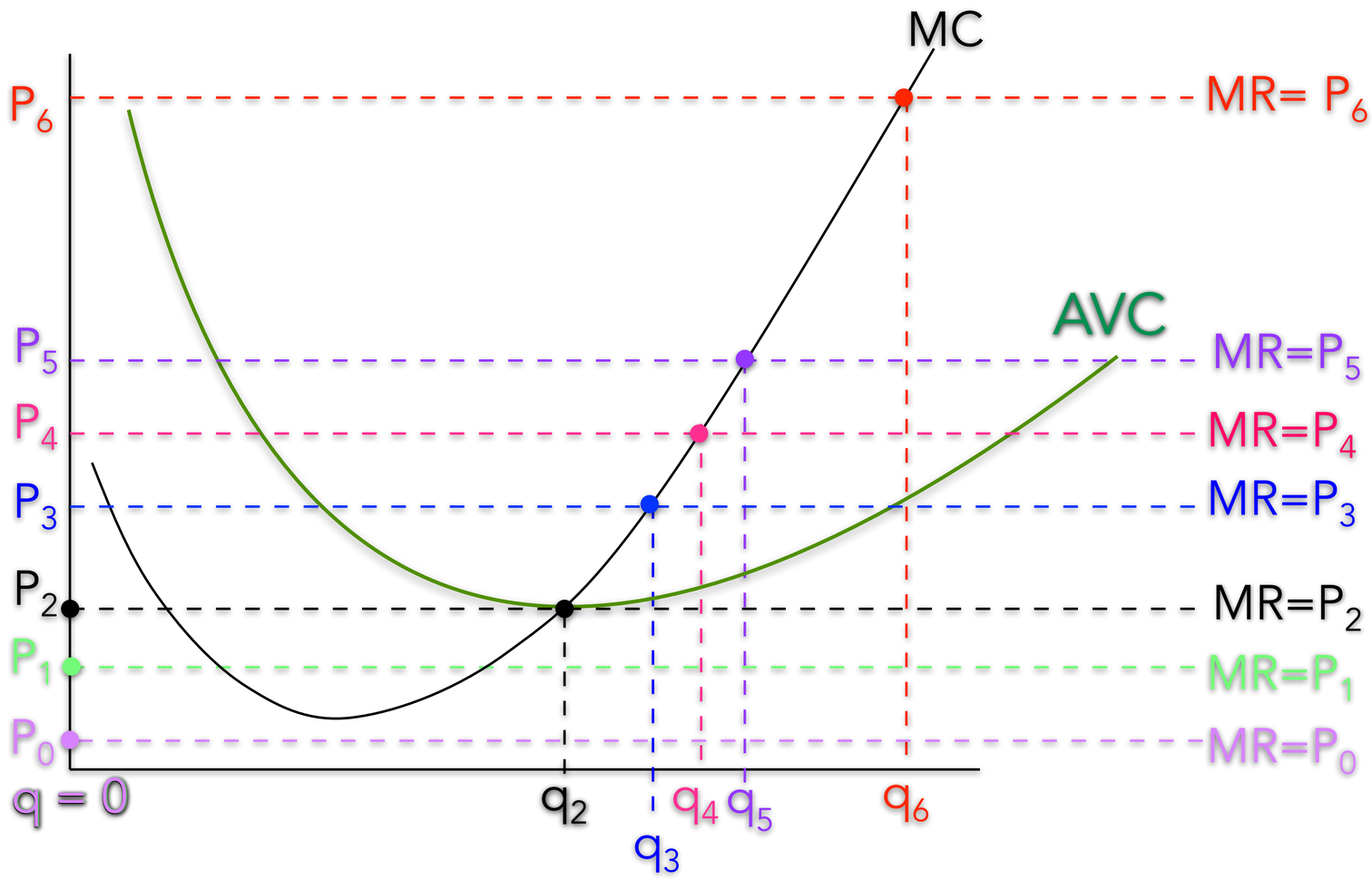
If Price < AVC the firm should shut down (produce zero units)

Quantity Supplied in the Short Run

Price	Q^s
P_6	q_6
P_5	q_5
P_4	q_4
P_3	q_3
P_2	0 or q_2
P_1	0
P_0	0



Once the Price drops below the AVC the firm should shut down (produce zero units) instead of producing q* (where MC = MR)


MC
AVC
P6
MR= P6
P5
MR=P5
P4
MR=P4
P3
MR=P3
P2
MR=P2
P1
MR=P1
P0
MR=P0
q = 0
q2
q3
q4
q5
q6