Answer on Question #39843 – Economics - Economics of Enterprise

Assignment

Assume for a perfectly competitive firm that MC = AVC at $12, MC = ATC at $20, and MC = MR at $16.
On the basis of this information, the firm should not be in production. Do you agree?

Solution

I don't agree with this statement. At profit-maximizing point P = MR = MC = $16, so ATC > P > AVC, 2- >
16 > 12, so the firm should continue production to cover the part of its costs trying to reduce costs of
producing goods in the long-run.