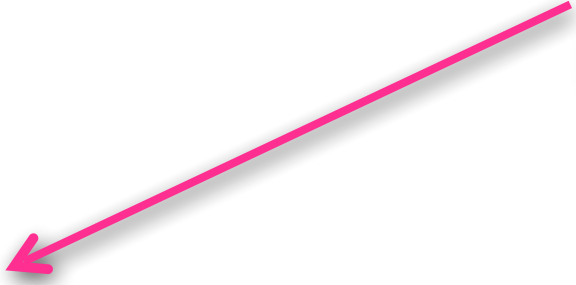
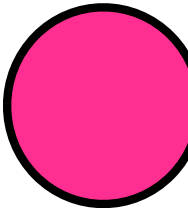
Units produced: Output

Variable Cost is zero when output is zero



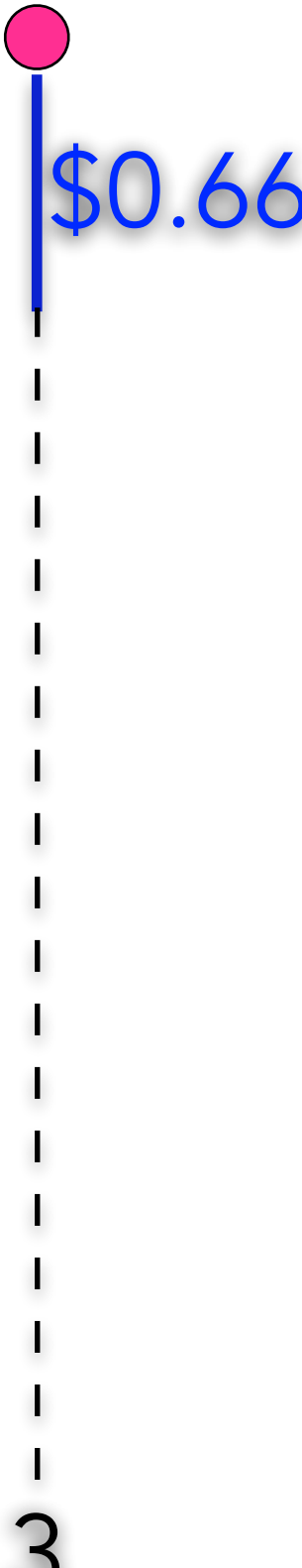
$$VC = 0$$



Variable Costs increase as Output increase

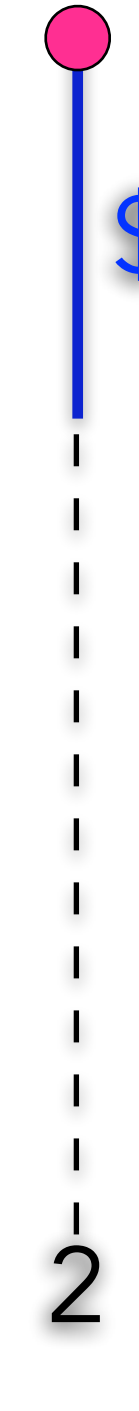
Cost per unit drops because Marginal Product increase


$2
1


$0.66
3

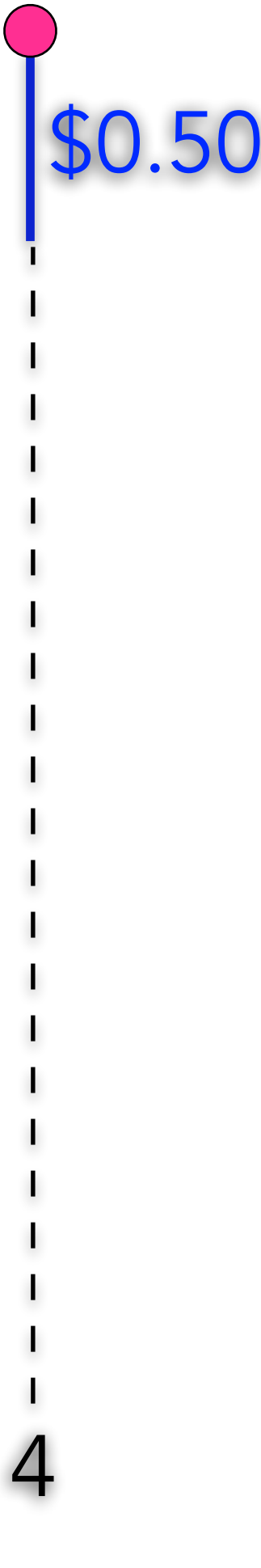
2 - - - -

3 .....

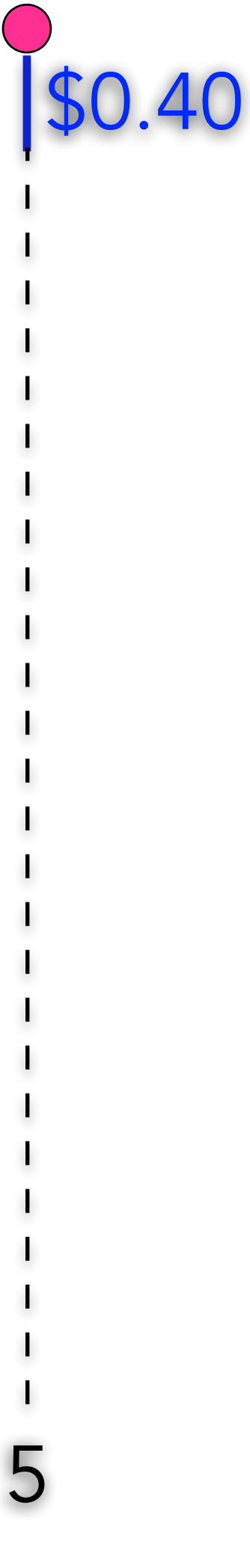

$1
2

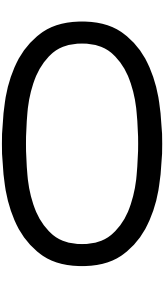
4.16

3.66 ----------


$0.50
4

4.56----------


$0.40
5

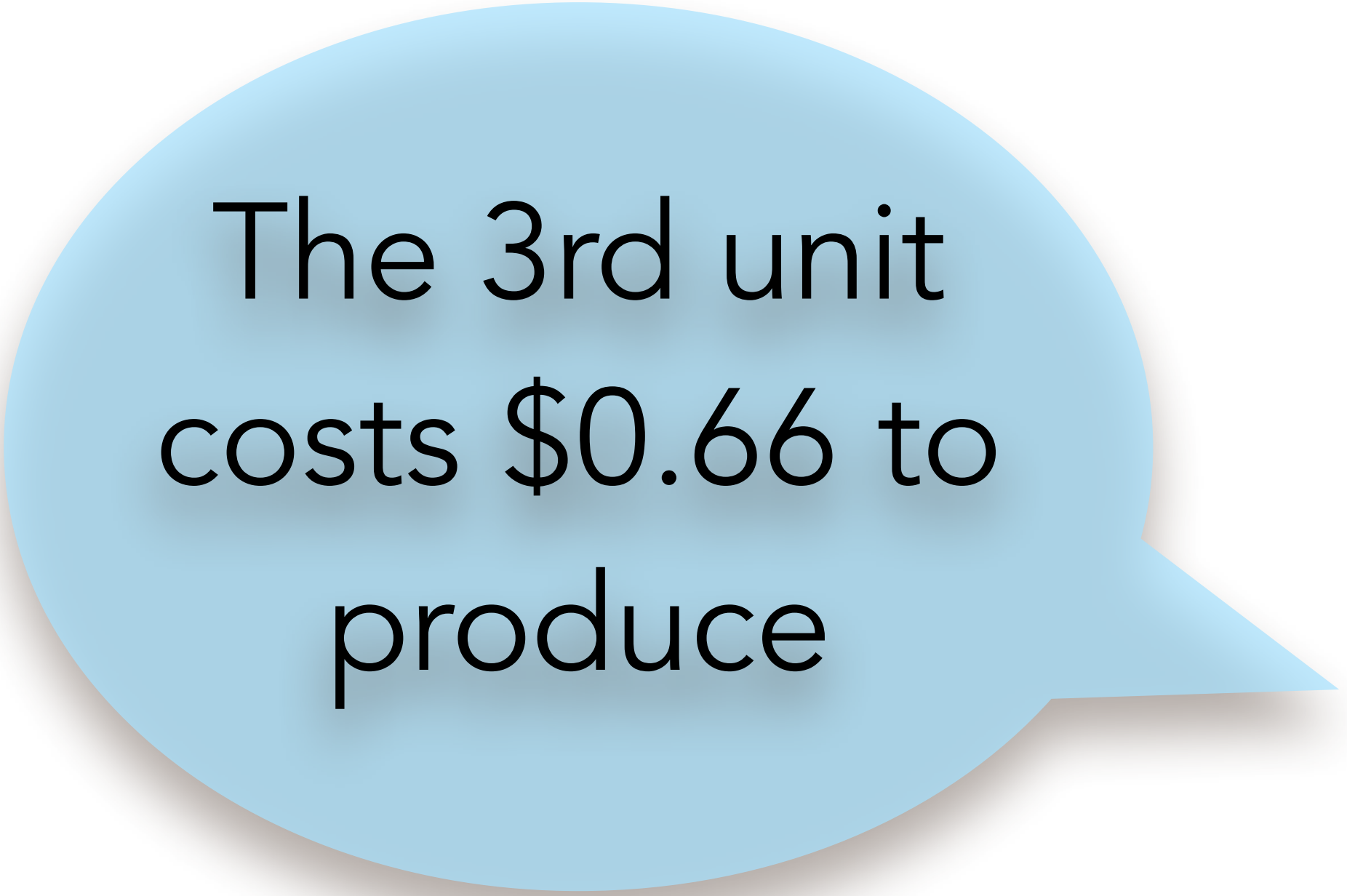


Cost per unit will rise as the Marginal Product decrease

Variable Cost


The first unit
costs $2 to
produce

The 2nd unit costs $1 to produce


The 3rd unit
costs $0.66 to
produce

The 4th unit costs $0.50 to produce

The 5th unit costs $0.40 to produce

Decreasing Returns to Labor set in:

The VC of producing one unit is $2

The VC of producing 2 units is $2 + $1

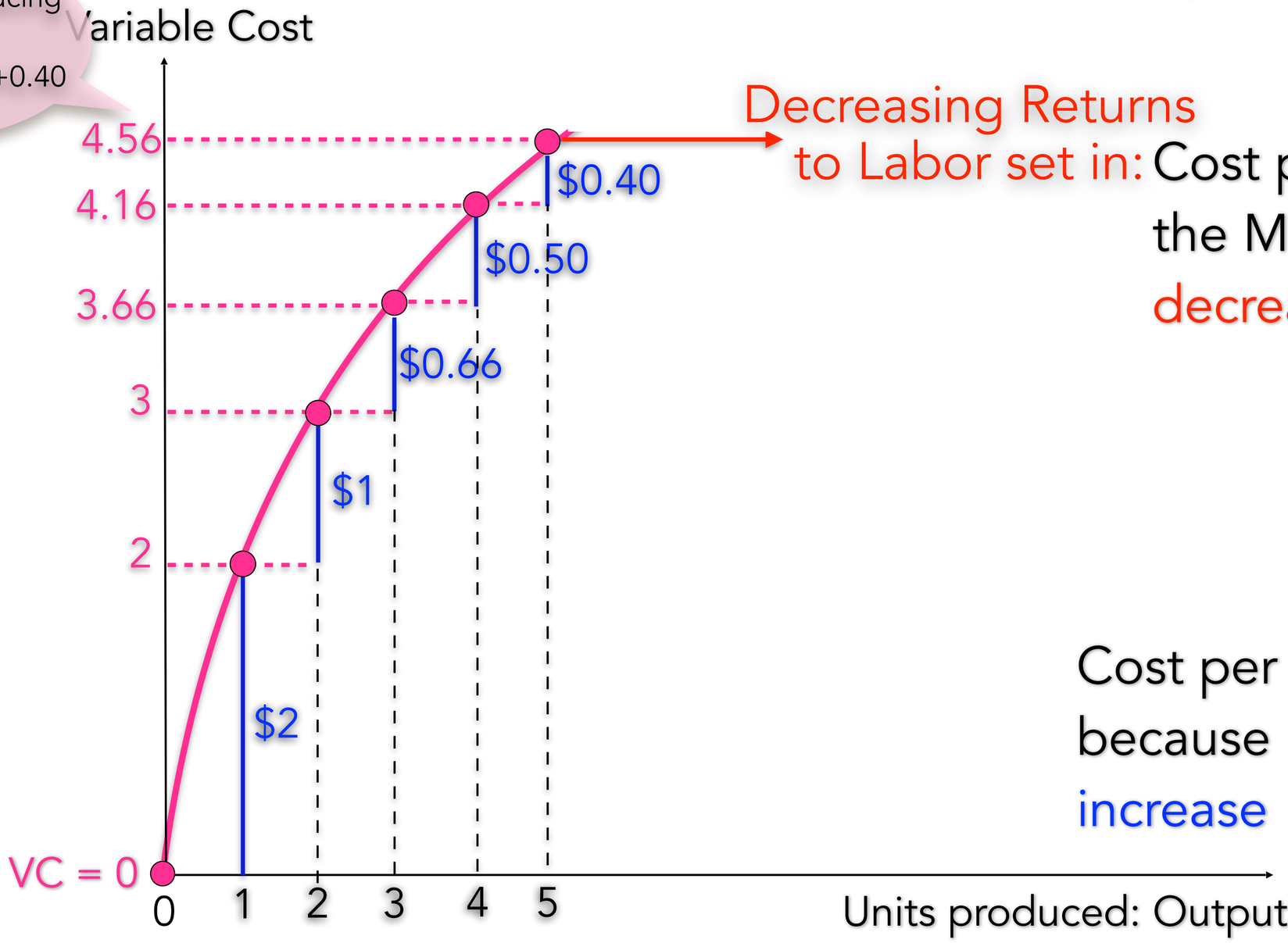
The VC of producing 3 units is $2 + $1+$0.66

The VC of producing 4 units is 2 +1+0.66+0.50

The VC of producing
4 units is
2+1+0.66+0.50+0.40

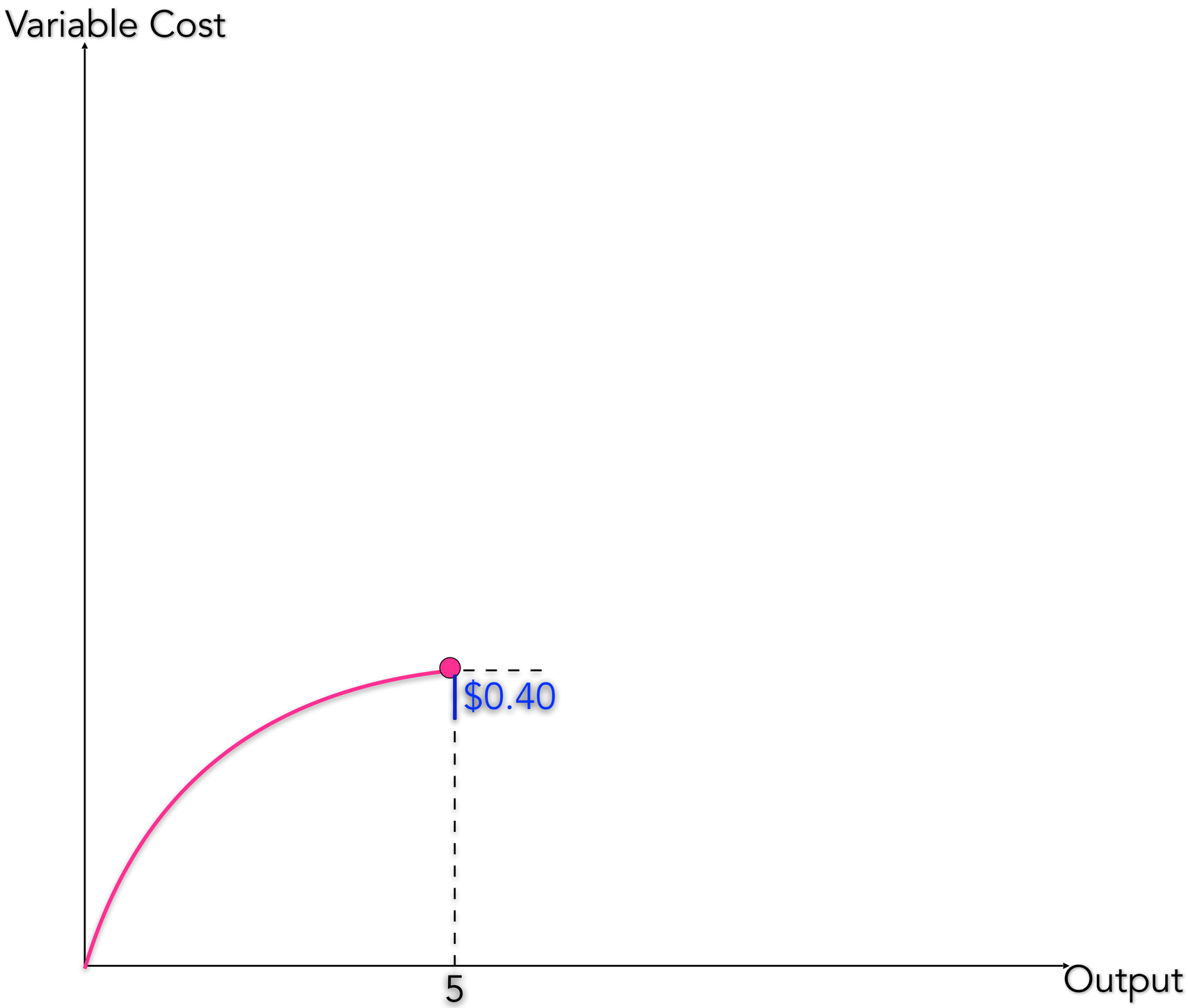
Variable Costs increase as Output increase

The VC of producing 4 units is 2+1+0.66+0.50+0.40



Decreasing Returns to Labor set in: Cost per unit will rise as the Marginal Product decrease

Cost per unit drops because Marginal Product increase


Variable Cost
$0.40
5
Output