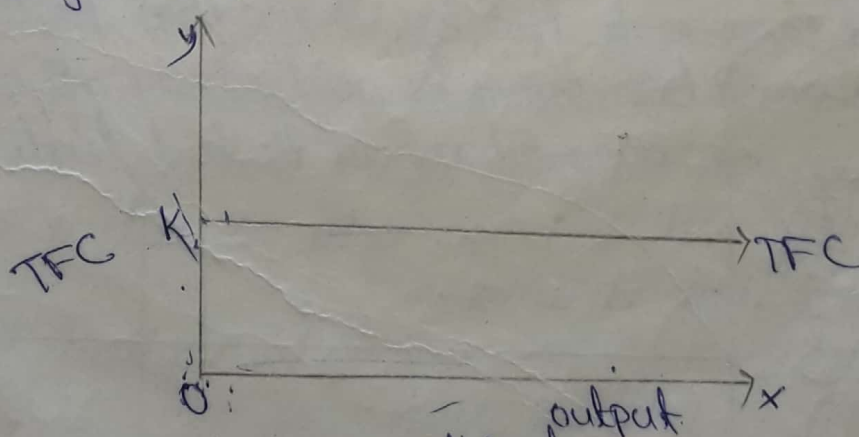


Discuss the nature of various types of shortrun cost curves, why shortrun average cost (SAC) curve is 'U' shaped?

ANS  $\Rightarrow$  The behaviour of cost shows the behaviour of production. In short run some factors are fixed and some others are variable for production of output. Thus in the shortrun total cost of production of a firm is the sum of total fixed cost and total variable cost.

Symbolically  $STC = TFC + TVC$   
Total Fixed Cost (TFC)

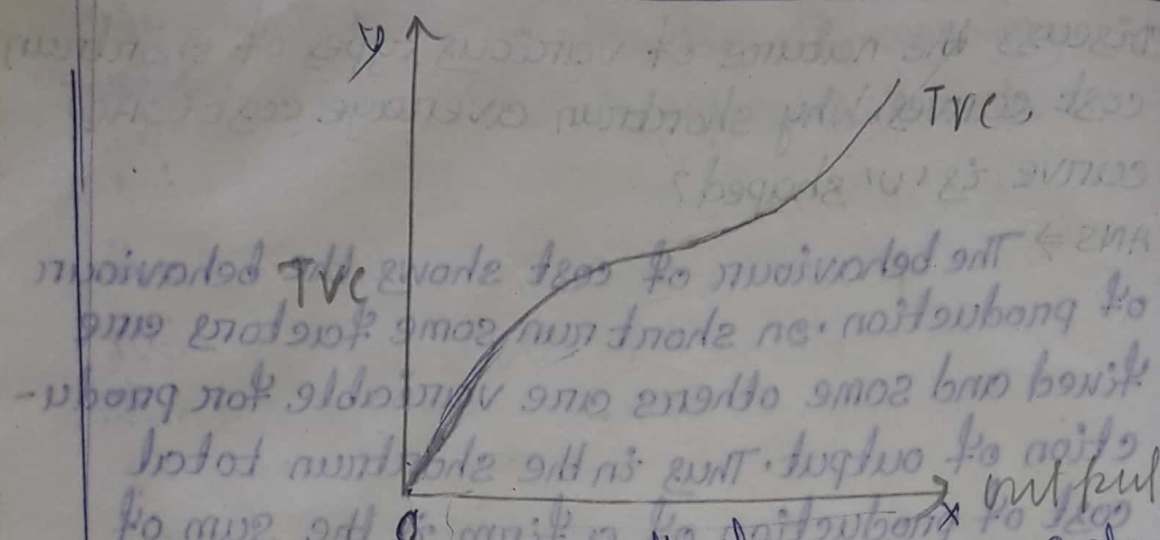
Total fixed cost remains unaffected by changes in the volume of output even at zero amount of output, these expenses are constant and for this reason TFC curve is a horizontal straight line.



On this figure TFC is the total fixed cost curve and it shows that TFC is always constant irrespective of rise or fall in volume of output.

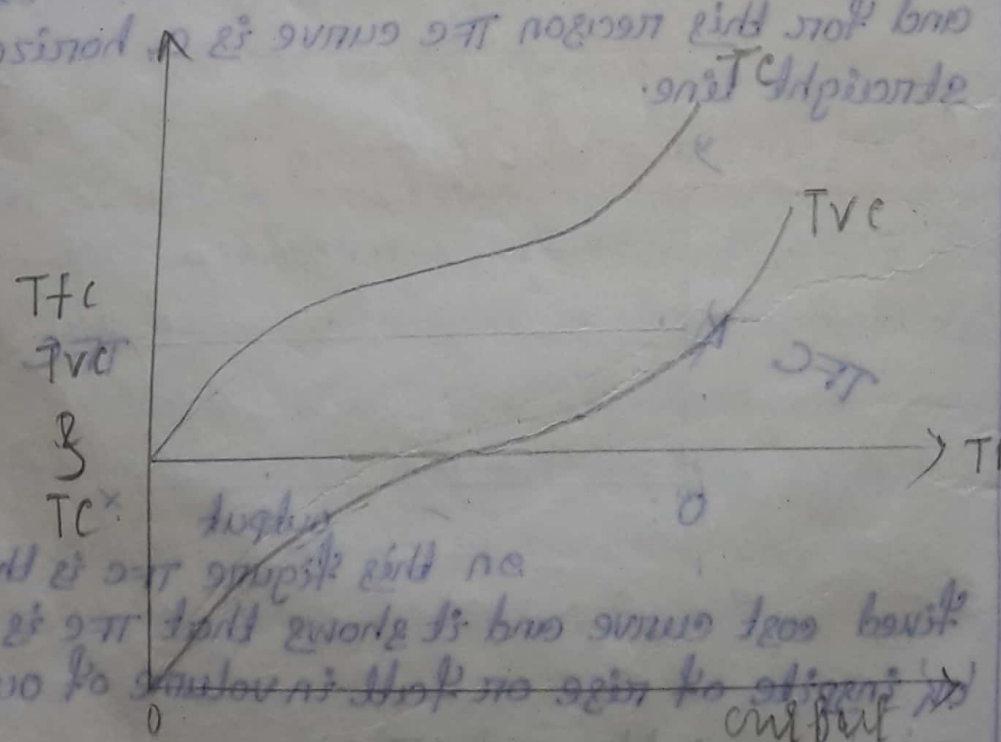
Total variable cost (TVC)

Total variable cost is zero at zero level of output and will increase with increase in volume of output.



on the figure TVC curve starts from the origin showing that TVC is zero at zero level of output. The upward slope of TVC curve indicates increase in TVC with increase in output.

Total cost Total cost (TC) curve is the vertical addition of TFC curve and TVC curve.



on the above diagram at a level of output  $TC = TFC + TVC$ . Since TFC is always constant, the rise in TC is due to rise in TVC, and TC curve has the same shape as TVC curve.



on the above figure TC curve is the vertical summation of TFC and TVC curve. Moreover the difference in between TC and TVC is always same which is nothing but TFC.

### Average cost (AC)

Average cost is the cost per unit of output and it is total cost (TC) divided number of units of output produce (Q).

$$\text{Symbolically, } AC = \frac{TC}{Q}$$

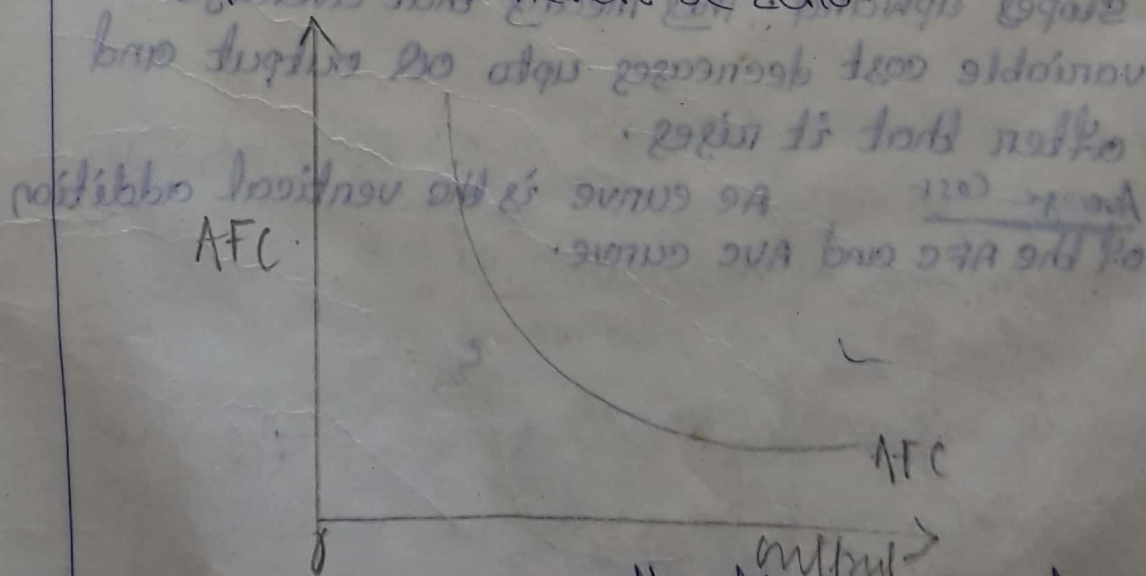
$$\text{Since } TC = TFC + TVC$$

$$AC = \frac{TFC + TVC}{Q} = \frac{TFC}{Q} + \frac{TVC}{Q}$$

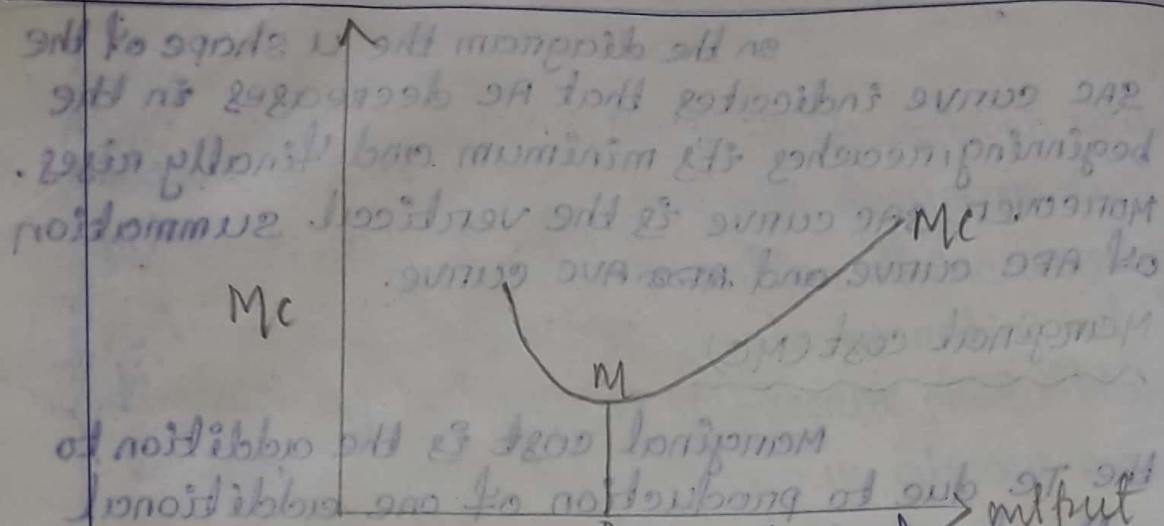
$$= AFC + AVC$$

### Average fixed cost (AFC)

AFC is the fixed cost per unit of output and it is  $\frac{TFC}{Q}$ . Since TFC is always constant, average fixed cost decreases through out with production of more and more units of output but it never be zero.



on the diagram the downward slope of the AFC curve indicates that average fixed cost per unit of output decreases with increase in volume of output.



on the above figure MC first decreases reaches a minimum and then rises.

causes responsible for 'U' shape of SAC curve

SAC curve is 'U' shaped because AC first decreases reaches a minimum and then rises. The 'U' shape of SAC curve can be explained with the help of following two approaches.

1 → simple approach

2 → Advanced approach

simple approach

According to the approach, the behaviour of AC depends on the behaviour of average fixed cost and AVC. On the beginning due to decrease in AFC and AVC, the AC will decrease. At the minimum point of AC (optimum point)  $AC = MC$  and after this point AC begins to rise. The rising portion of AC curve is due to rise in AVC.



## Advanced approach

According to this approach the shape of the SAC curve is due to the operation of laws of returns. The falling portion of the SAC curve is due to the operation of increasing return and the rising portion of the SAC curve is due to operation of diminishing return.

causes for the operation of increasing return

Following are the causes for the operation of increasing return / falling portion of SAC curve.

- ① Too much of fixed factor.
- ② Indivisibility of factor of production.
- ③ Better management and supervision.
- ④ Greater specialization and division of labour.

causes for the operation of diminishing return

Following are the causes for the operation of diminishing return / rising portion of the SAC curve.

- ① Disproportionate of factors of production.
- ② Difficulties in management and supervision.
- ③ Indivisibility of factor of production.
- ④ Constancy nature of technology.



① why study economics?

+ ANS  $\Rightarrow$  There are three main reasons to study economics such as

① To learn a way of thinking.

② To understand society.

③ To understand global affairs.

① To learn a way of thinking

The most important reason for studying economics is to learn a way of thinking. Economists think in terms of opportunity cost, marginalism and efficient markets.

Opportunity cost applies to individuals, businesses and entire societies. Moreover, opportunity cost arises due to scarcity of resources and it is always better to take decision on the basis of opportunity cost.

Marginalism is another concept to learn a way of thinking. A firm maximises its profit at an output and at a price where its marginal cost is same as marginal revenue.

Economists also use the concept of efficient market for deciding on the matters of economics policy. It is contended that free competition ensures efficient functioning of markets. In a free competitive economy profit opportunities



guide the people into investment decision.

## (ii) To understand society

Another reason for studying economics is to understand society in a better manner. The past and present economic decisions have a great influence on the character of life in a society. Industrial development during the period of industrial revolution led to a change in a society and such a change is a study in economics. Industrial development not only generate urbanisation but also shift the people from agriculture to industries. Likewise research and development is taking place in bringing social infrastructure which is bringing the world closer. Thus economics help us in the understanding the present society.

## (iii) To understand global affairs

Another reason for studying economics is to understand global affairs. A close study of international economic arrangements for trade, finance and development enable us to know the problems have been faced by Indian industries and agriculture. We are now trying to persuade the advanced countries to allow the developing countries to participate freely in exports and imports by diminishing trade restrictions only after a close study of economics. Likewise we can understand



international inequalities in per-capita income only through the study of international economics.

② Discuss the scope of economics and various method of studying economics?

ANS  $\Rightarrow$  By scope of economics we mean the area of its study or the extend of its study. It is always essential to know the boundaries of the study of economics for scientific analyses of the subject and in the scope of economics we discuss the boundaries of economics. The scope of economics includes.

① The subject matter of economics.

② The nature of economics.

③ The limitation of economics.

The subject matter of economics

Adam Smith, J.S Mill, David Ricardo and J.B. Say regarded that material goods are wealth and economics as a science is a study of wealth. On otherwards wealth formed the subject matter of economics. According to Marshall economics is a social science studying all human activities which are related to material welfare. Robbins further widened the scope of economics and states that economics is a science of scarcity and choice. On otherwards economics is a science studying all those are



activities which are related to scarce means in relation to unlimited ends/wants.

wants, efforts and satisfaction are now the important subject matter of economics. Human beings in order to satisfy their wants not only makes efforts and produce goods and services but also gets satisfaction from the consumption of these goods and services. Thus in economics we study circular flow of efforts to satisfy wants as a particular want is satisfied another want crops up in its place, so this circular flow is a continuous process.

The study of wants, efforts and satisfaction is divided into various departments of study and they are consumption, production, exchange, distribution, public finance and international trade.

on consumption the laws concerning human wants are studied and in production, we study the means of production and the laws of production. on exchange, the price determination through the forces of demand and supply is studied. Distribution is a study of division of national income among the four factors of production in form of rent, wage, interest and profit.

Modern economist are of the view that economics is a study of consumer's equilibrium, producer's equilibrium, commodity price determination and factor price. Moreover



Micro and macro types of economic activities and static and dynamic activities are studied in economics.

• Economics is the study of human behaviour in relation to the scarce resources. It is a social science which studies the allocation of scarce resources among different uses. It is a branch of knowledge which deals with the production, distribution and consumption of goods and services. It is a science which studies the behaviour of individuals, firms and the society as a whole in relation to the allocation of scarce resources. It is a science which studies the behaviour of individuals, firms and the society as a whole in relation to the allocation of scarce resources.

The study of economics is divided into two main branches, microeconomics and macroeconomics. Microeconomics is the study of individual economic units, such as households, firms and industries. Macroeconomics is the study of the economy as a whole, including the aggregate demand and supply, the level of output, the rate of unemployment, the rate of inflation, etc.

Microeconomics is the study of individual economic units, such as households, firms and industries. It deals with the allocation of scarce resources among different uses. It studies the behaviour of individuals, firms and industries in relation to the allocation of scarce resources. It studies the production, distribution and consumption of goods and services. It studies the behaviour of individuals, firms and industries in relation to the allocation of scarce resources. It studies the production, distribution and consumption of goods and services. It studies the behaviour of individuals, firms and industries in relation to the allocation of scarce resources.

Modern economics is a branch of knowledge which deals with the production, distribution and consumption of goods and services. It is a science which studies the behaviour of individuals, firms and the society as a whole in relation to the allocation of scarce resources. It is a science which studies the behaviour of individuals, firms and the society as a whole in relation to the allocation of scarce resources. It is a science which studies the behaviour of individuals, firms and the society as a whole in relation to the allocation of scarce resources.