

Week 1

Sunk cost:

expenditure that has been made and cannot be recovered
it has no contribution to the future decision making

Opportunity cost:

value of the next best alternative forgone when resources are allocated or used in one particular way

Marginal benefit:

Marginal benefit is the addition to total benefit of doing, or increasing by one unit, the level of an activity

Marginal cost:

Marginal cost is the addition to total cost of doing, or increasing by one unit, the level of an activity

We expand the producing scale when:

$$\text{marginal benefit} > \text{marginal cost}$$

When marginal benefit = marginal cost,
we get the maximised profits.

optimal decision :

marginal benefit \downarrow

marginal cost \uparrow

