Why AVC is "U – Shaped" Curve?

Due to Law of Variable Proportion
According to this Law, when f.f are combined with Vf, initially TP ↑ at increasing rate due to ↑ of MP, which leads to cause decline of AVC.

Why initially TVC increases at a diminishing Rate & eventually increases at a Increasing Rate.

Or

Why TVC is "Inverse – S shaped"

Difference between Fixed cost & Variable Cost

TFC

TVC

HOTS

Q. Why TFC is parallel to X-axis?

Ans. Because TFC Remain Constant at all levels of output.

Q. Why TFC can't touches Origin?

Ans. Because TFC can't be zero, even when the output is zero

Q. Why TVC touches origin?

Ans. Because TVC can be 0, when output is 0

Q. Why TC does not touches origin?

Ans. Because TC is the combination of TFC & TVC and TFC can't be 0 So, TC can never be 0 & therefore, does not touches the origin.

HOTS

Q. Why TC lies above TFC & TVC?

Ans. Because TC is the Combination of TFC & TVC.

$$TC = TFC + TVC$$

And, therefore it lies above TFC and TVC.

Table:

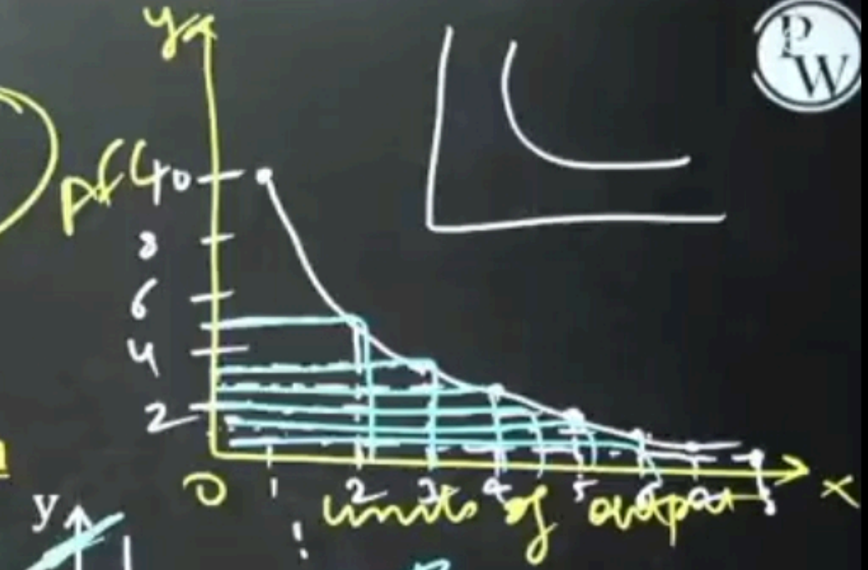
Output	TFC	AFC
1	10	10
2	10	5
3	10	3.3
4	10	2.5
5	10	2
6	10	1.67
7	10	1.42
8	10	1.25

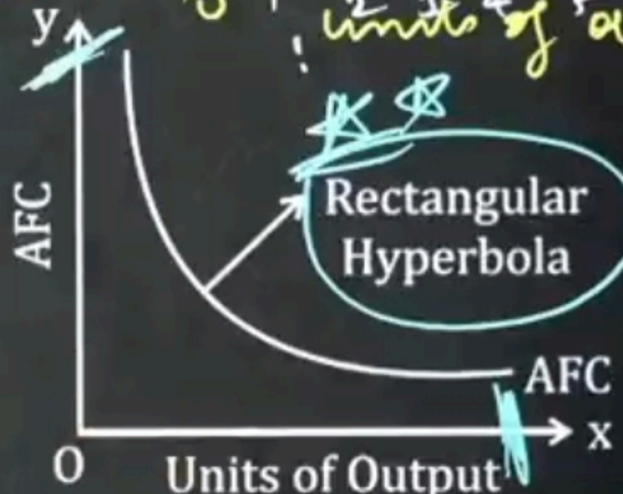
TFC / O

HOTS

AFC ≠ 0

Diagram





$$AC = AFC + AVC$$

Important Points

1. AFC is a **downward sloping** curve because of inverse relationship between output & AFC. It means when output increases, AFC declines
2. AFC **never touches X – Axis or Y – Axis** because TFC can't be 0. Due to this, AFC also can't be 0.
3. AFC **always fall** because TFC always remain constant at all levels of output.
4. AFC curve is **Rectangular Hyperbola** because TFC remain constant at all levels of output.

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Due to Law of Variable Proportion
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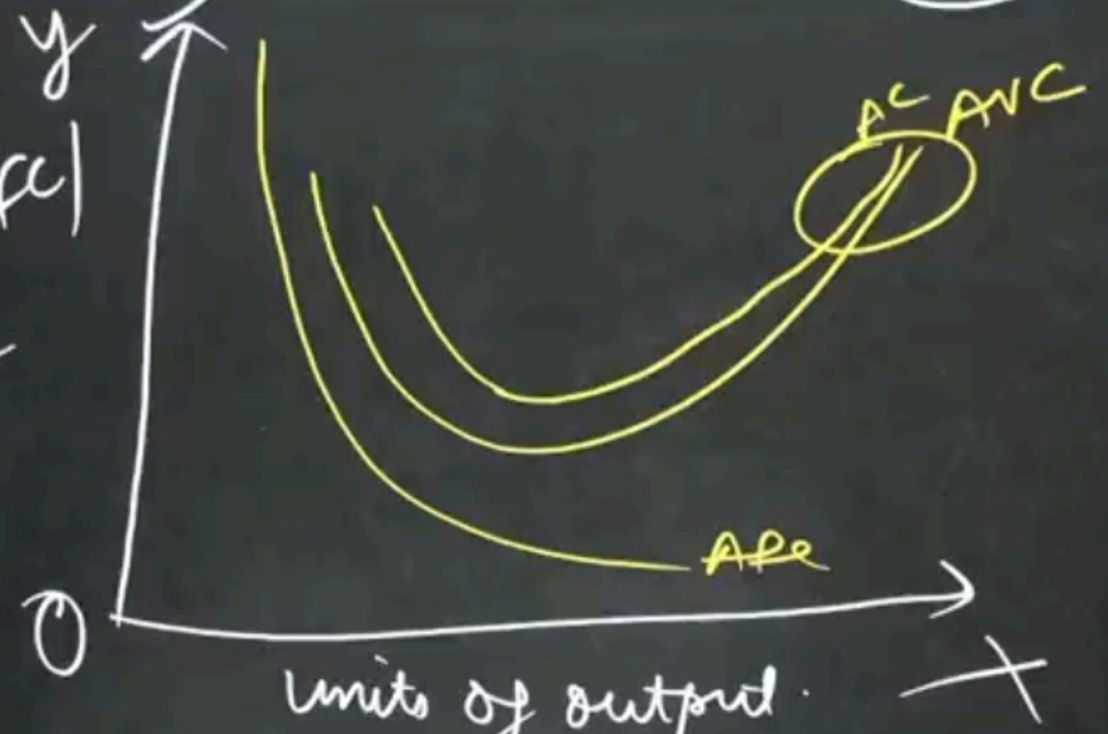
AVC, AFC , AC — HOTS

AC = AFC + AVC

(20) = 10 + 10



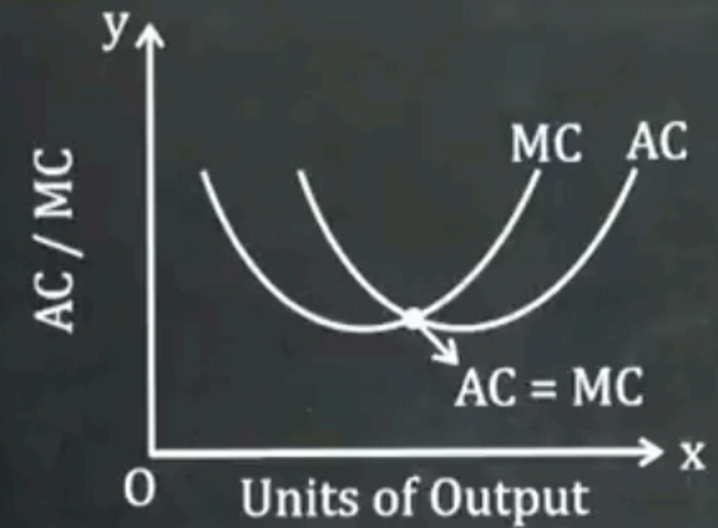
AC = AVC + AFC

10 = 0 + 10

Why MC curve is "U-Shaped" curve?

Relation between AC & MC

Diagram



Relation between TC & MC

Diagram