- 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.