Marginal Analysis

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Marginal Analysis

Marginal analysis is used to assist people in allocating their scarce resources to maximize the benefit of the output produced.

Simply getting the most value for the resources used.

Marginal Analysis

Marginal analysis: The analysis of the benefits and costs of the marginal unit of a good or input.

(Marginal = the next unit)

Marginal Analysis

A technique widely used in business decision-making and ties together much of economic thought.

In any situation, people want to maximize net benefits:

Net Benefits = Total Benefits - Total Costs

The Control Variable

To do marginal analysis, we can change a variable, such as the:

quantity of a good you buy,
the quantity of output you produce, or
the quantity of an input you use.

This variable is called the **control variable** .

The Control Variable

Marginal analysis focuses upon whether the control variable should be increased by one more unit or not.

Key Procedure for Using Marginal Analysis

1. Identify the control variable (cv).

2. Determine what the increase in total benefits would be if one more unit of the control variable were added.

This is the **marginal benefit** of the added unit.

Thank You