Efficiency of Management: can be achieved when the size of the plant increases and managers can increase efficiency by managing more workers and more materials.
Figure 9: Short-run total cost curve and long-run total cost curve.
Suppose the demand increases, the firm increases its output from Q1 to Q2 operating on the same plant SAC1. But the average cost will increase from point A to point B.
1. Discuss with the aid of a diagram, why the long run average cost curve of a firm is U-shape?
2. Distinguish between fixed costs and variable costs.
3. Explain the relationship between marginal cost and average cost with a suitable diagram.
4. Distinguish between implicit cost and explicit cost.

5. With the aid of diagram, explain the short-run cost curves.