Solutions

Each answer shows the steps, then the **result**.

2.1

- produce if price is at least AVC; shut down if price is below AVC

2.2

- when price is below average total cost

2.3

- new firms enter, raising supply until profits fall to normal

3.1 B

3.2 B

3.3

(a)

- produce

(b)

- $P = \$8 > AVC = \$6$, so it covers all variable cost plus some fixed cost, losing less than by shutting down

(c)

- exit — $P < ATC$, so it makes a loss in the long run