

Lecture 6

Theory of Cost

Cost in common usage usage, the monetary value of goods and services that producers and consumers purchase. In a basic economic sense, cost is the measure of the alternative opportunities foregone in the choice of one good or activity over others. ~~⑩~~

Types of cost

1) Total Cost = TC = Total Fixed cost + total variable cost

$$\therefore TC = TFC + TVC$$

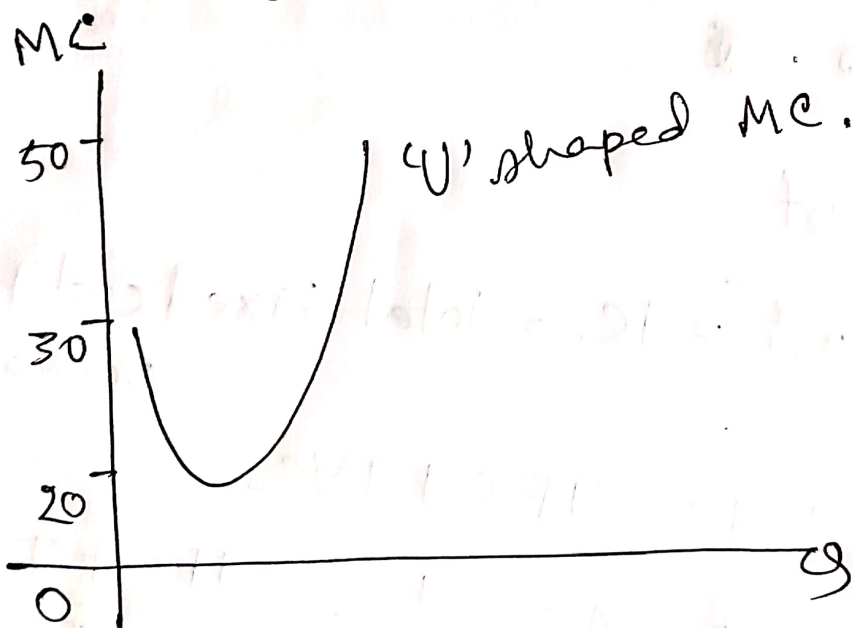
2) Average cost = $AC = \frac{TC}{Q} = \frac{TFC + TVC}{Q}$

$$AC = AFC + AVC$$

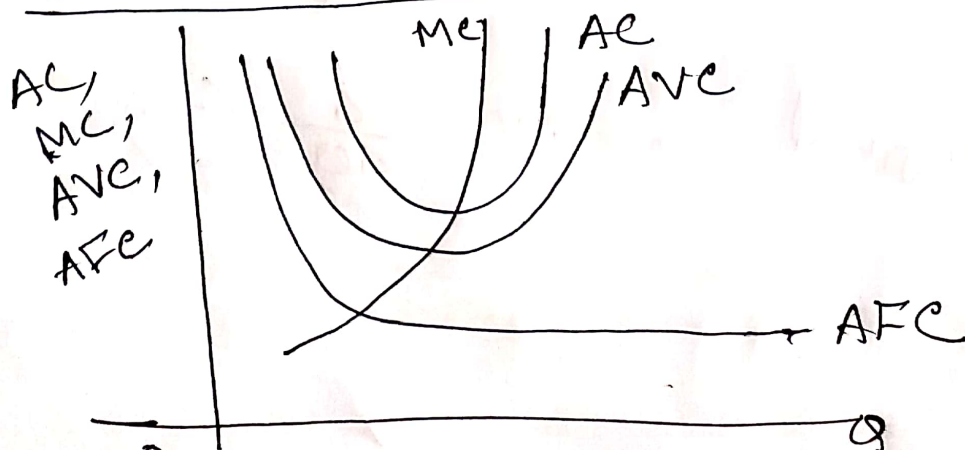
3) Marginal $u = MC = \frac{\Delta}{\Delta Q} (TC)$

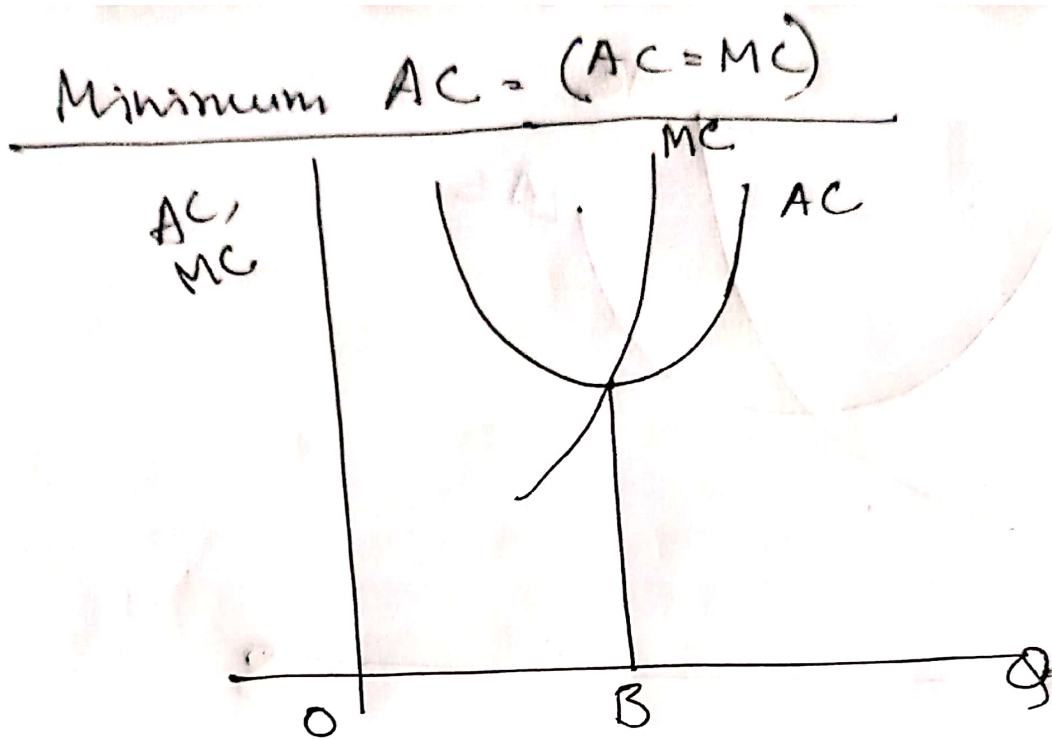
Units of Production — TC — MC

0	55	30
1 st	85	
2 nd	110	20 25
3 rd	130	20
4 th	160	30
5 th	210	50

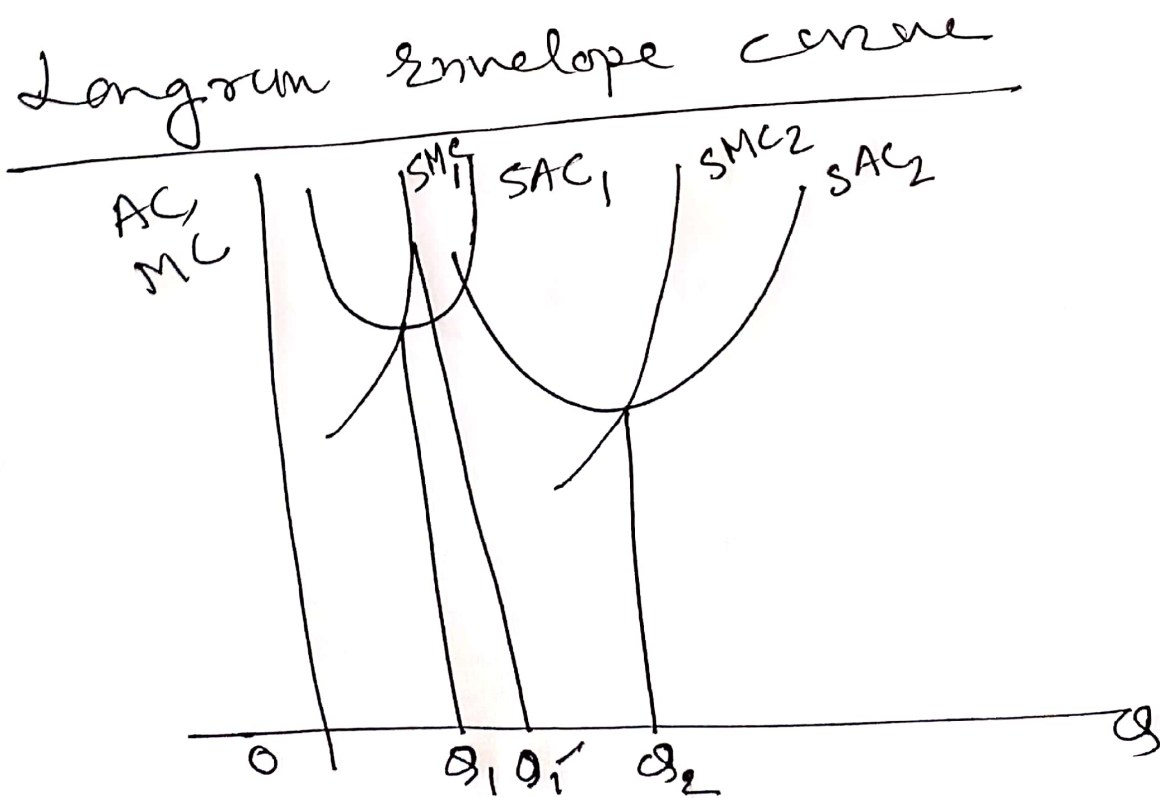


short-run cost curves.





Simplification:



LAC,
LMC

