

10.55 - FIRM COSTS

Analyze the different types of costs firms incur and explain their significance.

By: Carter Greene

KICKOFF:

- ❖ Go to Google Classroom and complete the assignment “**12/3-KO**”
- ❖ Pick up both handouts on the way in
 - You can put them away for now
- ❖ **Roll Call:** Favorite thing you ate over thanksgiving?



ANNOUNCEMENTS:

- ❖ **12/9**- Quiz
- ❖ Homeroom this week
 - Knight Time next week
- ❖ 3 more weeks till Christmas Break
- ❖ Go to Hell State!!



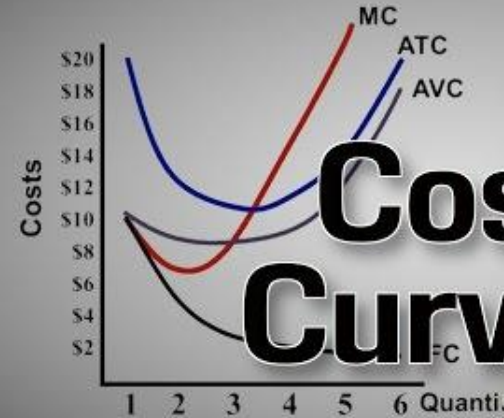
PRODUCTION FUNCTION AND COST PRACTICE

- ❖ Using the information you learned last week, complete:
 - Part I- Production Function
- ❖ You may work with the person next to you or by yourself
 - If you finish early, make sure you have checked all handouts with the answer keys online
 - 10.53 & 10.54 handouts

ACDC ECONOMICS

Output	Variable Cost	Fixed Cost	Total Cost	Marginal Cost
0	\$0	\$10	\$10	-
1	\$10	\$10	\$20	
2	\$17	\$10	\$27	
3	\$25	\$10	\$35	
4	\$40	\$10	\$50	
5	\$60	\$10	\$70	
6	\$110	\$10	\$120	

Costs of Production



Cost Curves

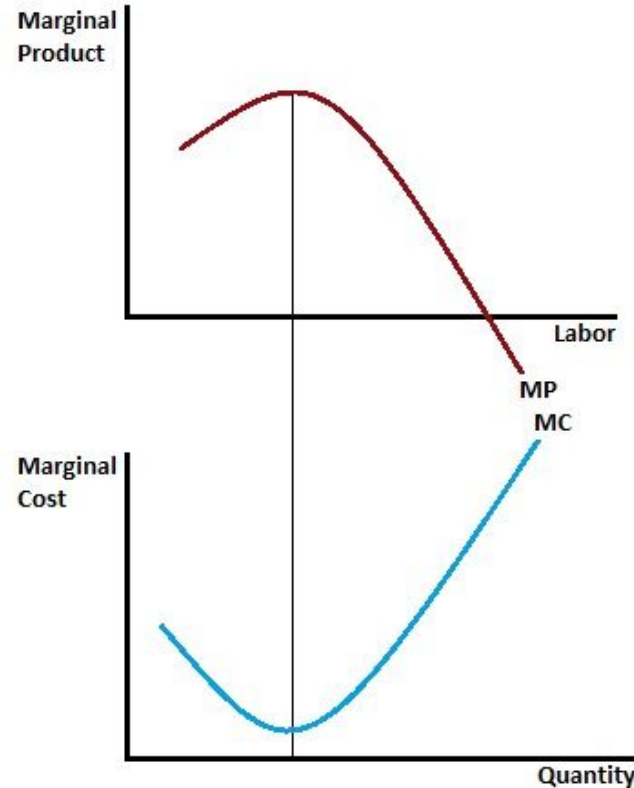
10.55- FIRM COSTS

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RELATIONSHIP BETWEEN MARGINAL PRODUCT AND MARGINAL COST

- ❖ When marginal product is increasing, marginal cost is decreasing
- ❖ When marginal product falls, marginal cost increases



TOTAL COST

- ❖ Total Fixed Cost (TFC)– costs that do not vary with changes in output
 - Constant in the short run
 - Still must be paid even if output is 0
 - Rent, insurance, capital equipment
- ❖ Total Variable Cost (TVC)– cost that does vary as output changes
 - If there is no production, $TVC = 0$
 - Changes in # of employees, energy cost, travel expenses, etc.
- ❖ Total Cost (TC) = $TFC + TVC$

PER-UNIT (OF OUTPUT) COSTS

- ❖ Average Fixed Cost
 - $AFC = TFC/Q$
- ❖ Average Variable Cost
 - $AVC = TVC/Q$
- ❖ Average Total Cost
 - $ATC = TC/Q$
- ❖ Marginal Cost
 - Change in Cost/Change in Q

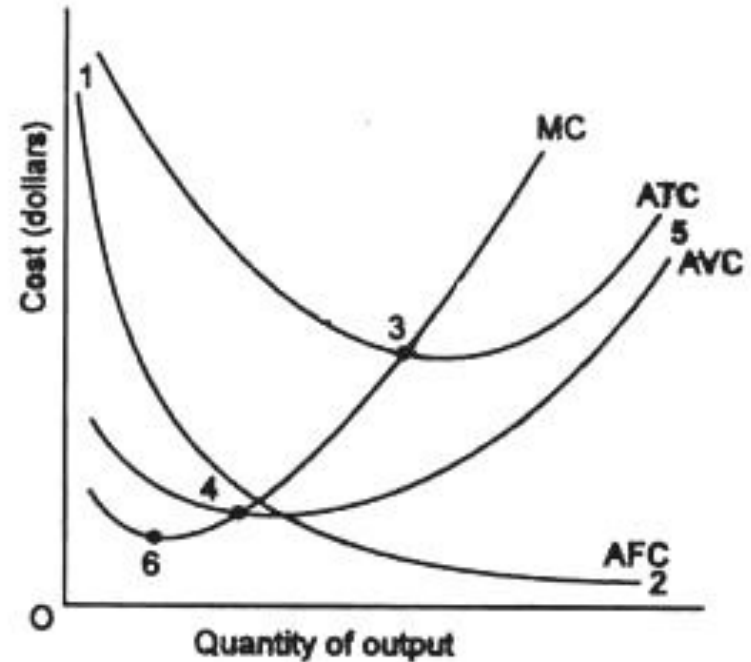


Fig. 7 : Typical Set of Cost Curves

COST PRACTICE

- ❖ Complete Parts II and III of the Production Function and Cost Practice sheet
- ❖ May work with people around you

CLOSURE