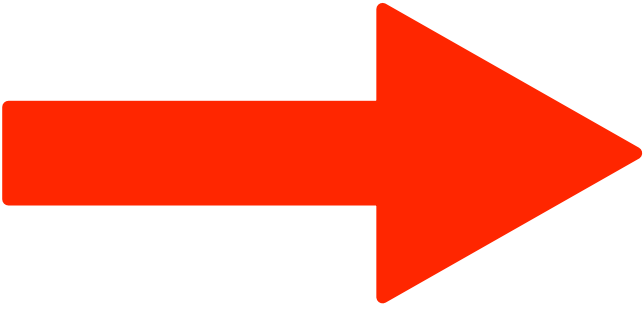
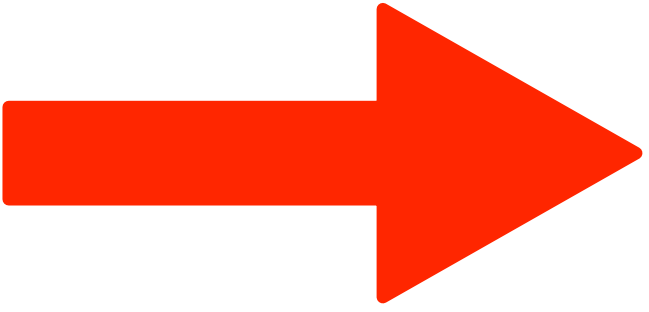


Buy more

capital

$$\frac{MRP_L}{P_L}$$


$\frac{MRP_K}{P_K} >$



Buy more

labor

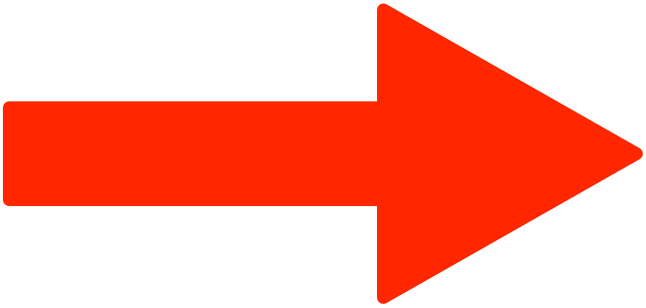

$\frac{MRP_L}{P_L}$


$\frac{MRP_K}{P_K} <$

The more an input is used, the lower the Marginal Product of that input

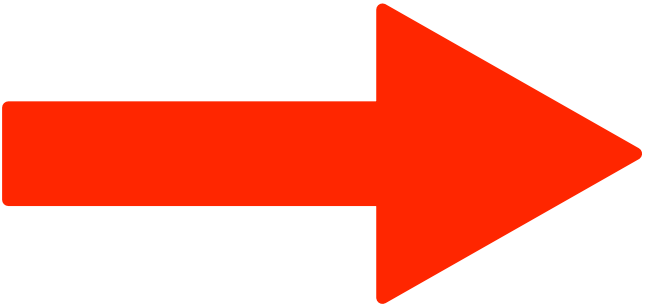

If


If



Marginal Product

of ***capital*** ***drops***



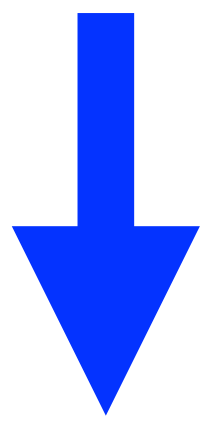
Marginal Product

of ***labor*** ***drops***

Marginal **Revenue**

Product of ***capital*** *drops*

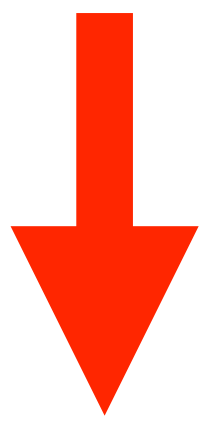
Marginal ***Revenue***
Product of ***labor*** *drops*



$$\frac{MRP_K}{P_K} =$$

$$\frac{MRP_L}{P_L}$$

Until:



Until:

The more an input is used, the lower the Marginal Product of that input

If $\frac{MRP_K}{P_K} > \frac{MRP_L}{P_L}$

→ Buy more **capital**

→ *Marginal Product of **capital** **drops***

*Marginal **Revenue** Product of **capital** drops*

If $\frac{MRP_K}{P_K} < \frac{MRP_L}{P_L}$

→ Buy more **labor**

→ *Marginal Product of **labor** **drops***

*Marginal **Revenue** Product of **labor** drops*

The more an input is used, the lower the Marginal Product of that input

Until: $\frac{MRP_K}{P_K} = \frac{MRP_L}{P_L}$