• Average fixed cost will continually decline but does not reach zero due to the value of fixed cost divided by total output that is increasing.

• Average variable cost decreases a little at a lower level of output, but increases due to the law of diminishing returns.
Due to the continually decreasing average fixed cost, the distance between AC and AVC becomes narrower when output increases.
AVC and AC are normally U shaped because average cost usually decreases in the beginning but increases after one point due to the law of diminishing returns.
RELATIONSHIP BETWEEN PRODUCTION AND SHORT-RUN COSTS

When Average Product (AP) is maximum, then AVC is minimum, and vice versa.

Because MC = w/MP, hence MP is maximum when MC is minimum, and vice versa. Whereby w is wage.

This can be shown by an example.
ECONOMIC PROFITS VERSUS ACCOUNTING PROFITS

- Profit is the difference between total revenue (TR) with total cost (TC).
- The calculation of profit from the perspective of an economist differs from the calculation of profit by an accountant.
- Accountant only consider the explicit costs and hence the profit calculated is referred as the accounting profit.