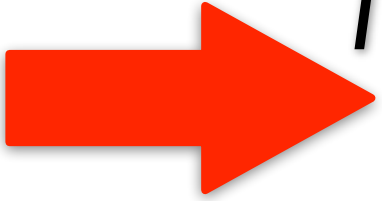
$$\frac{MRP_K}{P_K} = 1$$

$$\frac{MRP_K = 90}{P_K = 90}$$



*The firm gets **$1** in revenue for each dollar spent on Capital*

We know the firm has purchased the optimum number of machines if $MRP_K = P_K$

The firm spends $90 ($P_K$) to buy a piece of equipment, and gets $90 in revenue from that piece

Example:

$$\frac{MRP_K}{P_K} = \text{Revenue per dollar spent on Capital}$$

if $MRP_K = P_K$

$$\frac{MRP_K = 120}{P_K = 60}$$

The firm gets ***$2*** in revenue *for each dollar spent on Capital*

Example:


=2

The firm should buy that piece of equipment: increase the use of capital

We know the firm has purchased the optimum number of machines if $MRP_K = P_K$

Example: $\frac{MRP_K = 90}{P_K = 90}$ *The firm spends \$90 (P_K) to buy a piece of equipment, and gets \$90 in revenue from that piece*

if $MRP_K = P_K$ $\frac{MRP_K}{P_K} = 1$ → *The firm gets* ***\$1*** in revenue *for each dollar spent on Capital*

$\frac{MRP_K}{P_K}$ = *Revenue per dollar spent on Capital*

Example: $\frac{MRP_K = 120}{P_K = 60} = 2$ *The firm gets* ***\$2*** in revenue *for each dollar spent on Capital*

→ *The firm should buy that piece of equipment: increase the use of capital*

We know the firm has hired the optimum number of workers if

$MRP_L = P_L$