

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



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

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



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

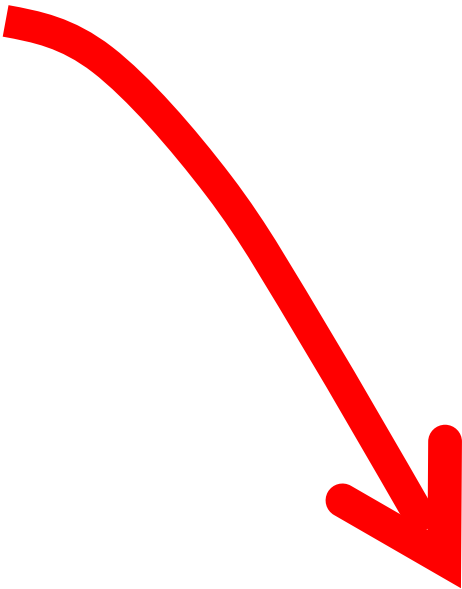
**MP<sub>L1</sub>**



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



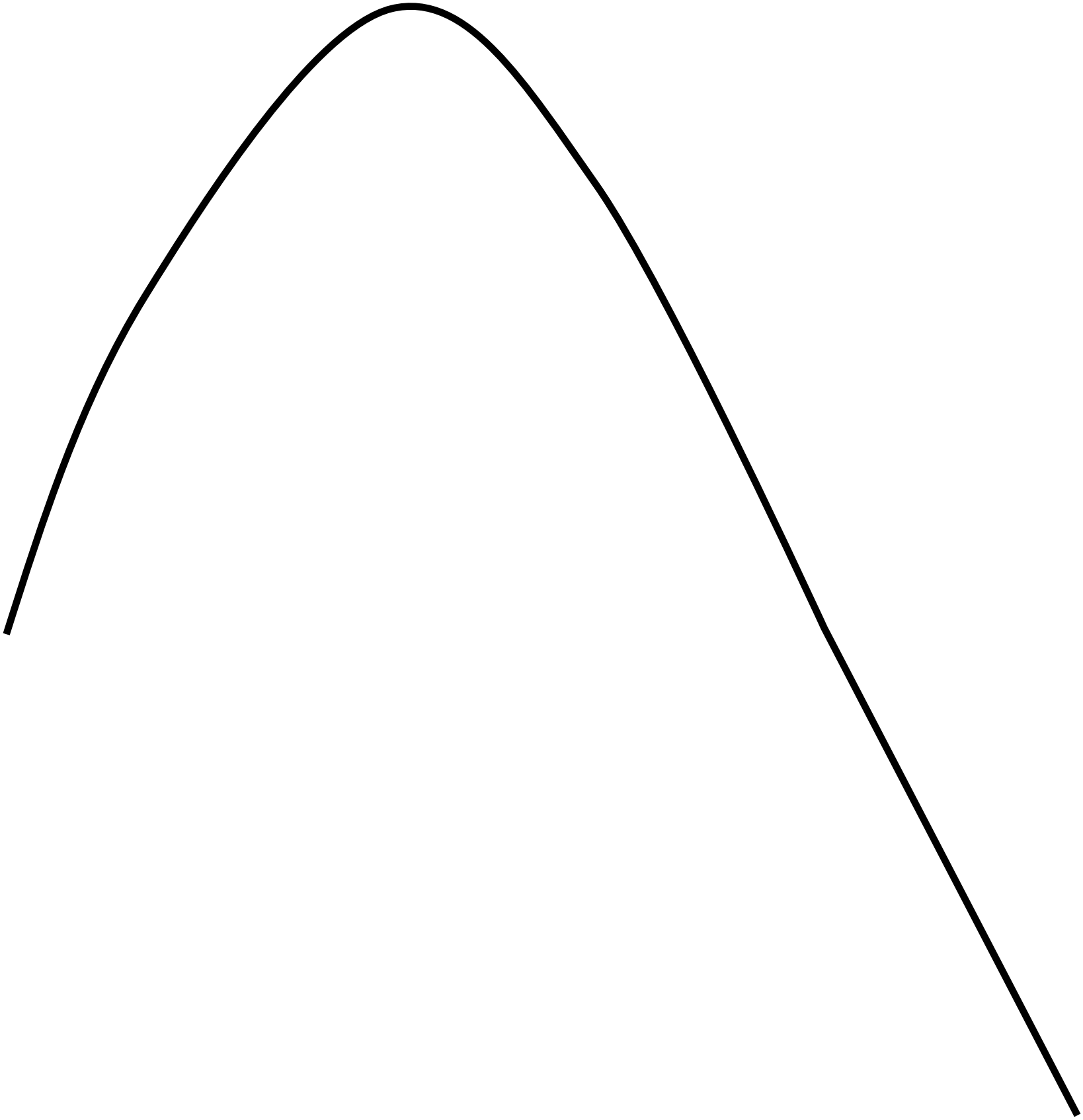
As more workers are hired:  
 $MP_{\text{Labor}}$  decrease











$MP_{k2}$



$K_2$

$MP_{k3}$



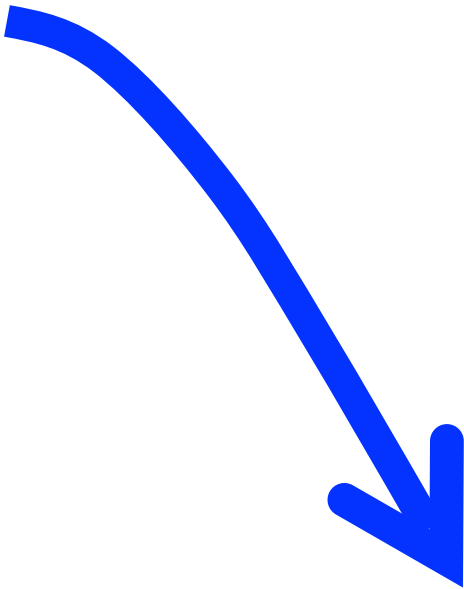
$K_3$

$MP_{k1}$



$K_1$

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

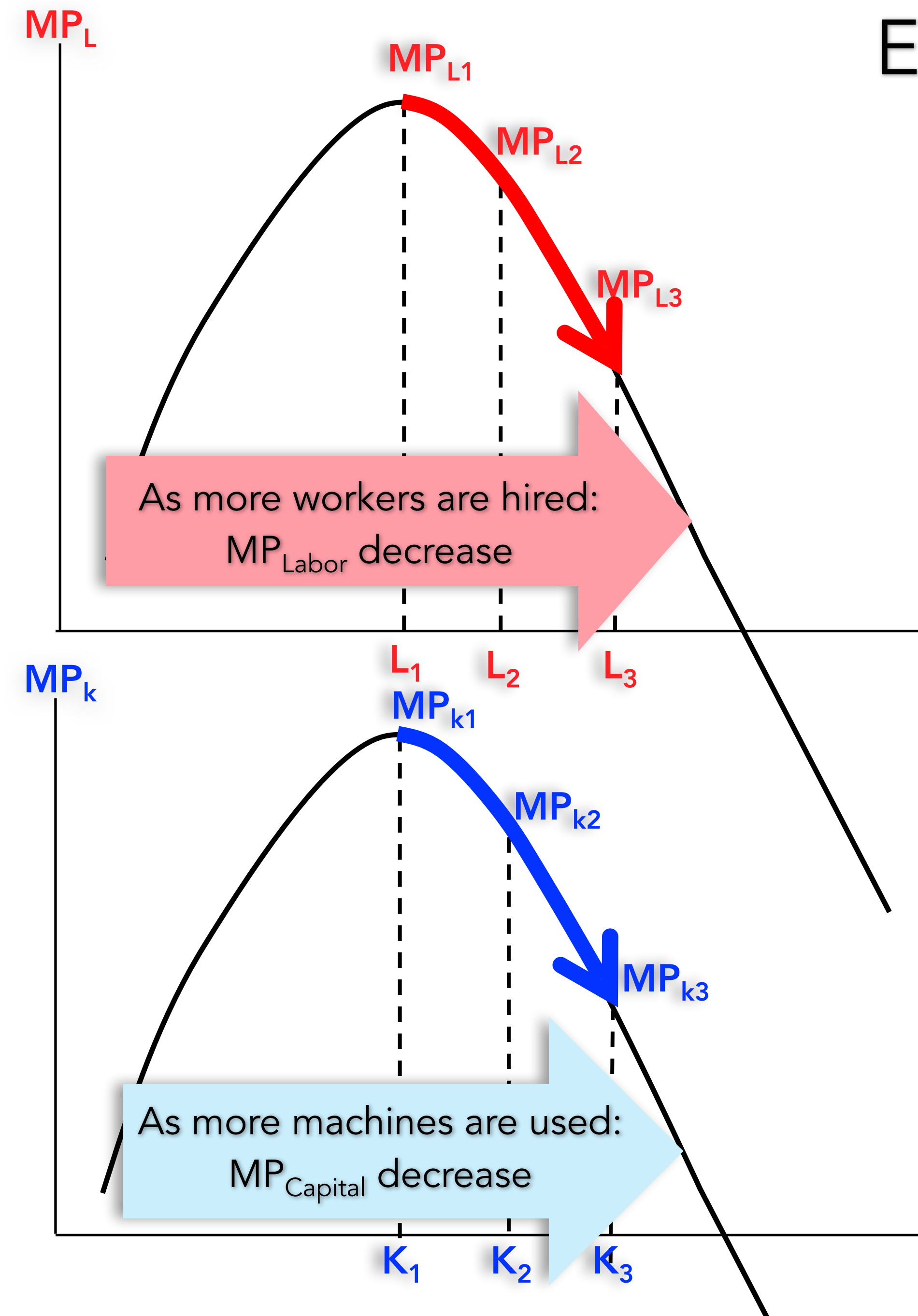
Labor and Capital set in

Fixed  
plant size

Too many workers  
decrease productivity  
of Labor



Too many machines  
decrease productivity  
of Capital



# Once Diminishing Returns Set In...

