

$$\frac{\text{MRP}_K}{P_K} = 1$$

$$\text{MRP}_K = 90$$

$$P_K = 90$$



*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:

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

$$if \text{ } MRP_K = PR_K$$

$$\text{MRP}_K = 120$$

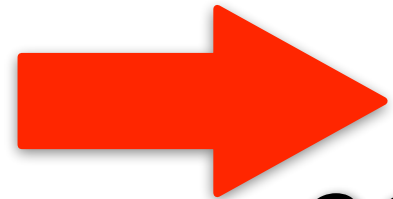
$$P_K = 60$$

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

Example:

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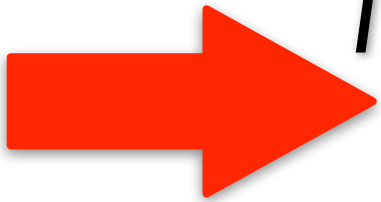
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*The firm should buy that piece of
equipment: increase the use of capital*

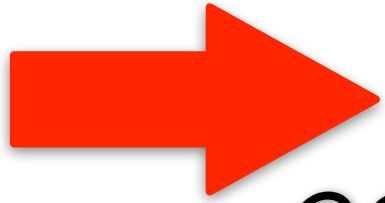
We know the firm has purchased the *optimum* number of machines if $MRP_K = P_K$

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

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

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

$$MRP_L = P_L$$