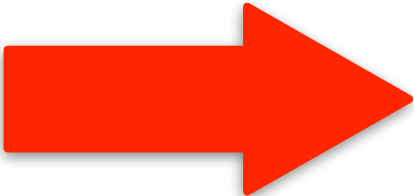


We know the firm has purchased the optimum **mix** of
machines **and** labor when

$$\frac{\text{MRP}_K}{P_K} =$$

MRP_L

P_L



The firm should
spend the next
dollar on **capital**

MRP_L

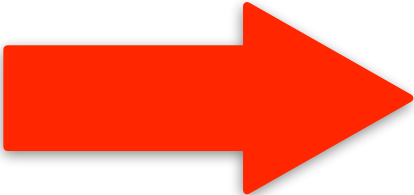
P_L

MRP_K

P_K

>

If the firm gets **more**
revenue if it spends the next
dollar on **capital** than if it
spends that dollar on labor



The firm should
spend the next
dollar on **labor**

MRP_L

P_L

MRP_K

P_K

$<$

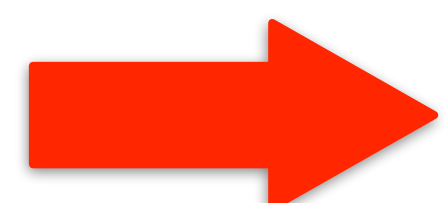
If the firm gets **more**
revenue if it spends the next
dollar on **labor** than if it
spends that dollar on capital

Revenue per dollar spent on Labor is the same as the
revenue per dollar spent on machines

Revenue per dollar spent on Labor is the same as the revenue per dollar spent on machines

$$\frac{MRP_K}{P_K} = \frac{MRP_L}{P_L}$$
$$\frac{MRP_K}{P_K} > \frac{MRP_L}{P_L}$$
$$\frac{MRP_K}{P_K} < \frac{MRP_L}{P_L}$$

If the firm gets **more** revenue if it spends the next dollar on **capital** than if it spends that dollar on labor

 The firm should spend the next dollar on **capital**

If the firm gets **more** revenue if it spends the next dollar on **labor** than if it spends that dollar on capital

 The firm should spend the next dollar on **labor**