

**MP<sub>L2</sub>**



**L<sub>2</sub>**

**MP<sub>L3</sub>**



**L<sub>3</sub>**

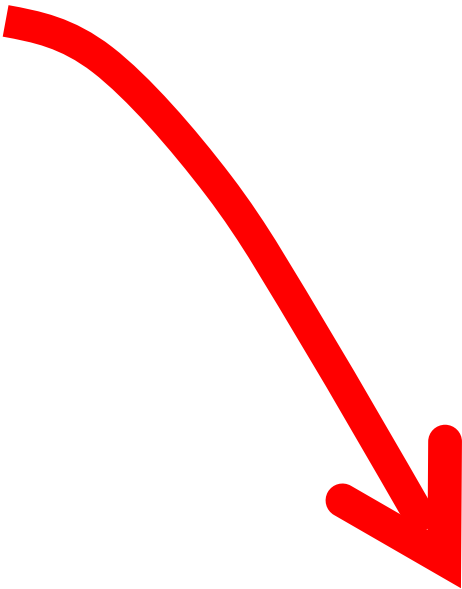
**MP<sub>L1</sub>**



**L<sub>1</sub>**



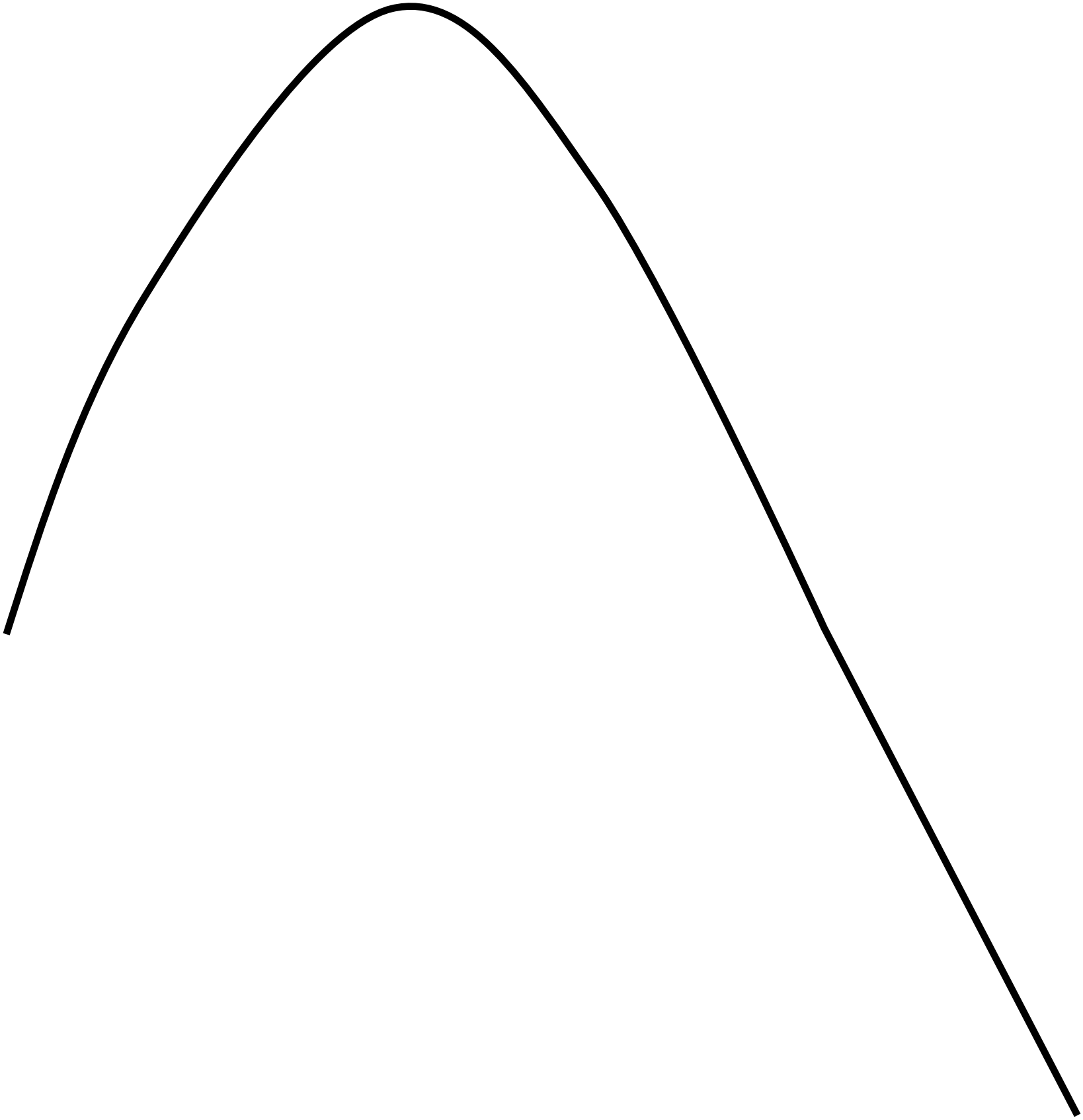
As more workers are hired:  
 $MP_{\text{Labor}}$  decrease











$MP_{k2}$



$K_2$

**MP<sub>k3</sub>**



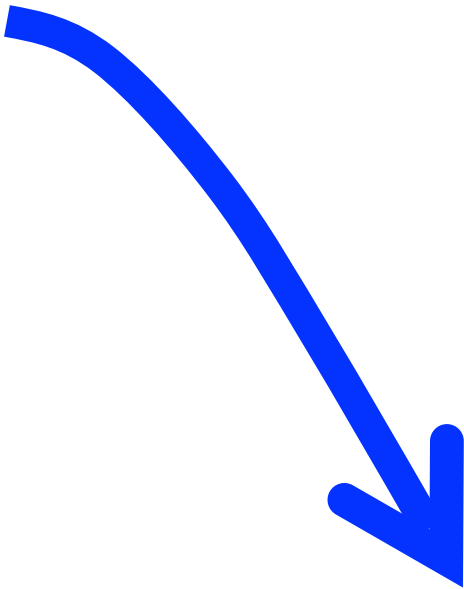
**K<sub>3</sub>**

$MP_{k1}$



$K_1$

As more machines are used:  
 $MP_{\text{Capital}}$  decrease



Too many workers  
decrease productivity  
of Labor

Too many machines  
decrease productivity  
of Capital



Fixed  
plant size

Eventually, Decreasing Returns to both  
Labor and Capital set in

**MP<sub>k</sub>**

**MPL**

Eventually, Decreasing Returns to both

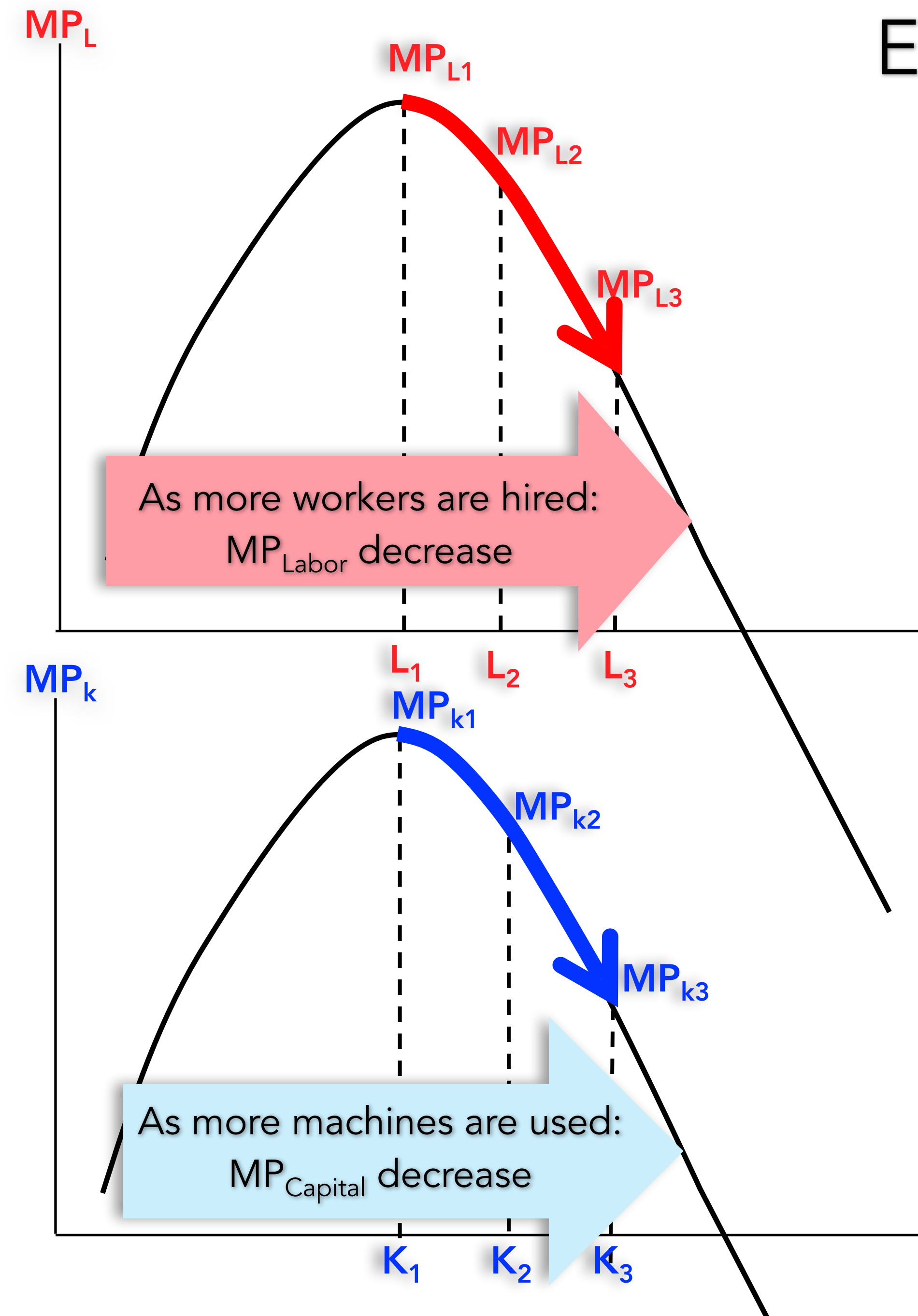
Labor and Capital set in

Fixed  
plant size

Too many workers  
decrease productivity  
of Labor



Too many machines  
decrease productivity  
of Capital



Once Diminishing Returns Set In...

