Reexamining the Shutdown Point in Introductory Economics Textbooks

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ABSTRACT: Two problems exist with how the *shutdown point* is taught in introductory economics textbooks. The first problem is that sunk costs, which have no opportunity costs, are included in the firm's cost of production. The second problem is that non-sunk fixed costs are ignored (a) in the firm's cost of production and (b) in the firm's short-run decision to shutdown. If the firm's cost of production includes only the opportunity cost of production, and not its sunk cost, then the firm should shutdown when total revenue is less than total cost. This outcome is attractive because it (a) uses only relevant economic cost, (b) is the same as the long-run exit point, and (c) is economically intuitive: produce only when economic profit is non-negative.

Key Words: fixed cost, sunk cost, non-sunk fixed cost, and shutdown point
JEL Classification: A22