



Theory of Production

Market Demand, Supply Curves

Law of Variable Proportions

Costs

Revenue



Market Curves

- **Qty Demanded by everyone, not just individual**
- **Qty Supplied by everyone, not just individual**
- **Add total QS or QD at every price**



Theory of Production

- **Relationship between factors of production and output**
- **SR—only variable changed=labor**
- **LR—other variable can be changed**
- **Law of Variable Proportions**
 - In SR, out put will change as one input is varied, others constant
- **Production Function**
 - Relationship between changes in output to different amounts of a single input



Costs

- **Fixed**
 - Costs no matter what production is
 - Rent, depreciation on machinery
- **Variable**
 - Changes as output changes
- **Total=Fixed + Variable costs**
- **Marginal**
 - Extra cost incurred when one more of a good is produced



Revenue

- **Total=# sold X average price per unit**
- **Marginal**
 - Extra revenue associated with sale of one more
- **Marginal Analysis—cost-benefit decision making**
 - Compare marginal costs to marginal revenue
 - If $MC < MR$, add variable inputs
 - When $MC = MR$ have profit maximization