W

Cash Master

WITSOOTH · CLEVER TRUTH

AP MICROECONOMICS · UNIT 3.7

Name ____________________ Period ________

DRIVING QUESTION

Sometimes the smartest business move is to keep selling at a loss. When does "stay open while losing money" actually beat "shut down"?

Gut instinct now. Answer it again at the end using the shutdown rule.

BEFORE THE GAME

During a slow season, a bakery keeps its doors open even though it's losing $200 a week. The owner isn't confused about math — she's doing math most people skip.

Your gut answer — if a business is losing money, shouldn't it always shut down immediately? What might change that?

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Quick prediction — could a business ever be better off producing at a loss than producing nothing at all?

☐ Yes ☐ No

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DURING THE GAME — RUN THE BUSINESS

QTR	SHOCK / STORY	SHIFT (D/S, L/R)	PRICE VS. ATC / AVC	DECISION	CASH Δ
1	________	________	________	☐ Produce ☐ Shutdown	______
2	________	________	________	☐ Produce ☐ Shutdown	______
3	________	________	________	☐ Produce ☐ Shutdown	______
4	________	________	________	☐ Produce ☐ Shutdown	______

Profit-maximizing rule for a competitive firm: produce where MC = P. Starting cash: $500. Track your running total quarter to quarter.

AFTER THE GAME

Find a quarter where price fell below ATC but stayed above AVC. Why was "keep producing" still the right call there, even at a loss?

Now use the vocabulary: state the shutdown rule precisely — what has to be true about price and AVC for shutting down to be correct?

TRANSFER — NOW APPLY IT

Breaking: "Restaurants Stay Open at a Loss During Slow Season, Owners Say It's Strategic"

A seaside restaurant's off-season revenue covers only ingredients, hourly staff, and utilities — not rent or the equipment loan. Market price is $14 per meal. AVC is $11 per meal. ATC (including fixed costs) is $17 per meal.

$14	$11	$17
MARKET PRICE	AVC	ATC

A. Is the restaurant covering its variable costs? Is it covering its total costs?

B. Apply the shutdown rule — should the restaurant stay open or close for the season? Why?

C. Connect it to the game — which quarter had a similar price/AVC/ATC relationship?

RETURN TO THE DRIVING QUESTION

Sometimes the smartest business move is to keep selling at a loss. When does "stay open while losing money" actually beat "shut down"?

Use the shutdown rule, AVC, and ATC in your final answer.