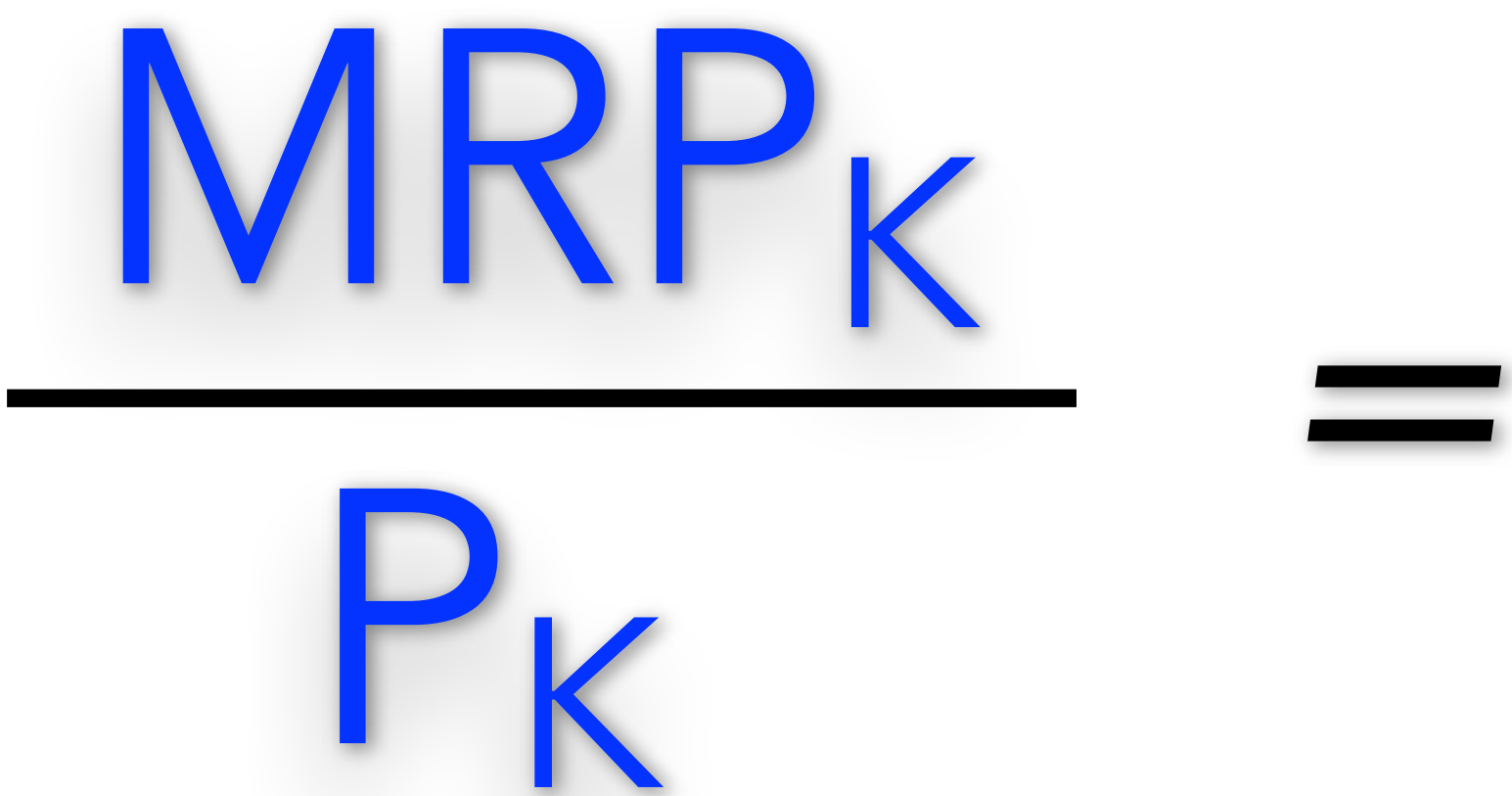
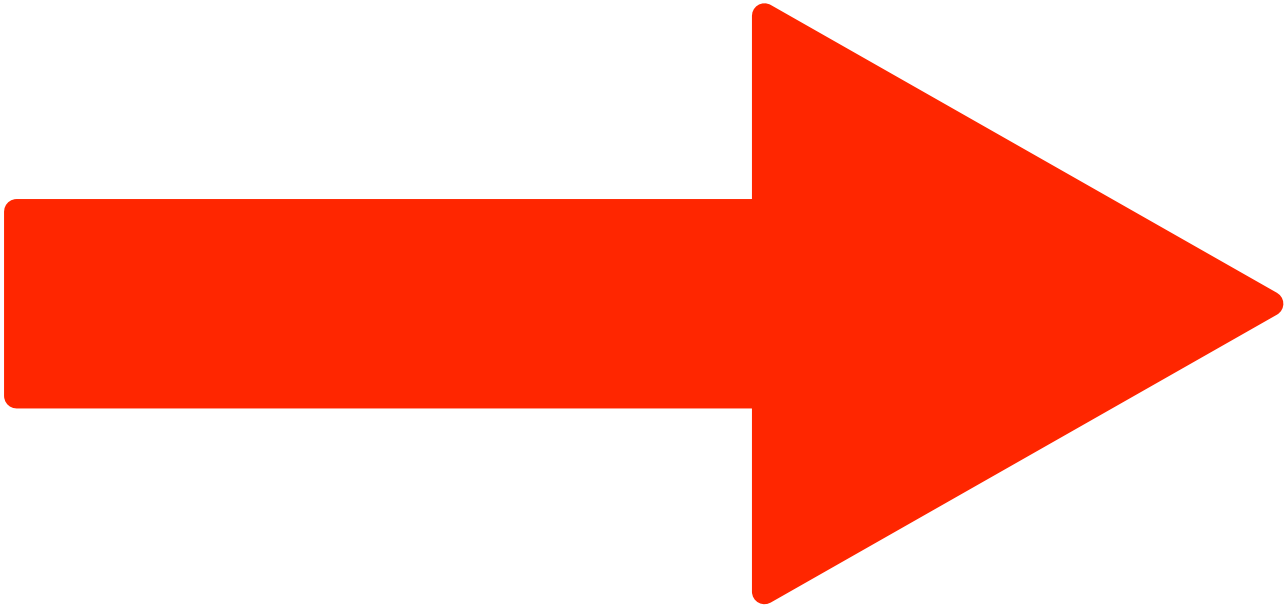
We know the firm has purchased the optimum **mix** of machines **and** labor when

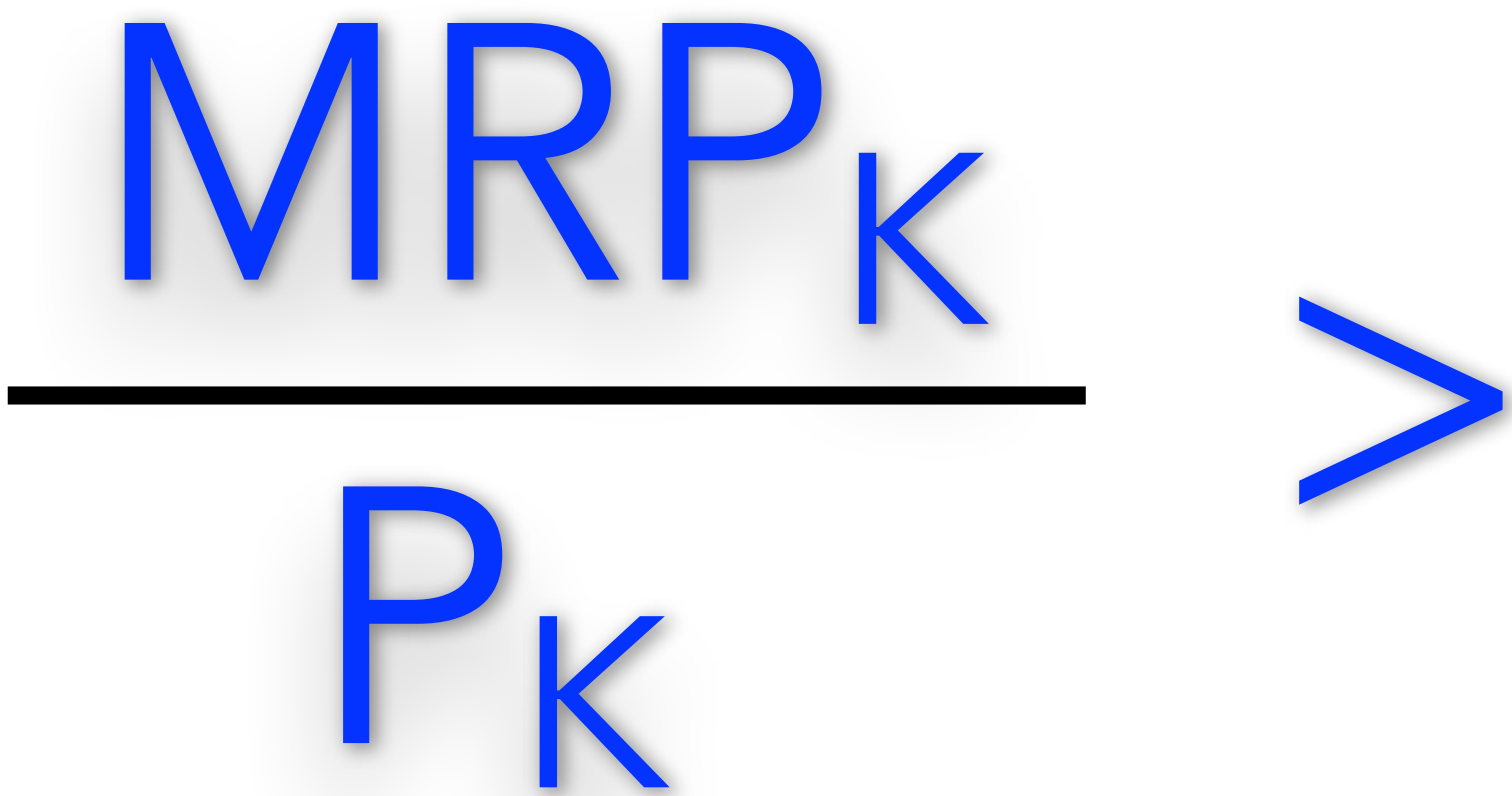

$\frac{MRP_K}{P_K} =$


$\frac{MRP_L}{P_L}$

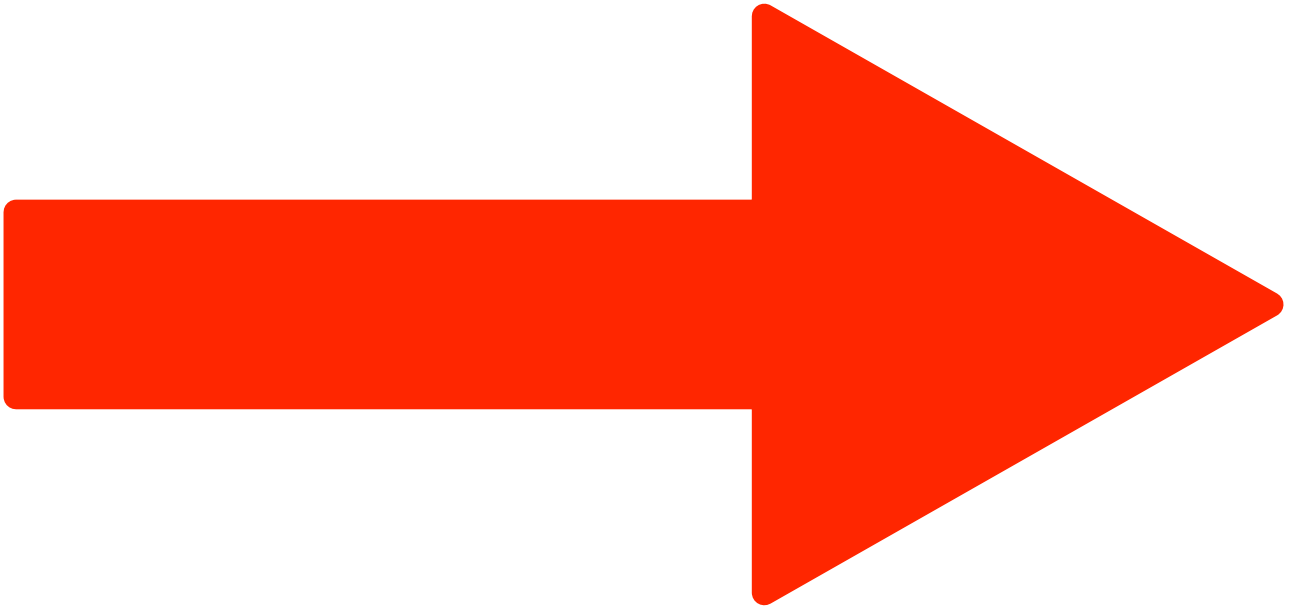


The firm should spend the next dollar on **capital**


$\frac{MRP_L}{P_L}$


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**


$\frac{MRP_L}{P_L}$


$\frac{MRP_K}{P_K} <$

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

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

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

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**

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

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**