Long run v/s Short run

Short Run

- The short run is a period of time in which the quantity of at least one input is fixed and the quantities of the other inputs can be varied.
- In other words, there is some fixed cost

Long Run

- The long run is a period of time in which the quantities of all inputs can be varied.
- In other words, there is no fixed cost, Total Cost = Variable Cost

Marginal Revenue

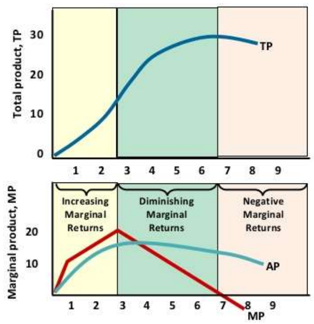
- Marginal Revenue is the additional Revenue generated by selling an additional unit of the product
- E.g. if Revenue Generated by selling 10 Units is Rs.2,000 and by selling 11 Units is Rs.2,070, then the MR from 11^{th} Unit is Rs.70.
- If the Selling Price is **constant**, then the MR generated from sale of every additional unit would be equal and effectively the MR curve would be a 'Straight Line'.
- Then in that case P=MR = AR

How many labor should work here ?

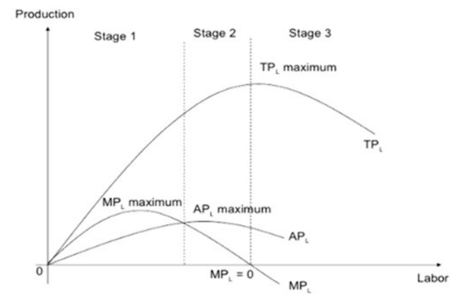
Law of Diminishing Marginal Returns

- It states that after some optimal level of capacity is reached, adding an additional factor of production will actually result in smaller increases in output.
- Also called as 'Law of Diminishing Returns' and 'Law of Diminishing Marginal Productivity'
- It signifies that if one tries to increase the output beyond a certain level only by adding more variable input, the output would increase at a decreasing rate

Law of Diminishing Marginal Returns



TP, MP and AP



Structure of Costs in Short-run