

NOTES OF CONCEPT OF COST

Cost- It refers to the expenditure incurred by a factor and non factor inputs for a given amount of output of a commodity.

Explicit Cost- It refers to those payments which firm makes to outsiders for their services and goods.

Implicit Cost The cost of self owned or self employed resources.

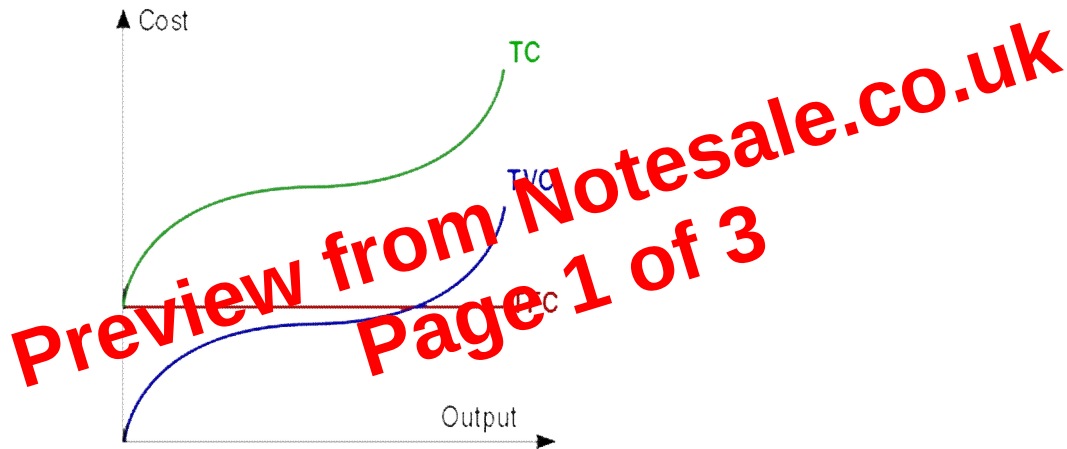
Total Cost- It refers to sum of fixed and variable cost. $TC = TFC + TVC$ or $TC = AC * Q$

Total Variable cost- It is the expenditure incurred on variable factor is known as Total variable cost. $TVC = TC - TFC$ or $TVC = AVC * Q$

Total Fixed cost- It is the expenditure incurred on fixed factors is known as Total Fixed Factors. $TFC = TC - TVC$ or $TFC = AFC * Q$

Difference between Fixed cost and Variable cost

Fixed Cost	Variable cost
a) The expenditure incurred on fixed factors are termed as fixed cost	a) The expenditure incurred on variable factors is known as variable factors.
b) It does not change with the change in level of output. So, it remains constant.	b) It changes with the change in level of output. So, it vary with the output
c) It exist even when the production is zero	c) It does not exist when the production is zero



Reasoning based question

Q1. Why TVC starts from point of origin, But not TC?

Ans. TFC can never be zero and TC is a mixture of TVC and TFC.

Q2. Why TFC remains parallel to OX-axis?

Ans. TFC changes in long run but in short run it remains constant.

Q3. Why TC remains parallel to TVC?

Ans. TC remains parallel to TVC because whatever changes comes in TC that is due to TVC.

Q4. Why TVC increases at a decreasing rate in the initial stages of production?

Ans. In the initial stage of production firm may be enjoying increasing returns to a factor. It is a situation when MP tends to rise. Cost is just the opposite of productivity. Rising MP means falling cost. When the cost of producing an additional unit is falling, TVC should be increasing only at the decreasing rate.

Why the curve of TC and TVC are identical?

Ans. Curves of TC and TVC are identical because whatever the changes comes in TC that is due to the TVC only.

Average Fixed Cost- It is the total fixed cost per unit of output. $AFC = TFC / Q$