

Learning Objectives

Chapter 13

In this chapter you will

- Examine what items are included in a firm's costs of production
- Examine the production function
- Analyse the link between a firm's production process and its total costs
- Learn the difference between accounting profit and economic profit
- Learn the meaning of average total cost and marginal cost and how they are related
- Consider the shape of a typical firm's cost curves
- Examine the relationship between short-run and long-run costs
- Examine the nature of economies and diseconomies of scale

You should be able to

- Explain the difference between economic profit and accounting profit
- Utilize a production function to derive a total cost curve
- Explain why the marginal cost curve must intersect the average total cost curve at the minimum point of the average total cost curve
- Explain why a production function might exhibit increasing marginal product at low levels of output and decreasing marginal product at high levels of output
- Explain why, as a firm expands its scale of operation, it tends to first exhibit economies of scale, then constant returns to scale, then diseconomies of scale