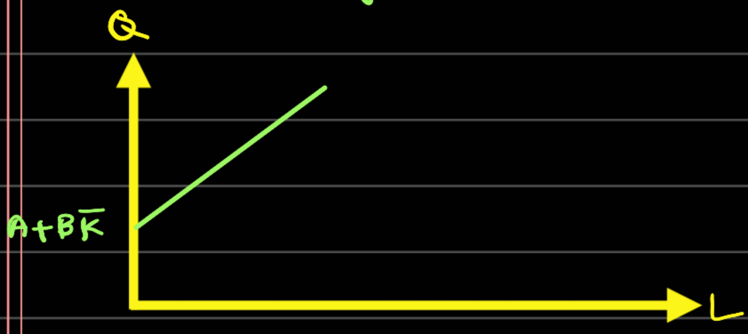
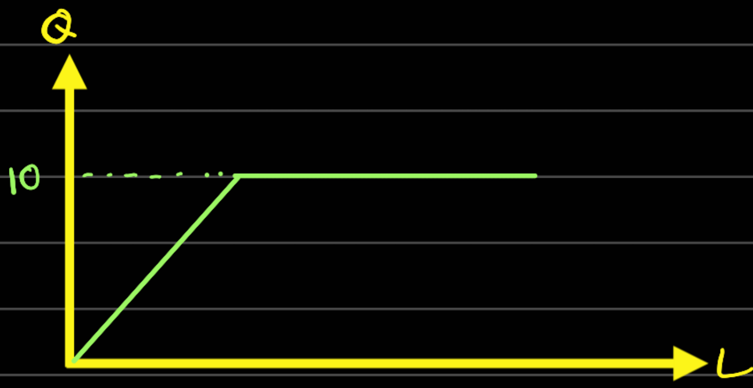
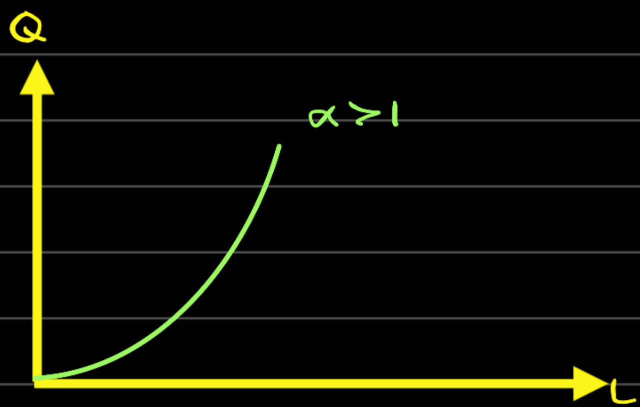
Day 13

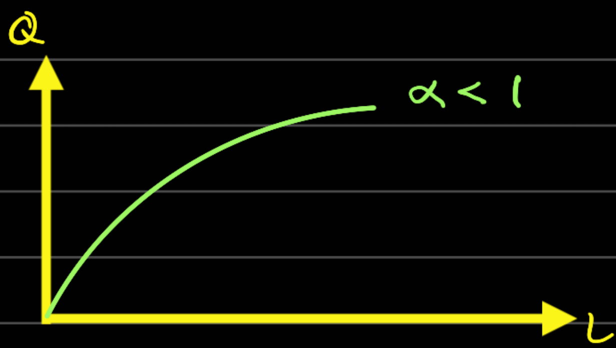
→ Production function :





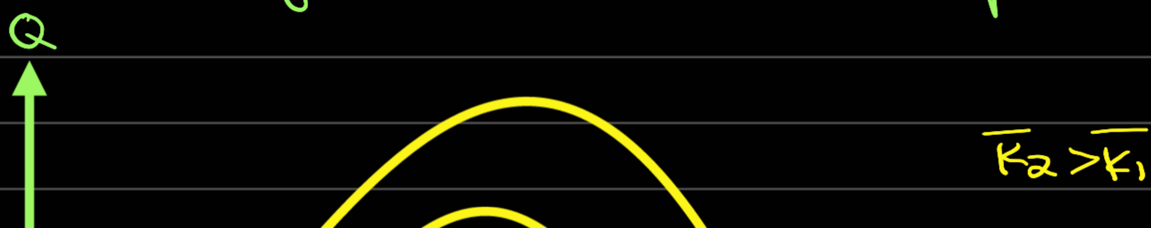


Cobb Douglas



→ Return to scale — Long term concept

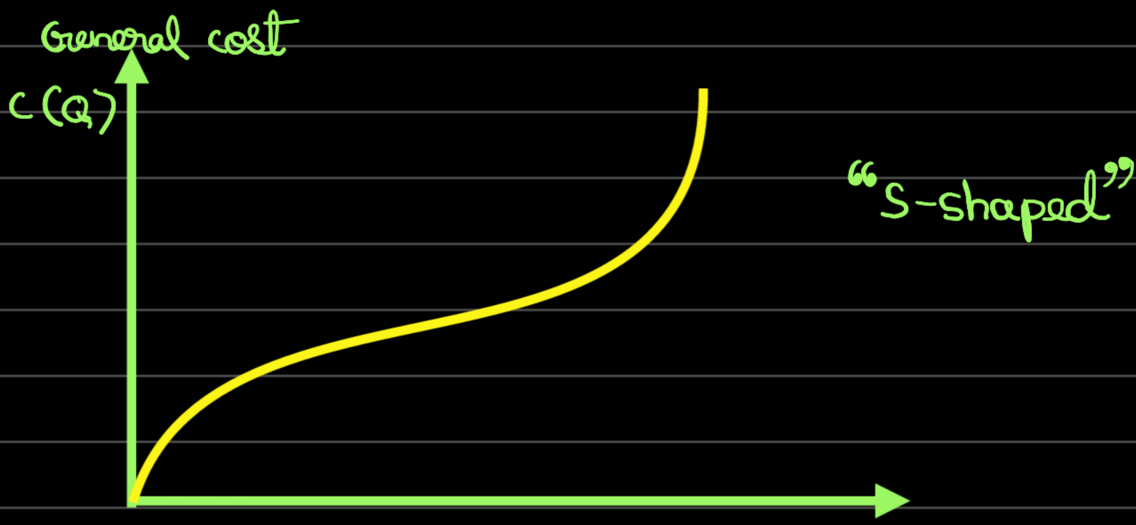
Return to factor — Short term concept



$\Delta K = \Delta L < \Delta Q \rightarrow$ Increasing Return to scale
$\Delta K = \Delta L > \Delta Q \rightarrow$ decreasing return to scale
$\Delta K = \Delta L = \Delta Q \rightarrow$ Constant return to scale

→ Implicit cost = opp. Cost for Entrepreneur

→ Explicit cost : Accountable
Implicit cost : unaccountable

→ 

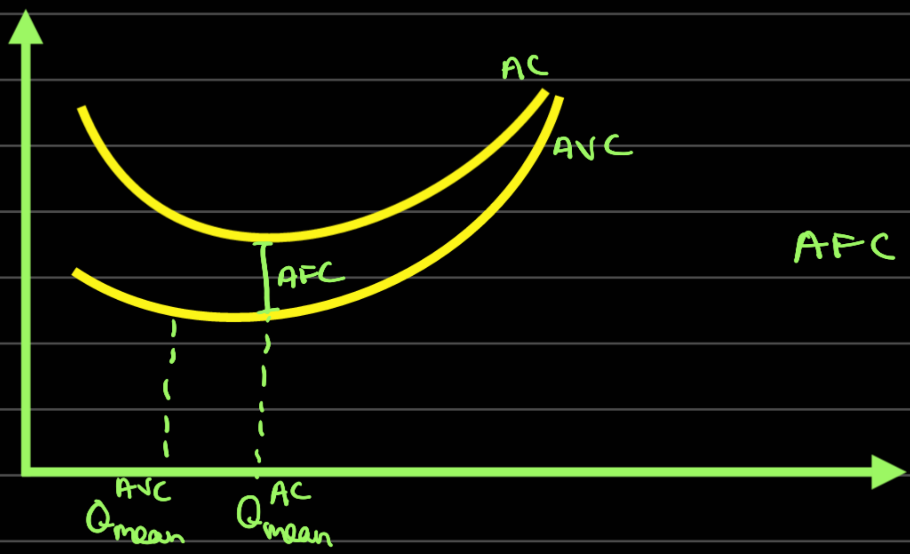
→ The time you stop production of good, you get back fixed cost.

→ 'Sunk cost' is the cost which firms have paid but the production decision is independent of this cost.

→ marginal cost is the cost incurred for producing 1 unit of good.

$\rightarrow$ $AC = \underbrace{w \frac{1}{AP_L}}_{\text{Avg. variable cost}} + \underbrace{r \frac{1}{AP_K}}_{\text{Avg. fixed cost}}$.

$\rightarrow$



$AFC = \frac{r\bar{K}}{Q}$