core /

COSTS OF PRODUCTION.

Profit = Total revenue − total cost

total cost → market value of all the costs the firm used for i/ps to produce the o/ps.

i/ps → land, labor, capital → factors of prodⁿ.

o/ps → goods & services

→ Opportunity cost:

Expenditure incurred by the firm to acquire the i/p → Wages paid, raw materials purchased.

Explicit costs → require an outlay of money by the firm → wages paid to workers.

Implicit costs → do not require an outlay of money by the firm → opportunity cost of the owner's time.

Total costs = Explicit + Implicit cost.

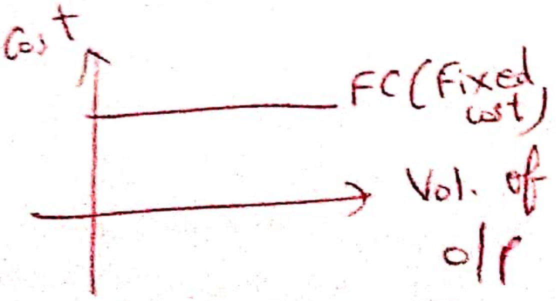
(1) Economic profit = Total revenue − Total cost

Accounting profit = Total revenue − explicit cost (ignores impliat cost)

$> (1)$

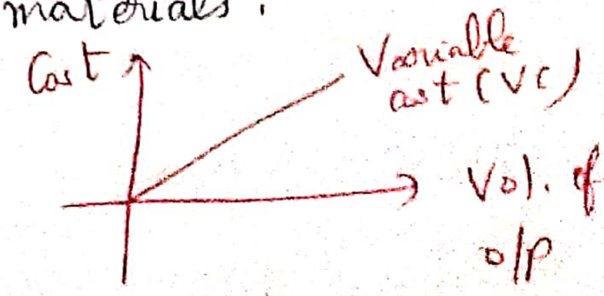
Fixed Costs

- → independent of o/p.
- → cost of fixed factors.
- → exist even at 0 level of o/p
- → Supplementary costs
- → exist only in short-run.
- → Eg: Rent of a flat
- →

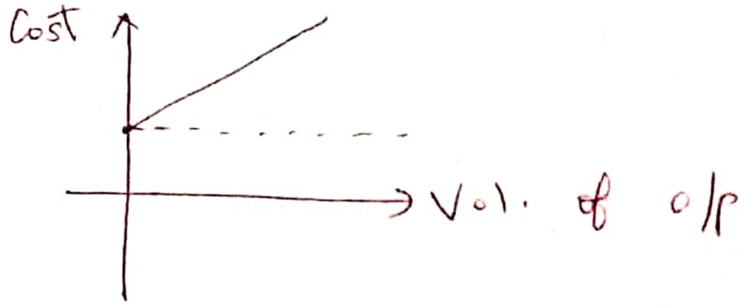


Variable costs

- → vary with the level of o/p
- → cost of variable factors
- → = 0 at 0 level of o/p.
- → prime costs
- → exist in short & long-run.
- → Eg: Cost of raw materials.
- →



Semi-variable costs:



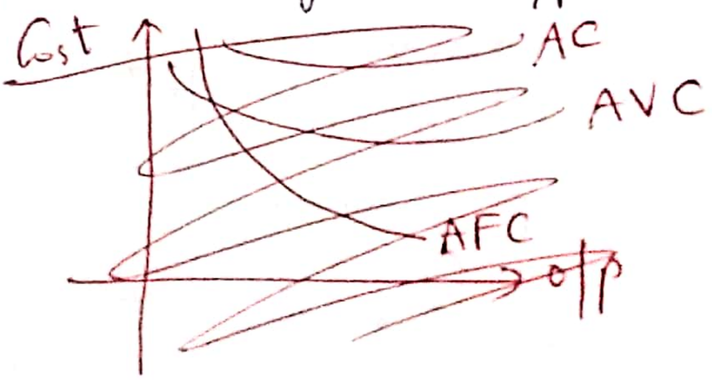
Types of costs

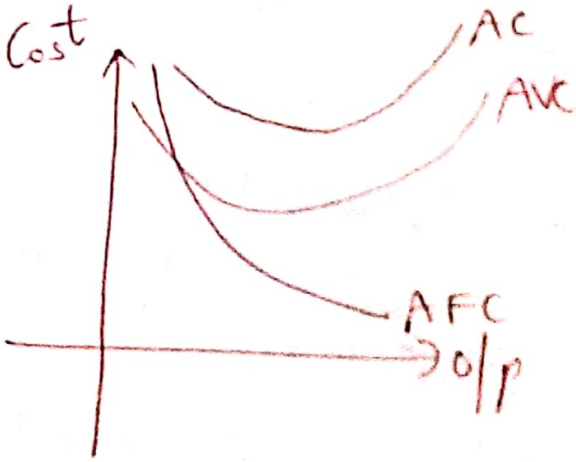
- Explicit cost
- Implicit cost
- FC
- VC
- Total Cost (TC) $= FC + VC$
- AFC (avg. FC) $= \frac{FC}{Q}$
- AVC (avg. VC) $= \frac{VC}{Q}$
- ATC (Avg. TC) $= \frac{TC}{Q}$
- Marginal cost, add'nal unit of o/p... (MC) $= \frac{\Delta TC}{\Delta Q}$

$\boxed{Q = \text{Q-ty of o/p}}$

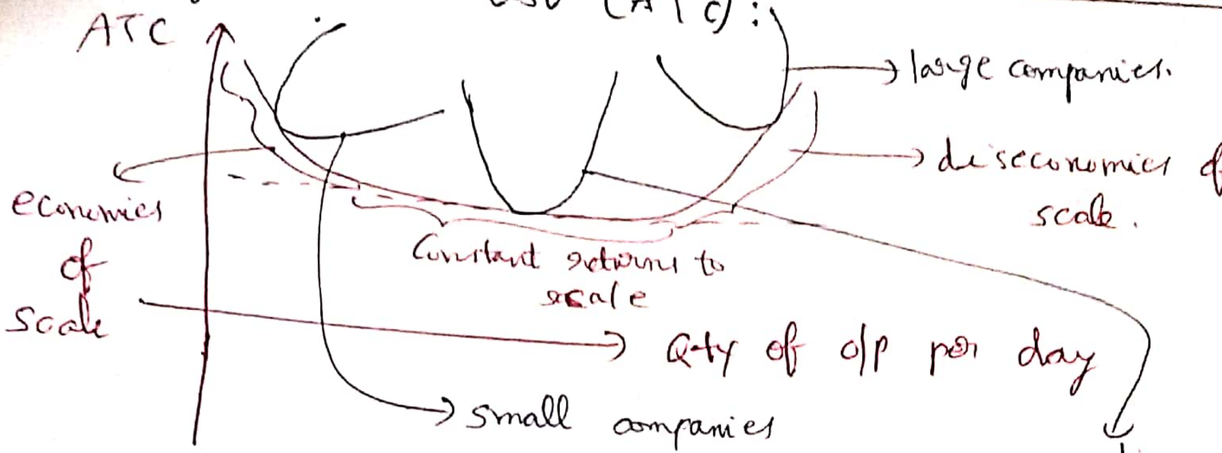
↳ Vol. of o/p ⇒ ↑ses ⇒ FC per unit falls.

AFC → rectangular hyperbola.





→ Average Total Cost (ATC):



ATC in the long-run.

ATC in short-run

→ Economies of scale:

→ Situation where the cost of producing 1 unit of good ↓ses as vol. of prodⁿ (o/p) ↑ses.

→ when company grows & prodⁿ units ↑ses ⇒ company has better chance to ↓ its costs.

→ Part → ATC ∝ $\frac{1}{o/p}$

→ Dis-economies of scale:

→ ↑ in the cost/unit of supply as qty of o/p increases.

→ ↑ⁿ unit costs ⇒ ↓ profit.

→ Business has moved beyond optimum size.

→ Productive ineffeciency in business.

→ Business has to charge $\uparrow$ to cover their $\uparrow$ costs of production.

→ declining market share.

WELFARE.

→ A branch of economics concerned with discovering principles for maximising social welfare → Welfare Economics.

→ Pareto : $\boxed{\text{Maximum welfare}}$ = No change could make anyone better off without making someone worse off.

→ Constitutional economics;

→ We need Govt. to establish & enforce (property rights rules, contracts etc, (constitutional rules) to constrain the state.

→ Eg : Super majority rules.

→ Do not ~~econ~~ encourage ppl to consume. Saving is critical.
avoid progressive tax →