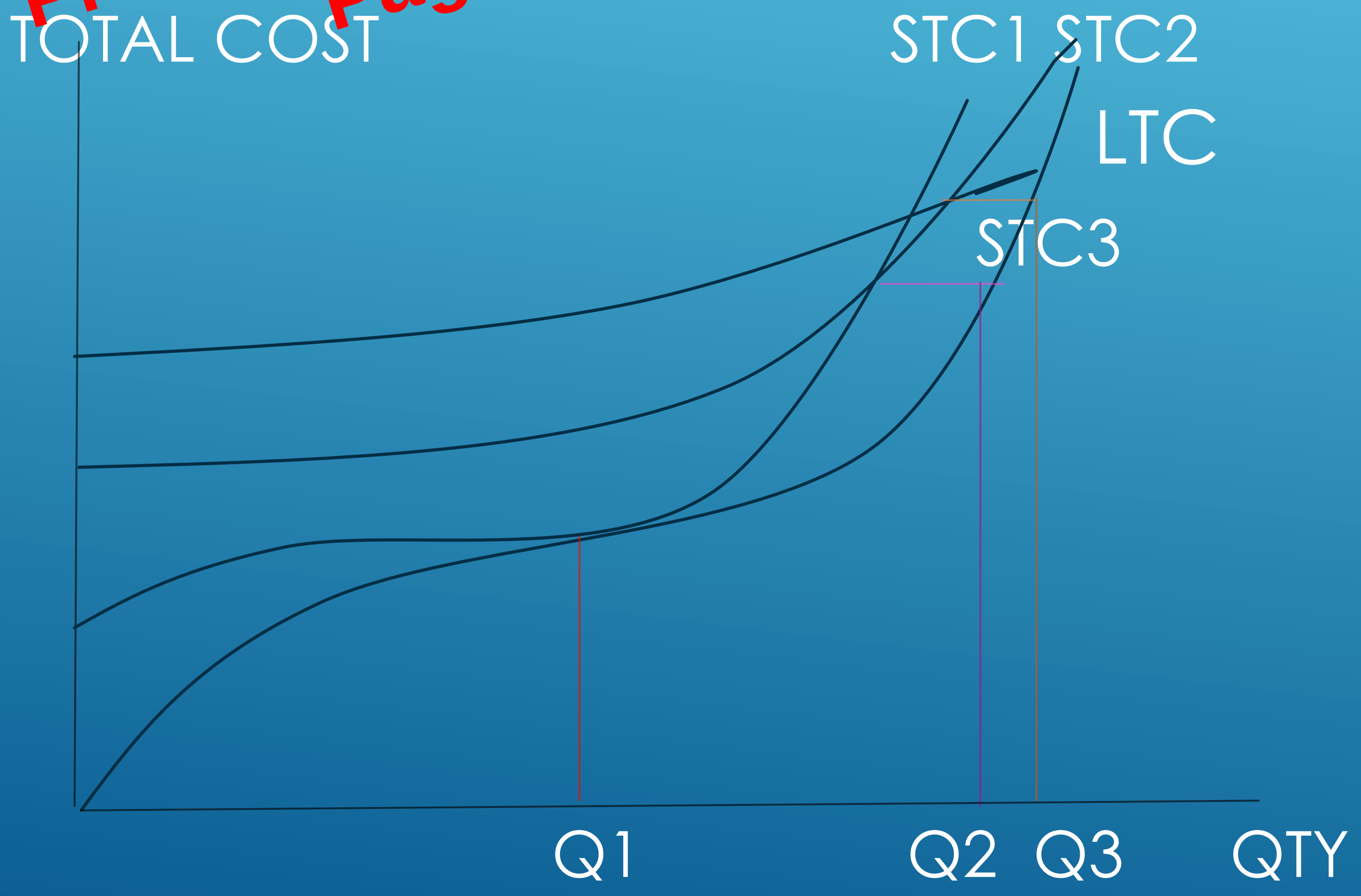
Efficiency of Management: can be achieved when the size of the plant increases and managers can increase efficiency by managing more workers and more materials.

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.

EXERCISE

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.