

# Course—Principles of Economics

Lecture 23 Cost of Production in Long Run  
September, 2015



# Topics to be Discussed

- Cost of Production in Long Run
  - U- Shaped AC Curve
  - Economies & Diseconomies of Scale

# “Buy Low and Sell High”

- “BUY LOW”- ???
- Increasing competitive pressure
- Changing technology
- Customer demand

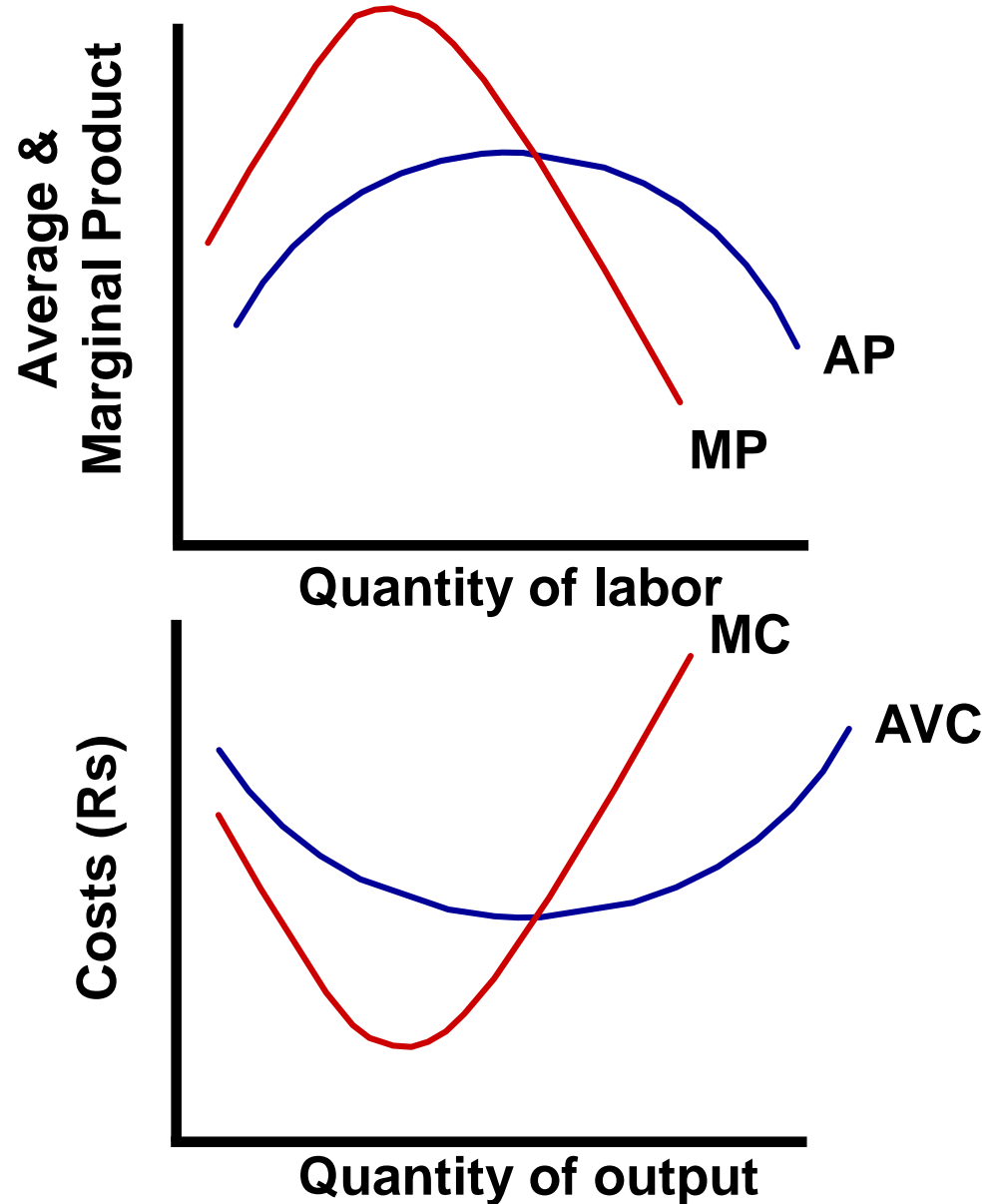
- Cost deals with “Buy Low”.

- **Helps in Maximization of Profit without Increase in Price**

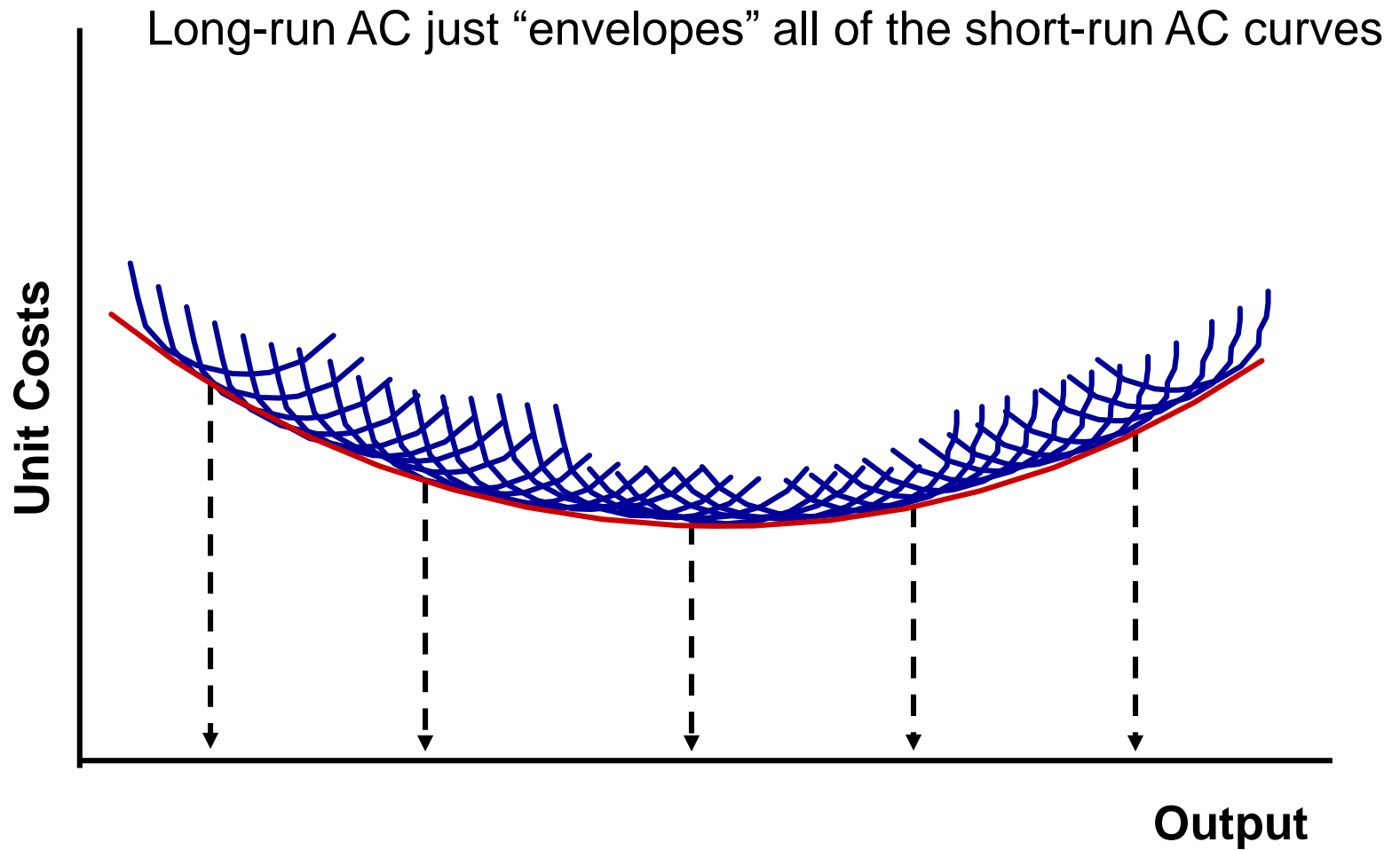


# Production & Cost

- Production increases, cost decreases
- When MP is maximum, MC will be minimum
- As production starts declining, cost starts rising



# Long-Run Average Cost

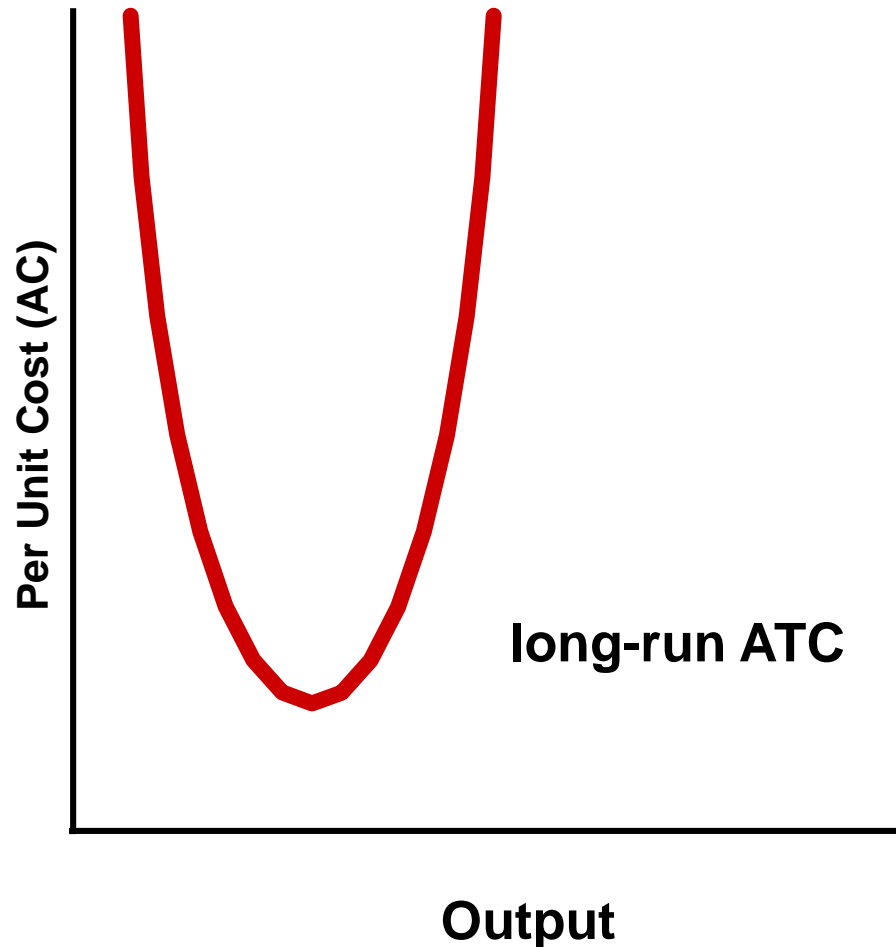


# Economies of Scale in Long-Run

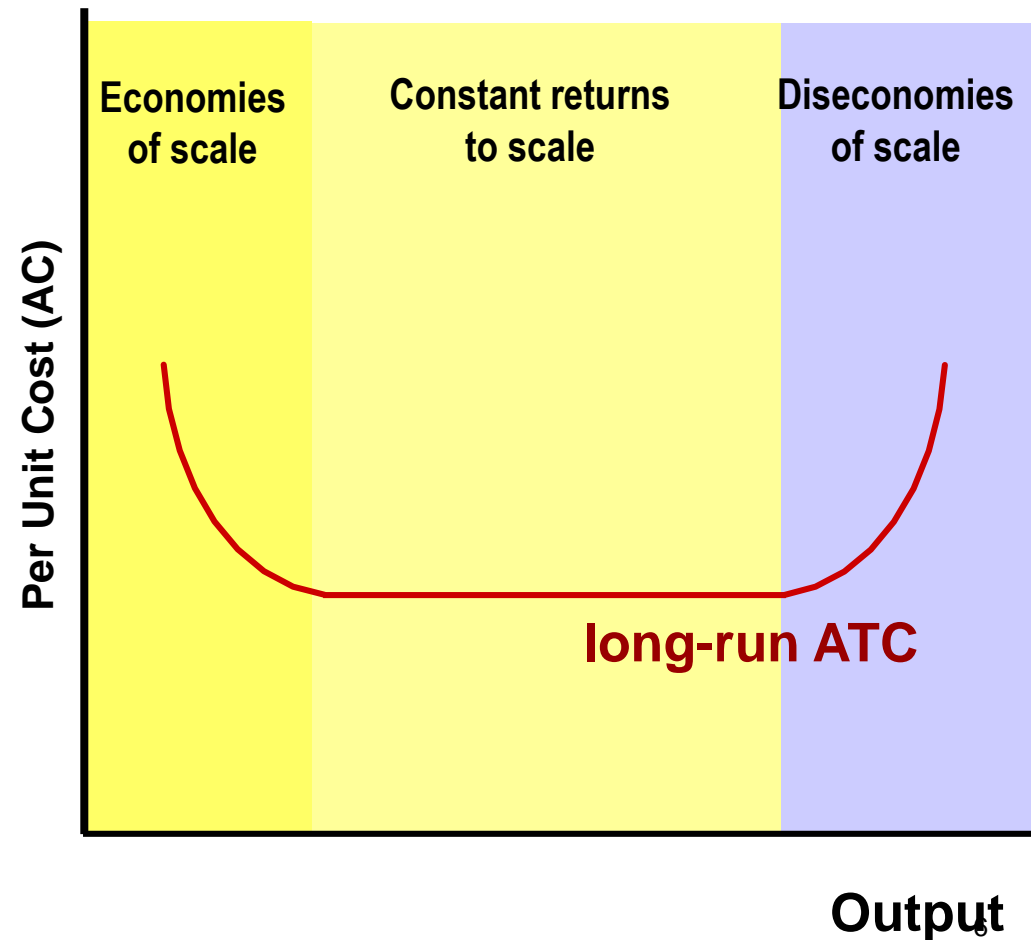
- Labor Specialization
- Managerial Specialization
- Efficient Capital

# Economies of Scale and Average Cost

If economies of scale get quickly exhausted



If economies of scale get extended for a longer period



# Summary

- It is always better for a firm to extend the economies of scale for a longer period
- It can be done through innovations, research & development, skill development, adoption of new technology, training and launch of new products etc.
- Firm has to find new ways to minimize cost and keep the per unit cost low in order to meet the objective of profit maximization



# Thank you

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