[Name of the Writer]

[Name of Instructor]

[Subject]

[Date]

**Firms**

The current production of the firm is 500 units, where the average total cost is 200. When the new customer order for an additional unit, then I will not accept the offer because an additional unit will result in a loss instead of profit. This is because the client is offering 450 dollars for an additional unit, but the average cost of that extra unit will be 701 dollars, which means firms will face the loss of 251 dollars. In the competitive market, the firm cannot increase profit by increasing price; that is why they increase their production until marginal cost remain equals marginal revenue. However, adding one more unit marginal cost of the product is exceeding the marginal revenue; therefore, it is better to reject the offer by the new client. Total cost before adding one more unit is 100000, but after adding one unit, it will become 100701, where the customer is willing to pay 450 dollars only. In other words, net change after adding one more unit would be 701 dollars. By subtracting revenue from the payment of the customer value obtained would be -251which indicating the loss for the firm. This is why it is better to reject a new customer rather than accepting its offer and facing loss.