

$MP = 0 \rightarrow TP = \text{maximum}$

$MP = \text{negative} \rightarrow TP = \text{fall}$

1. constant
Return to
scale

2. Increasing
return to
scale **Double**

3. Decreasing
return to
scale

2. ~~CRS~~ IRS

$$a + b > 1$$

labour	capital	output
100	100	1000
200	200	3000
ratio L,C ↑		ratio output ↑

1. CRS

$$a + b = 1$$

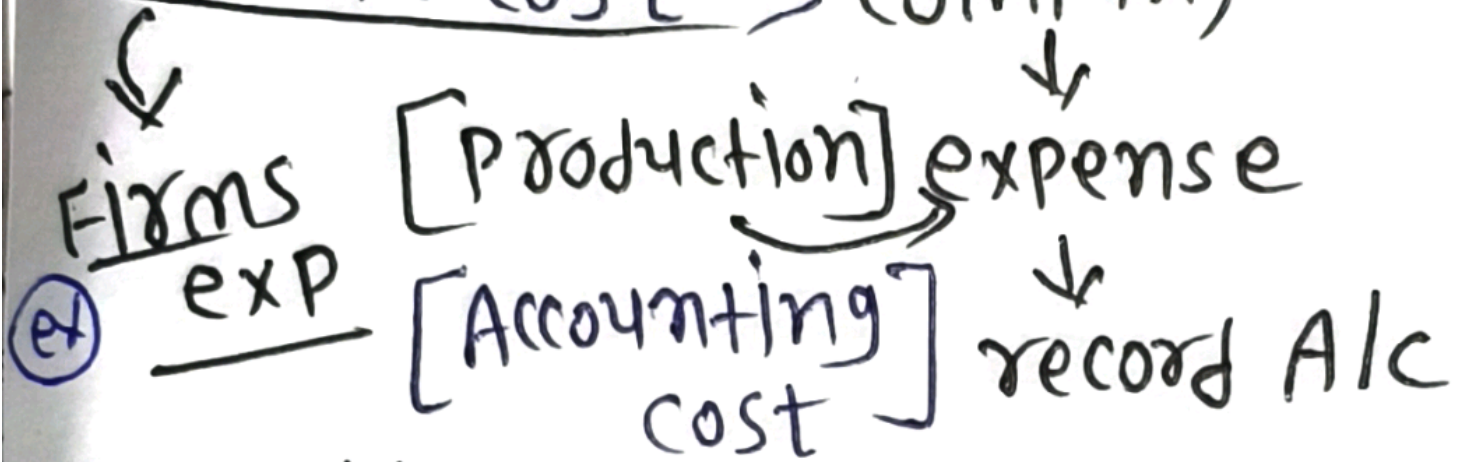
L	C	output
100	100	1000
200	200	2000
ratio L,C ↑		ratio output ↑

3. DRS

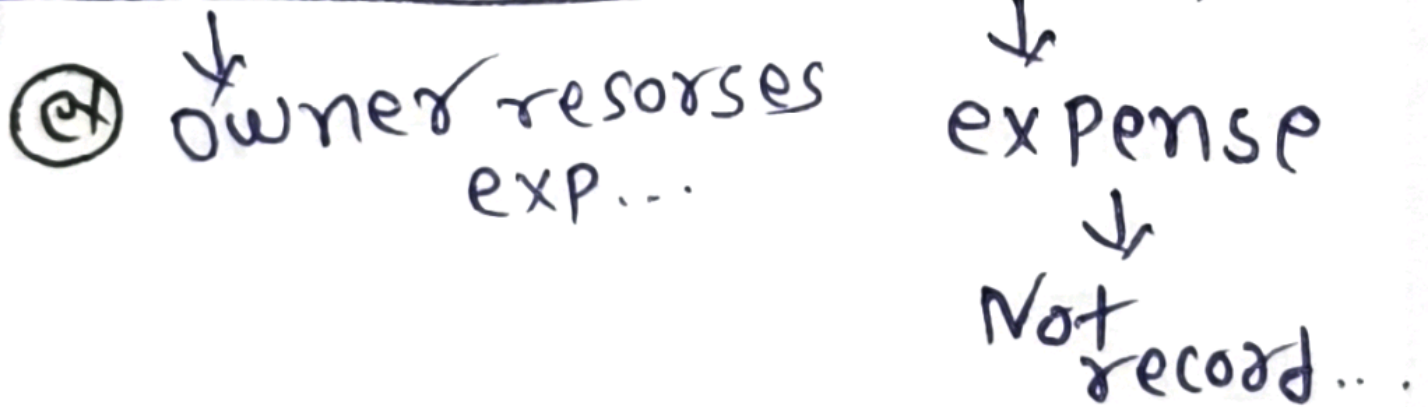
$$a + b < 1$$

L	C	output
100	100	1000
200	200	1500
ratio L,C ↑		ratio output ↑

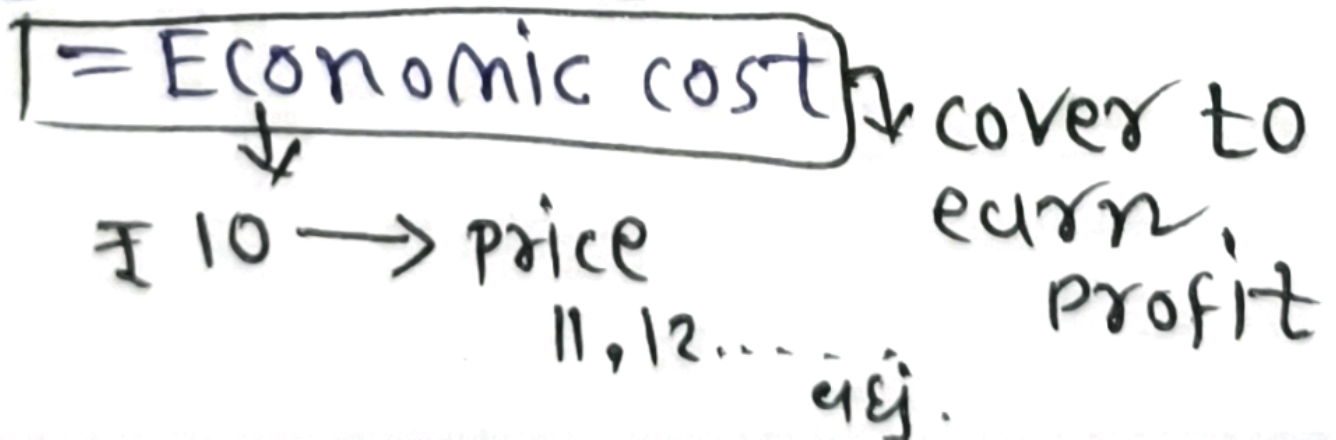
Explicit cost → company



Implicit cost → company



Explicit cost ⊕ Implicit cost



Fixed cost → Short run

↓
Fixed factor expenses

Not related with output (production)

Variable cost → short & long

↳
{ raw material } → run
{ production } → run

Fixed cost = direct cost

THEORY OF PRODUCTION AND COST

Direct / Traceable cost

Indirect / Non-Traceable cost

• Production Link ✓
• per unit cost
calculatable

• Production Link ✗
• per unit cost ✗
calculatable

Incremental costs =
marginal cost

Sunk cost = can't be
recovered

Ⓧ Advertising
Research & Development

Private
cost



Actual cost

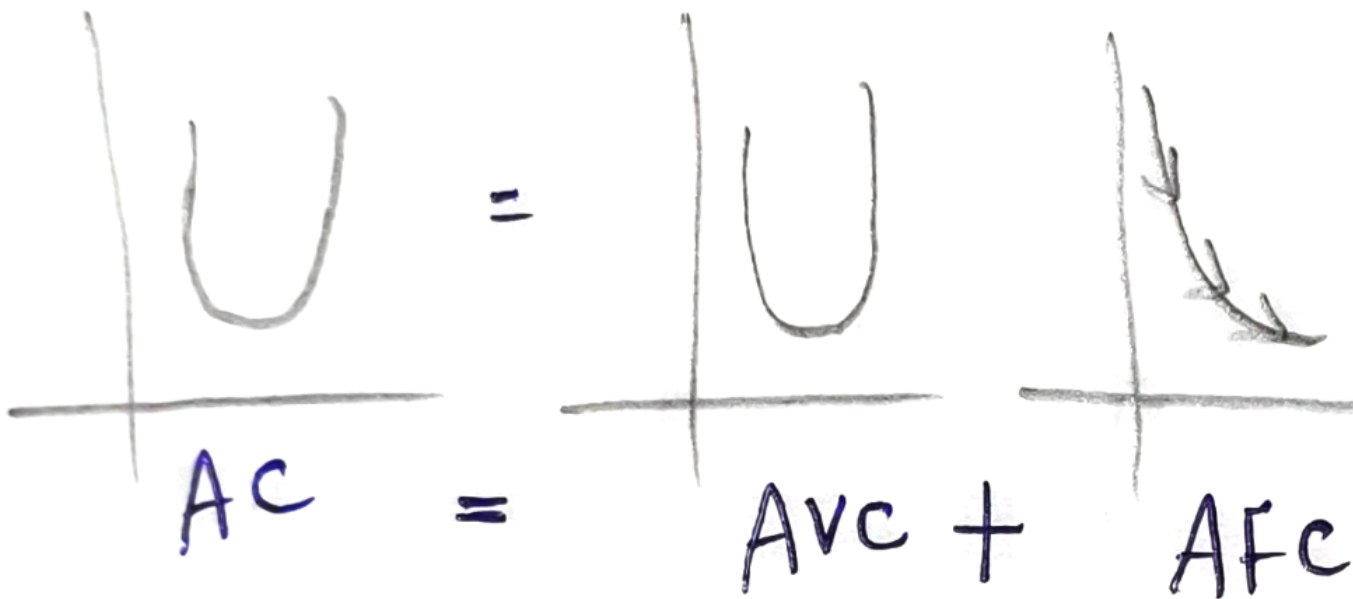
Total cost

Social
cost

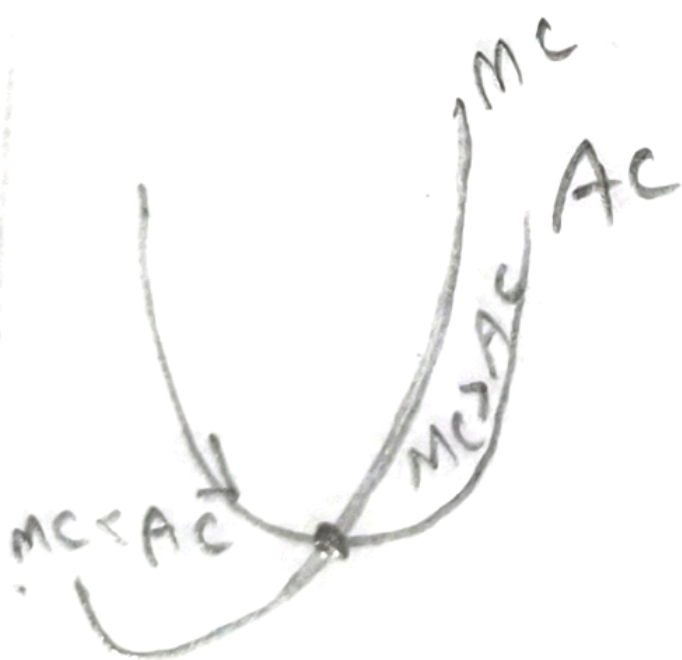


ex

Population



* Relation between $\frac{AC}{MC}$



$$AC - AVC = AFC$$

Economies of scale & diseconomies of scale

