Hello everyone, today our group will explain to you why a perfect competitive firm continues production in the short run even if it incurs losses? But before we answer the question Let's understand what is a meaning of each line in our graph.

From this graph there are 2 axis which are P and Q, P for price and Q for quantity. And this blue line is P equal to MR, MR is when firm produce for one more output how many revenues they will get. And the reason that it has to be P equal to MR because it is a competitive market. And here is MC is a marginal cost, marginal cost is when the firm produce for one more output how many costs they will have to pay. At this point, which is MC=MR it is a maximize profit level. And here is AC, AC is average which is a cost per output. The last one is AVC which is an average variable cost, it is variable cost per one unit.

After we understand a meaning of each line in this graph. Let's answer the question. First of all, let start with this point, this point call profit maximization point where MC marginal cost equal to Mr marginal revenue. And as you can see now average cost (AC) is higher than the price which mean that the firm is facing a loss. But why firm still operate, as you see even if average cost is higher than market price, but average variable cost is still lower than the market price. What does this mean, it means that the revenue of this company can still cover some of fixed cost. But what if the firm decided to shut down now. If the firm decided to shut down now, as you see now the loss is only the purple area here. But if the firm shutdown now the loss will be the purple area and also the orange area which is a lot of the loss. So, to avoid this much of loss the firm will continue the operation.

Prapawit Imcharoenphon 6204641069

Intouch Leelasrisanga 6204640020

Phoom Punthumanun 6204640244

Kankamol Janyapanich 6204641242

Siriyakorn Phatarapanusak 6204641689