Business Costs

Notes

"BUSINESS COSTS" LEARNING TARGETS

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LAW OF DIMINISHING RETURNS

The Warm Up activity demonstrated that there will eventually be diminishing returns to an input, such as labor.

1)

2)

3)

VARIABLE COSTS

A cost that depends on the quantity of output produced is a variable cost.

1)

2)

3)

4)

FIXED COSTS

A cost that does not depend on the quantity of output is a fixed cost.

1)

2)

3)

4)

Quantity of Labor	Output	Variable Cost	AVC	Fixed Cost	AFC	Total Cost	ATC	Marginal Cost
1	23	$10		$5				
2	34	$20		$5				
3	41	$30		$5				
4	44	$40		$5				

TOTAL COST

To find the total cost for a business, add together variable cost and fixed cost.

1)

2)

3)

4)

MARGINAL COST

Marginal cost is the change in total cost caused by producing one more unit.

1)

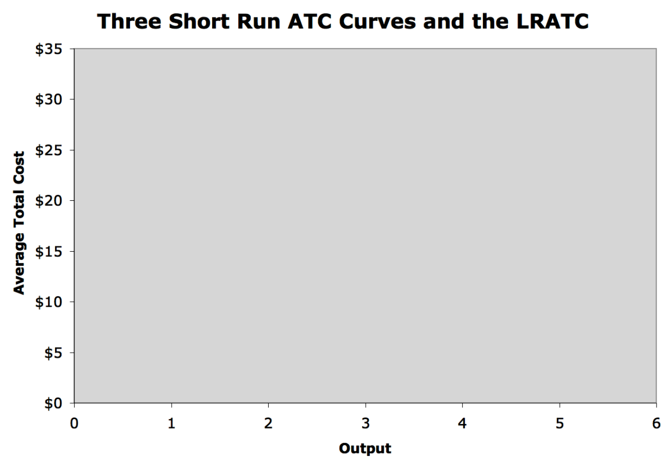
2)

3)

4)

SHORT RUN VS. LONG RUN

As you may have guessed, costs are different in the long run when compared to the short run because ALL costs are variable in the long run.



1)

2)

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