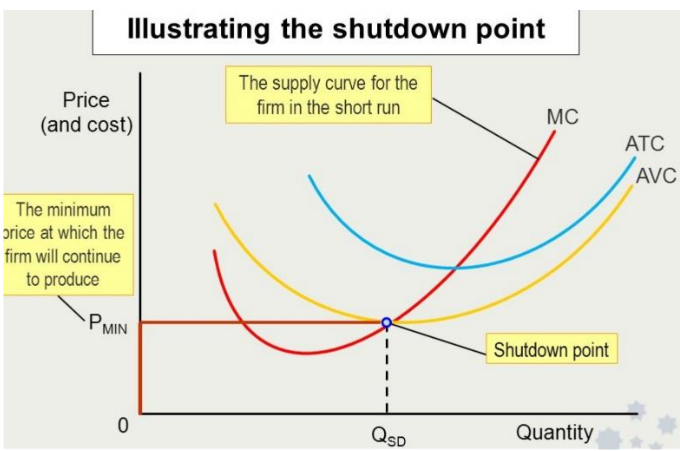
**Answer on Question #89225, Economics / Microeconomics**

**QUESTION:** Under what condition will a competitive firm necessarily shut down its operations? What does this imply regarding the shape of the firm's short run supply curve?

**ANSWER**: The rising portion of the MC curve above the minimum of AVC curve is the supply curve of an individual firm under perfect competition. The short run supply decision of a competitive firm depends upon the least price it will accept to continue supplying the output and the price at which it will shut down.

**As long as the Average revenue exceeds the average variable costs, i.e. AR > AVC (or TR > TVC) at the equilibrium output**, a smaller loss will be incurred if the production takes place and firm will continue to produce. **But if the price falls below AVC, the firm will discontinue its operations and will shut down.** The minimum of AVC curve is the shutdown point as neither the variable costs nor any part of the fixed costs will be coverable at this point.




**As a result, the rising portion of MC curve which is above the minimum of AVC curve is the supply curve of the competitive firm** and it is upward sloping from left to right showing that a competitive firm will supply greater quantities of output at higher prices and less quantities will be supplied at lower prices, other things being constant.

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