Jane surely faces a dilemma as to whether shut down the clinic or continue operations. The clinic at the current level of output (45 visits) is not profitable. It can cover the running costs, i.e. variable costs as it has a positive contribution. If Jane decides to shut down the clinic, it will incur a penalty of $37,500. Jane has also heard rumours that the main competition has acquired the largest primary care group practise and is planning to expand more which will surely hamper the number of visits at this clinic.

Based on the current output (45 visits) , it should be prudent to shut down the clinic if no increase in revenue is expected in the near future. If they expect the revenue to increase in the near future (less than a year), they can probably continue the operations.

If they can increase the number of visits till 55, they should operate the clinic. This will cover the fixed costs and they won’t face the penalty for cancelling the lease. Fixed costs are also getting covered at this point (break-even point as computed in working). Since the maximum capacity is 60 and the additional costs incurred after 55 visits is more compared to the revenue, the break-even point is 60 and it doesn’t make sense to hire more physicians and nurses. It would be loss-making to do so.