

Chapter-3
Business Economics
Unit -1

Theory of Production

- ① organic objective → Survive
- ② Economic objective → Profit
- ③ social objective → Service motive
- ④ human objective → Care the employee of the firm
- National objective → National development taxen.

Short run → Variable fixed [Law of variable Proportion]

long run → Variable. [Return to scale]

Law of variable Proportion

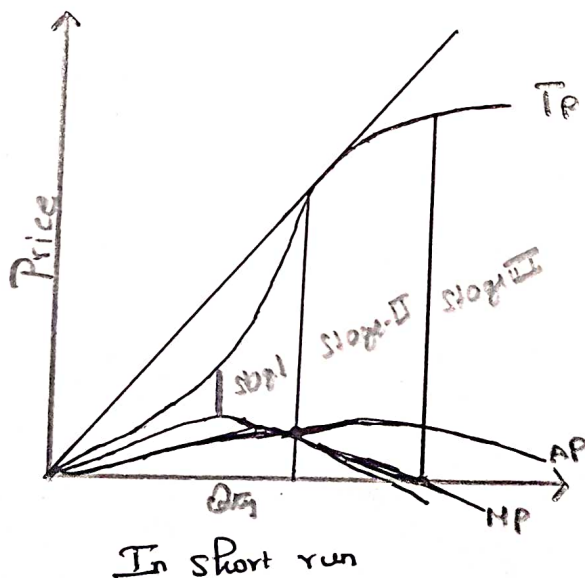
- Ⓐ Increasing Return to Scale
- Ⓑ Diminishing Return to Scale
- Ⓒ Negative Return to Scale

[Increase in Increasing Rate]
[Increase in Decreasing Rate]
[Decrease in Negative Rate]

Qty	TP	AP	MP
1	100	100	100
2	210	105	110
3	310	103	100
4	400	100	90
5	380	76	-20

Key Revision

- ① $TP_n - TP_{n-1} = MP$
- ② $TP = P \times Q$
- ③ $AP = \frac{TP}{Q}$



Key Revision - II

- ① TP = Max = MP = 0 3rd stage end
- ② AP max = AP = MP 2nd stage end
- ③ MP max = Point of Inflation 1st stage end

Return to scale [Long run]

Increasing Return to scale
Constant Return to scale
Decreasing Return to scale

Relation of AP and MP

AP \uparrow = MP $>$ AP
AP = MP = APmax
AP \downarrow = MP $<$ AP

FP not be 0] [MP may positive or zero or negative]

Production optimisation.

Isoquant = Profit Fence Curve
ISOCOST = budget line

BUSINESS ECONOMICS

CHAPTER-3

unit-2

Important topics & Tricks to learn quickly.

Theory of Cost.

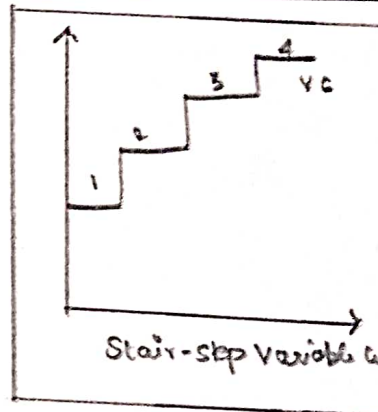
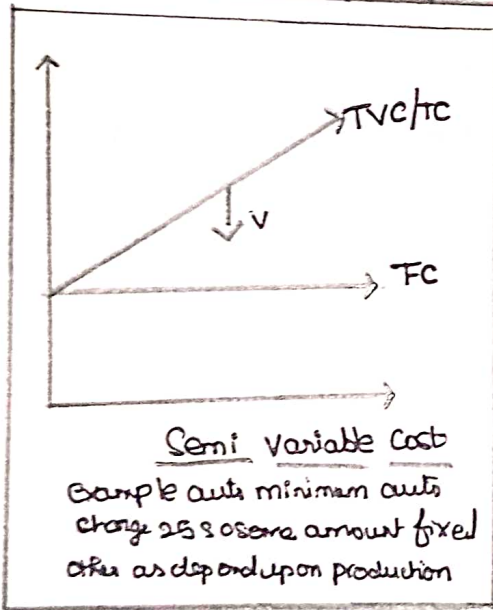
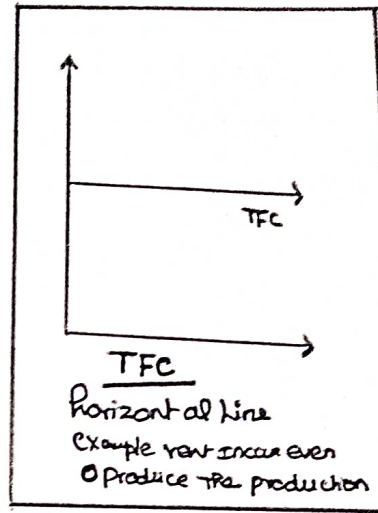
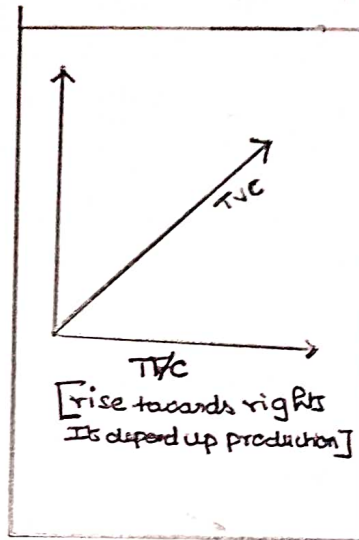
Q	TFC	TVC	TC	MC	AFC	AVC	TAC
1	100	0	100	100	100	0	100
2	100	50	150	50	50	25	75
3	100	90	190	40	33	30	63.33
4	100	120	220	30	25	30	55
5	100	140	240	20	20	28	48
6	100	150	250	10	16.6	25	41.6
7	100	166	266	6	14.2	22.2	36.57
8	100	175	275	19	12.5	21.87	34.37

TC, TVC = Inverse shape

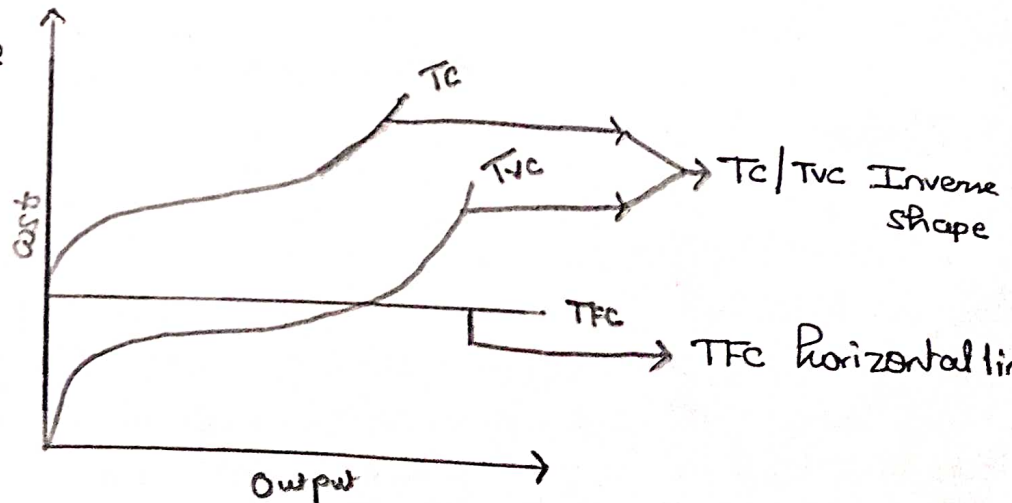
TFC = Horizontal line

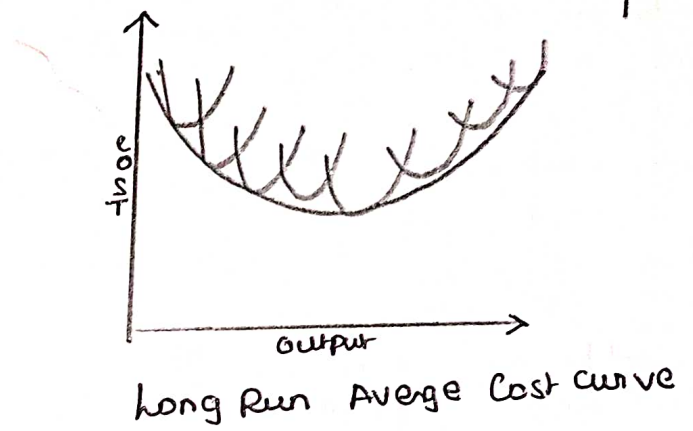
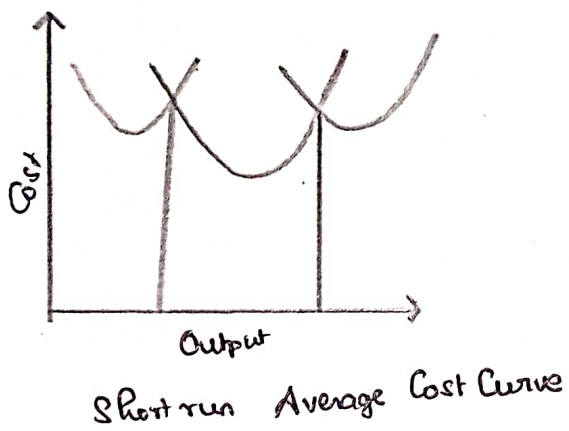
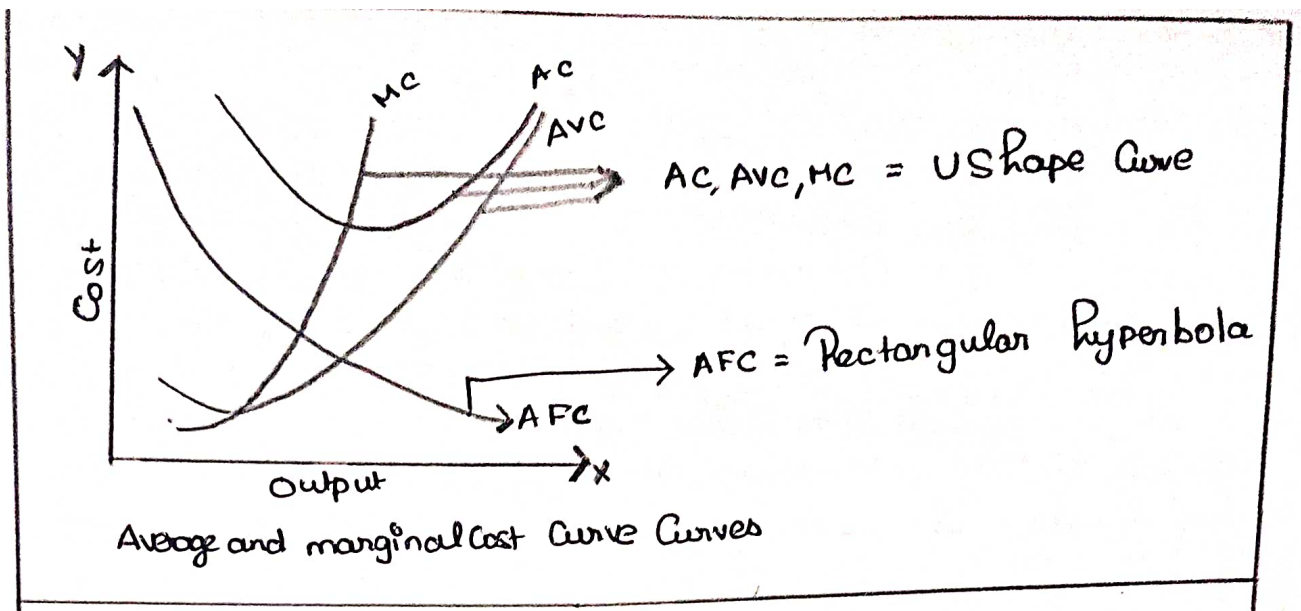
AC, MC, AVC = U shape laws

AFC = Rectangular Hyperbola



Short run Total Cost Curve





Key Revision

- ① TFC = always same
- ② TVC = depends upon quantity
- ③ $MC = TC_{n2} - TC_{n1}$
- ④ $TC = TFC + TVC$

- ⑤ $AFC = TFC / Q$
- ⑥ $AVC = TVC / Q$
- ⑦ $ATC = AFC + AVC$