An aerial photograph of a city and a golf course. The city is in the background, with various buildings and a large stadium. The golf course is in the foreground, with green fairways and a winding river. The sky is clear and blue.

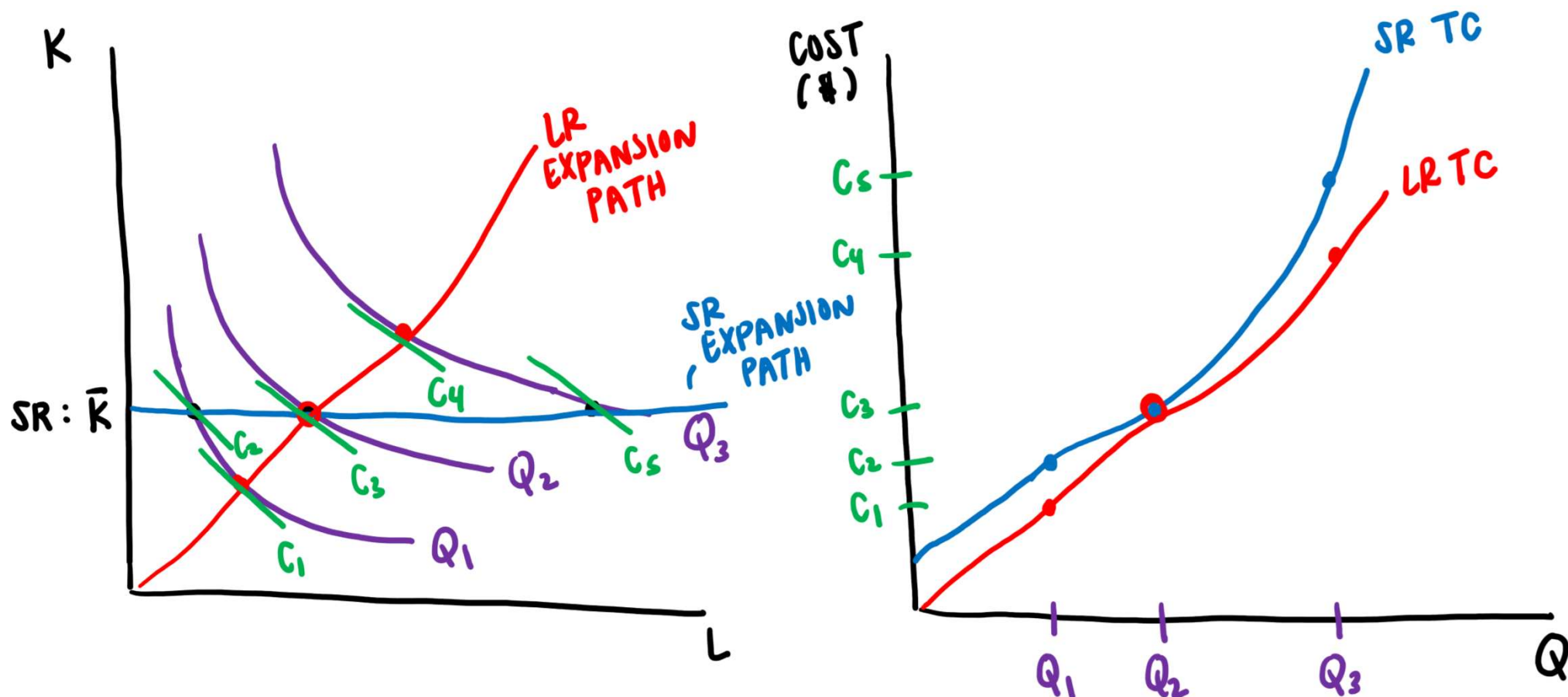
Unit 2

Costs (Ch. 7)

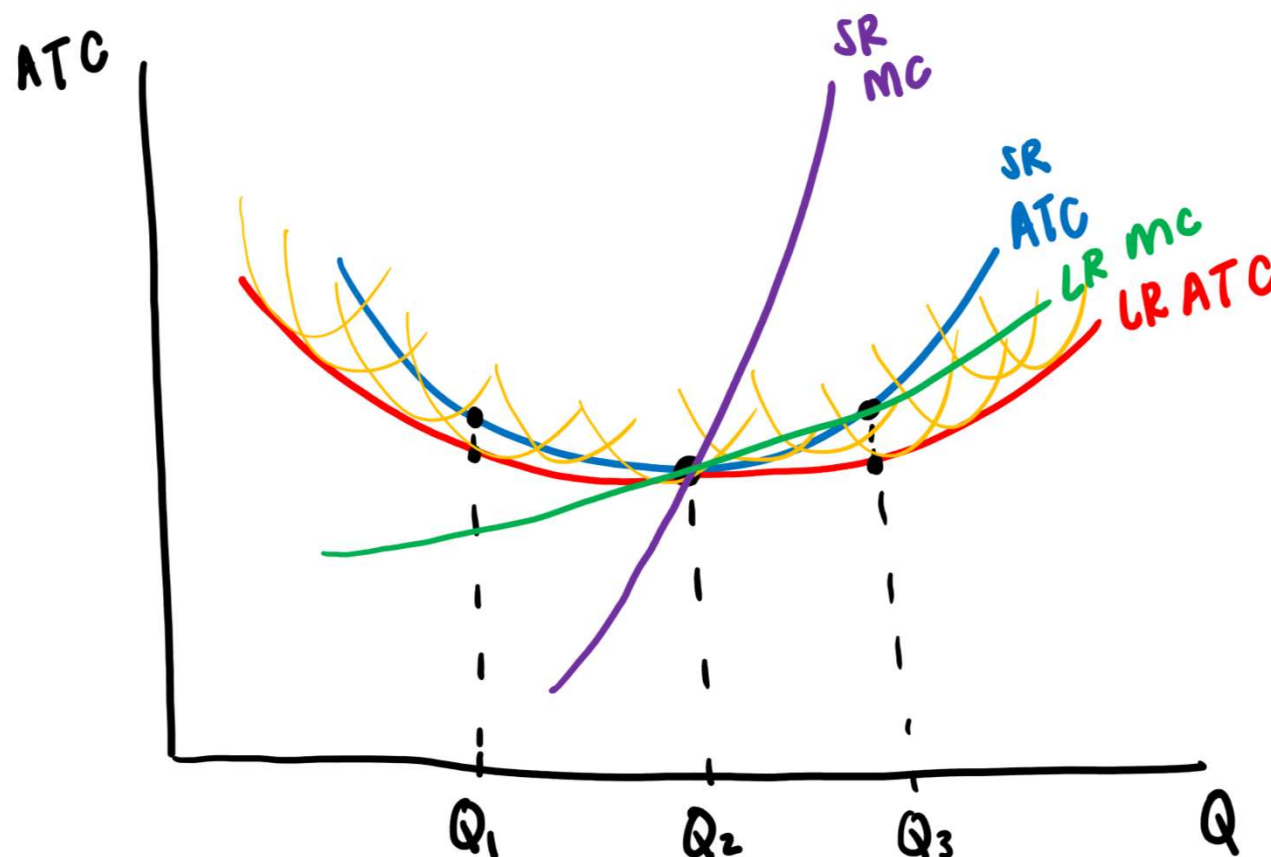
10/9

ECON 323 – MICROECONOMIC THEORY – DR. STRICKLAND

Short-Run and Long-Run Total Cost Curves



Short-Run and Long-Run Average Cost Curves



Economies in the Production Process



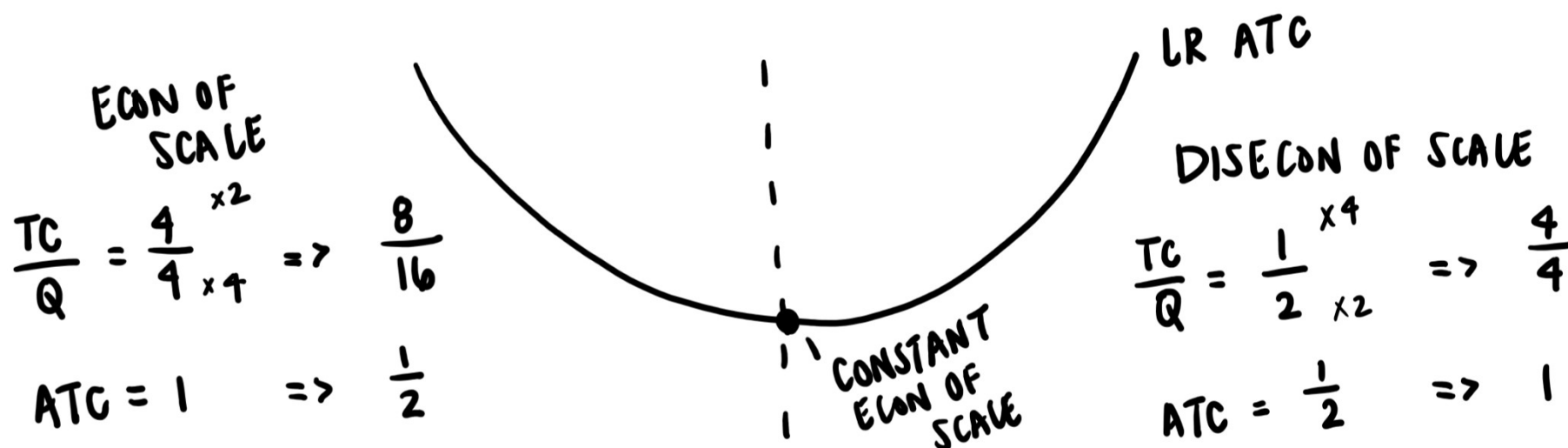
How does total cost change with output?

- Captured by **economies of scale**

Economies of Scale: COSTS \uparrow SLOWER THAN $Q \uparrow$

Constant economies of Scale: COSTS + $Q \uparrow$ AT SAME RATE

Diseconomies of Scale: COSTS \uparrow FASTER THAN $Q \uparrow$



Economies in the Production Process



How do costs change with the number of products?

- Captured by **economies of scope**

$$SCOPE = \frac{SEP. - TOGETHER}{TOGETHER}$$

$$e.g. \text{ SCOPE} = 0.25$$