

Types of Costs



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Types of Costs

- **Recoverable Costs**

Expenses a firm has to make to enter an industry which **can** be recovered because the commodity can be resold or the service can be refunded if the firm exits the industry

Examples:

Purchase of capital goods such as airplanes, trucks, buildings, etc which can be used by other businesses. These capital goods can be sold if the firm decides to exit the industry

Rent of a building if the building can be sublet for the remaining portion of the contract after the firm exits the industry

- **Non- Recoverable Costs**

Expenses a firm has to make to enter an industry which **can not** be recovered because the commodity can not be resold or the service can not be refunded if the firm exits the industry.

Examples:

Specialized equipment that can not be used in other businesses: A nuclear power plant can only be used in the nuclear power industry.

The money the Telecoms had to spend to win mobile phone licenses at auction in 2000.

Money spent on research and development of a new drug

Free Entry and Free Exit