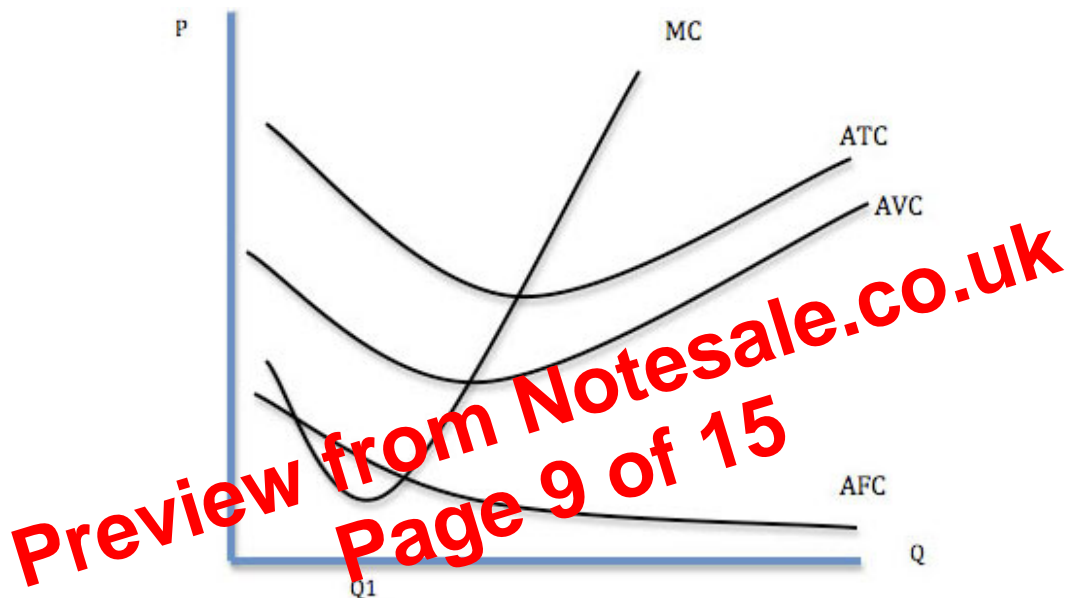## Cost Curves

Rising Marginal Cost
- Result of diminishing marginal product
- More output results in more cost of production

Efficient Scale
- how much output decreases average total costs
- marginal cost intersects ATC at minimum/efficient scale

- Marginal cost rises as output rises
- ATV is U shaped

Costs Short or Long run

- Long run average is at minimum of short run average
- This is because the firm has more flexibility in the long run to deal with change
- Long run is more flat than short run

Economies & Diseconomies

- Economies of Scale – long run ATC decreases as a result of increased output
- Diseconomies of Scale – long run ATC increases as a result of increased output
- Constant Return to Scale – long run ATC equals change in output

Firms in Competitive Markets

Revenue

Average Revenue – total revenue / quantity sold

Marginal Revenue
- Change in revenue from more products sold
- Change in total revenue / change in quantity

Demand Curve is horizontal if price equals Marginal AND Average Revenue

Profit Maximization

- If marginal revenue is higher than marginal costs, then output and price increase
- If marginal revenue is lower than marginal costs, then output decreases and price increases

Profit Maximization is where Marginal Revenue = Marginal Cost

Cost Curves

- Marginal Cost slopes upward
- Marginal Revenue is horizontal at market price average
- Marginal Cost Curve = how much supply at a certain price (supply curve)

Short Run Shut Down
- Still pay fixed costs
- Shut down is no outputs
- No revenue
- Caused by total revenue being lower than variable costs
- OR Price is less than AVC
- Minimum point of AVC curve is shut down price

Sunk Cost – cost committed that can't be recovered, no longer opportunity

Exit & Enter

Exit
- No revenue of costs
- Revenue is less than total costs
- Price is less than average total costs

Enter – if Price is greater than Average total costs

Profit = (price – ATC) x Q