

Course– PRINCIPLES OF ECONOMICS

Lecture 26: AVERAGE COST
SEPTEMBER, 2015



TOPICS TO BE DISCUSSED

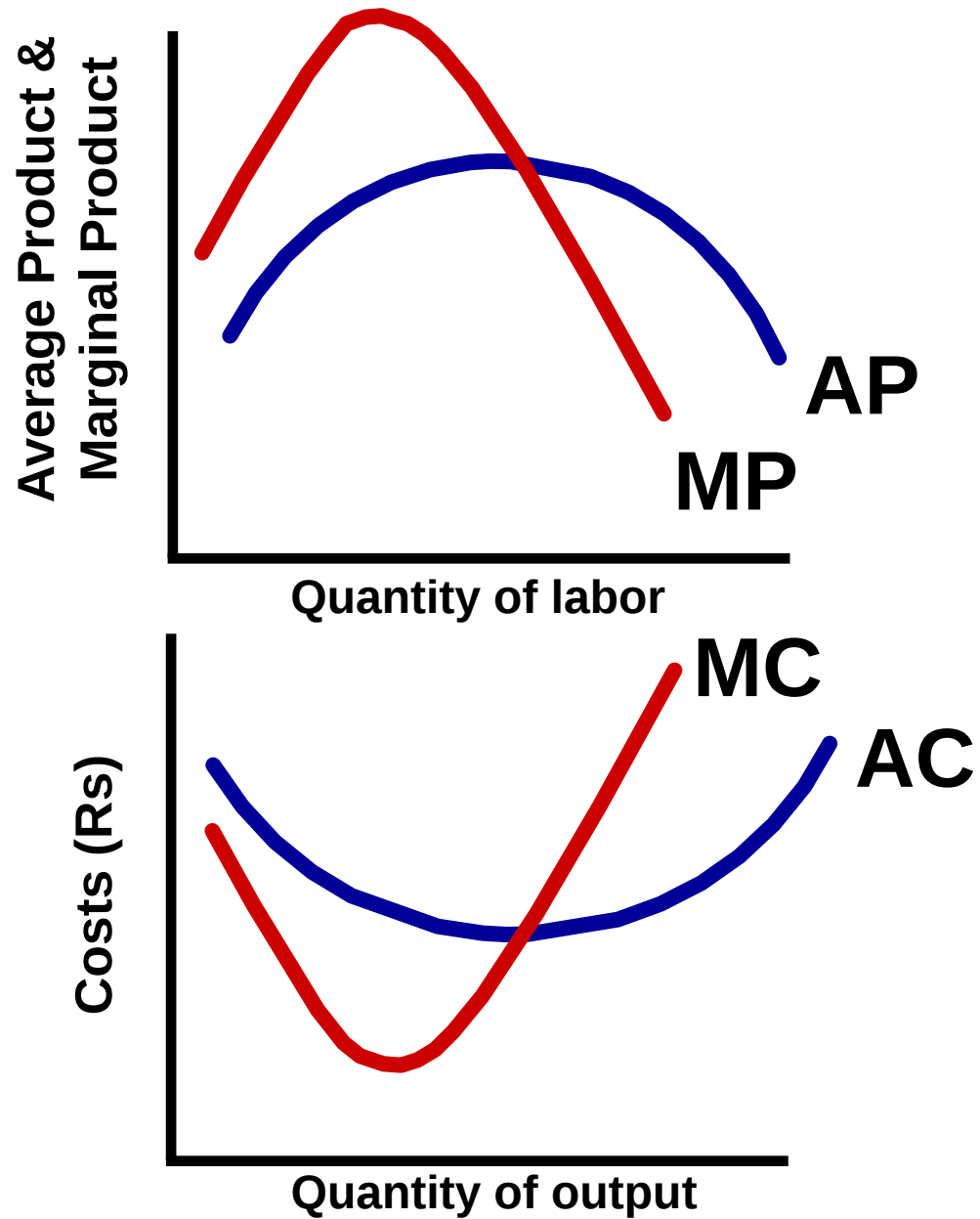
1. Cost of Production

- Concepts of cost
 - Graphical representation of costs
- Why is Average Cost Curve U-Shaped?

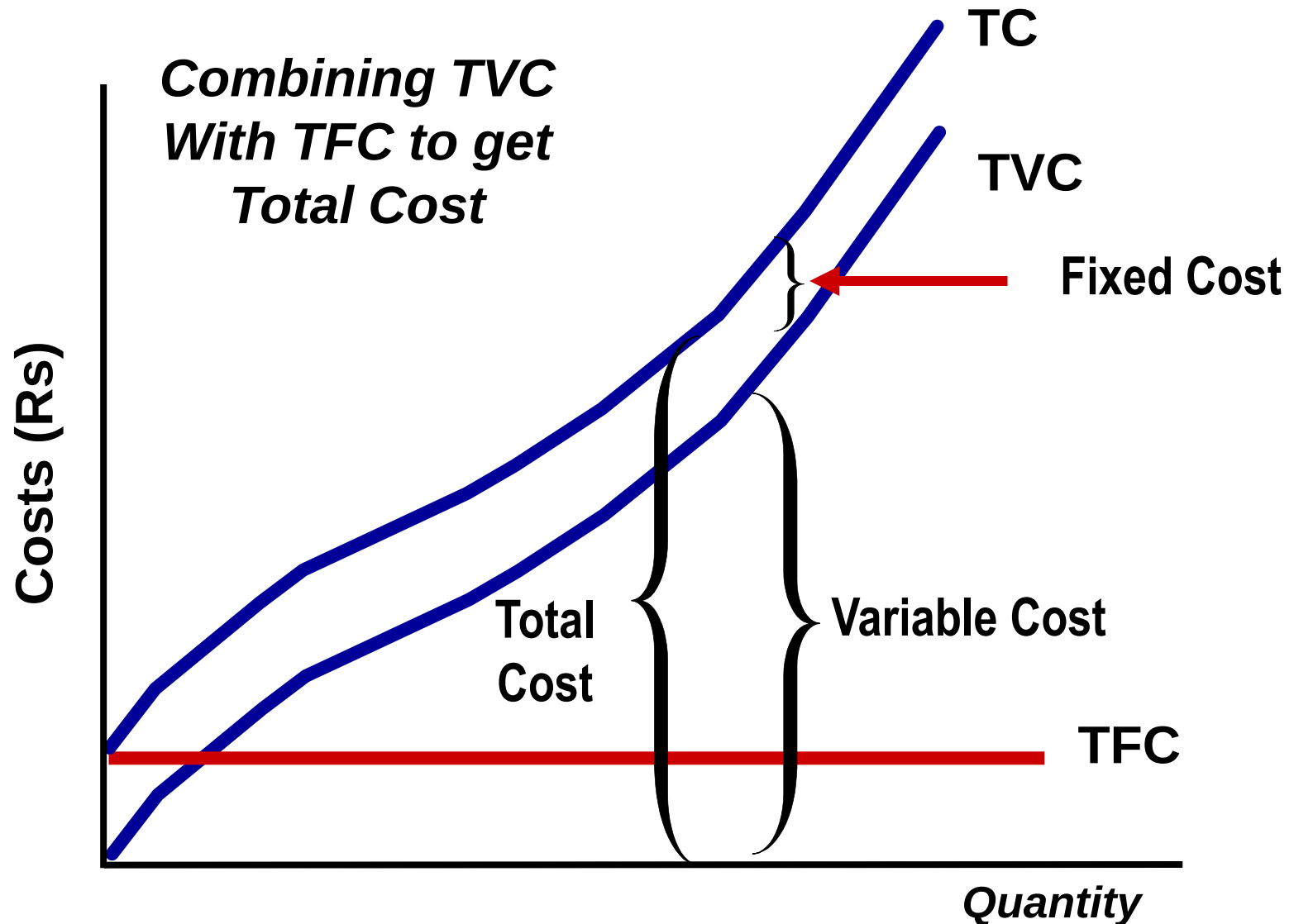
PRODUCTION AND COST

Input (Labour)	Total Production	Fixed Cost (FC)	Variable Cost (VC)	Total Cost (FC+VC)
0	0	3.00	0.00	3.00
1	1000	3.00	100	103
2	3000	3.00	200	203
3	6000	3.00	300	303
4	8000	3.00	400	403
5	9000	3.00	500	503
6	9500	3.00	600	603
7	9850	3.00	700	703
8	10000	3.00	800	803
9	9850	3.00	900	903
10	9500	3.00	1000	1003

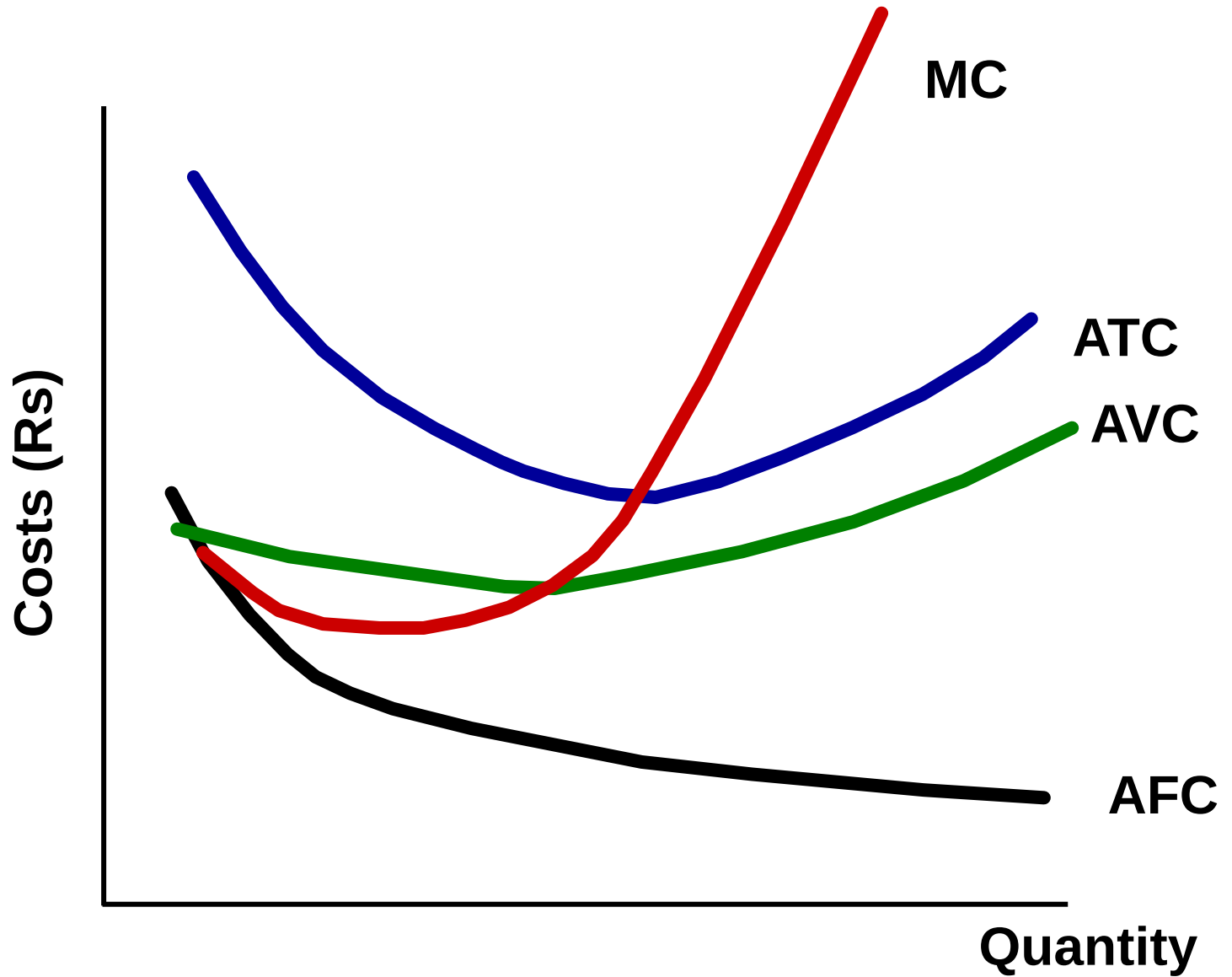
PRODUCTION & COST



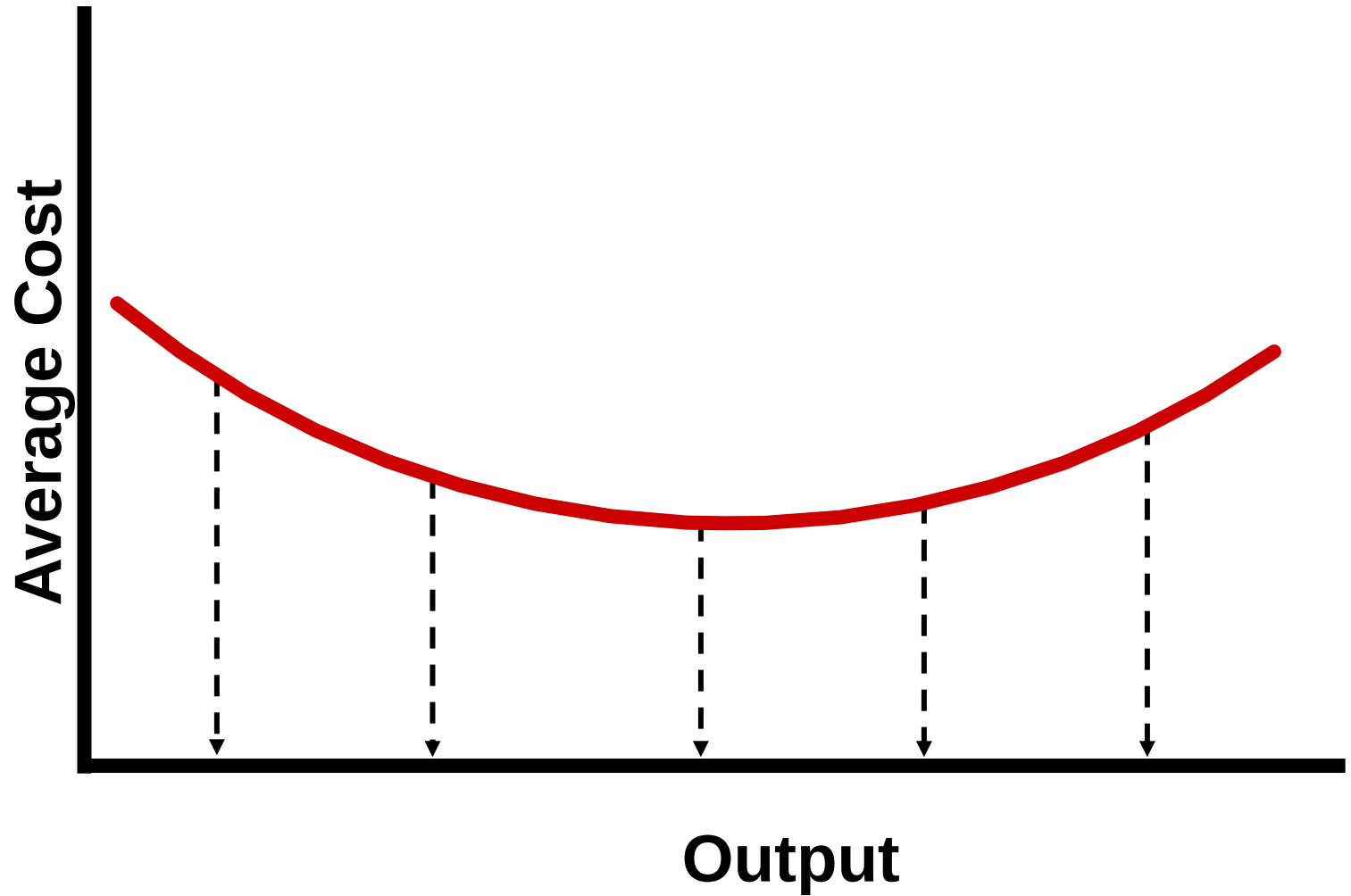
$$\text{TOTAL COST} = \text{FIXED COST} + \text{VARIABLE COST}$$



DIFFERENT TYPES OF COSTS



AVERAGE COST



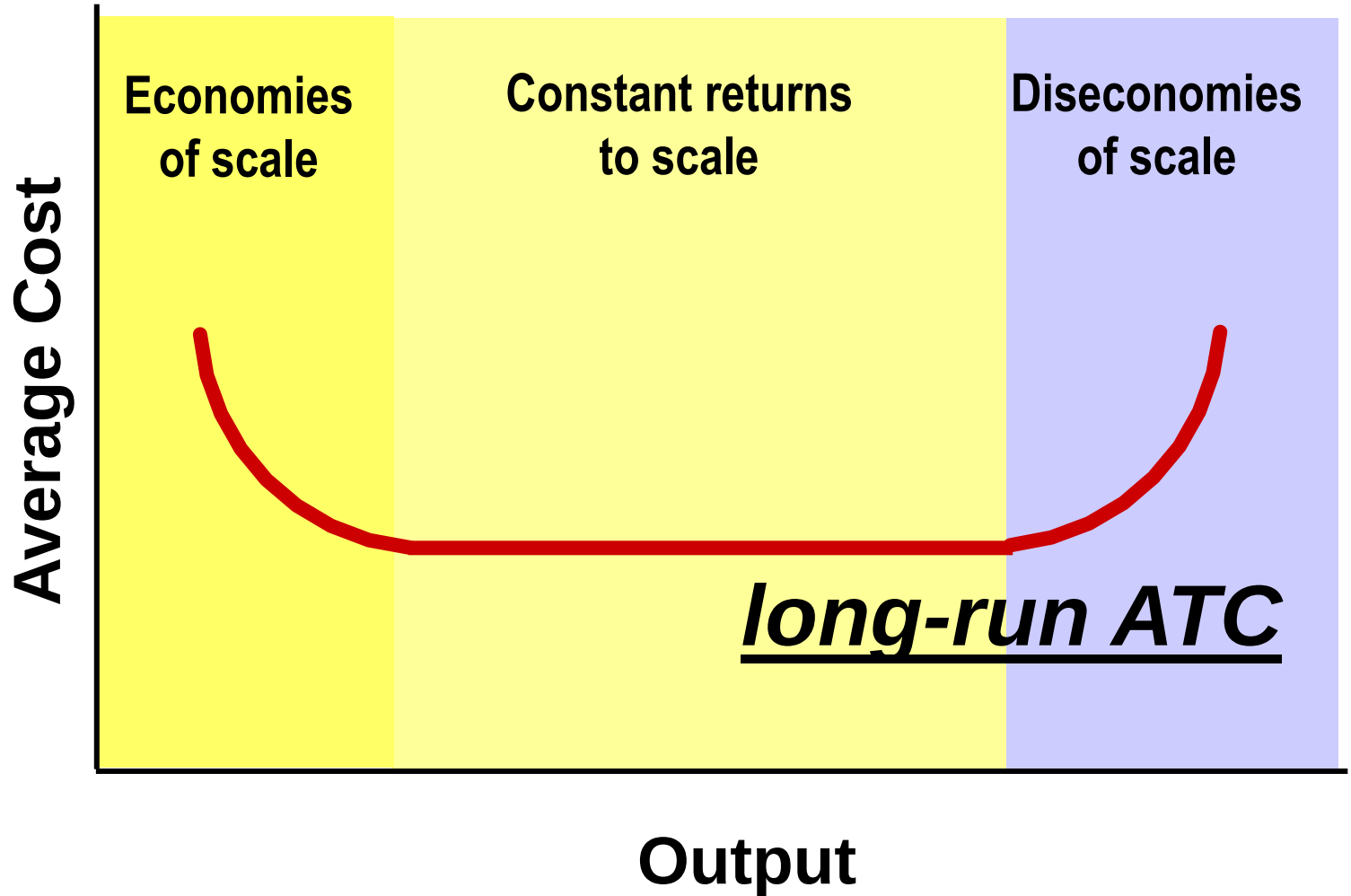
WHY IS AC U-SHAPED?

Average cost (per unit cost) initially falls, after a certain point of output, it starts increasing

It is because of economies and diseconomies of scale:

- Labor Specialization
- Managerial Specialization
- Efficient Capital

AVERAGE COST



CONCLUSION

- TC increases with output and vice-versa
- If AC rises, MC also rises and is equal to MC when AC is minimum

AC is U-shaped- initially falls, after a certain point of output, it starts increasing because of economies and diseconomies of scale

THANK YOU 😊