

Unit - III BOOK Ref. Managerial Economics - ^{Sankarjan.}

Cost and Production Analysis: - Cost concepts -
Cost and output relationship - Production function
- Cost Function - Short run & long run cost -
Returns to the scale of the plant

Cost :- It refers to the summation of all costs incurred by the firm, and revenue refers to the sale proceeds of goods and services.

Classification of Cost :-

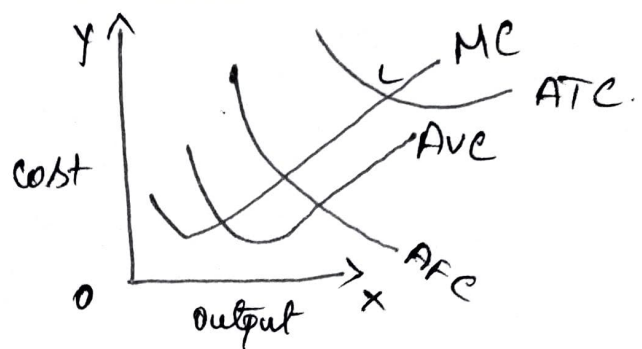
- | | |
|---------------------|--------------------------------|
| 1. Opportunity cost | 9. Shut down cost |
| 2. Outlay " | 10. Abandonment " |
| 3. Past " | 11. Urgent " |
| 4. Future " | 12. Postponable " |
| 5. Out-of-pocket | 13. Controllable " |
| 6. Book-cost | 14. Non-controllable " |
| 7. Incremental cost | 15. Historical cost |
| 8. Sunk " | 16. Short run & long run cost. |

Cost-Output Relationship :-

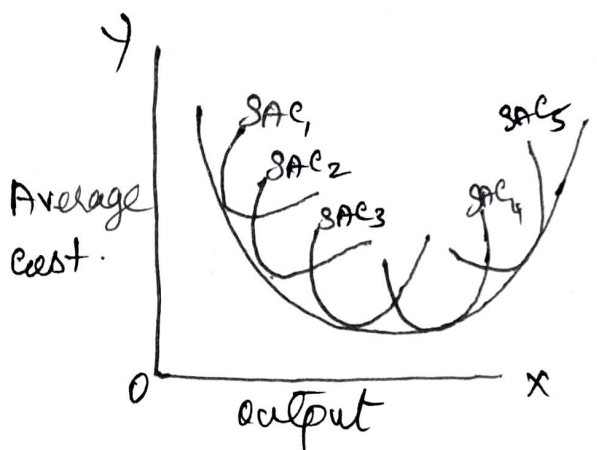
Rate of output
Size of plant
Prices of input factors
Technology
Stability of output
Efficiency.

Prepared by
DR. P. SRIDHARI
Asst. Professor

Short-Run Cost-Output Relationship



Long-Run Cost-Output Relationship

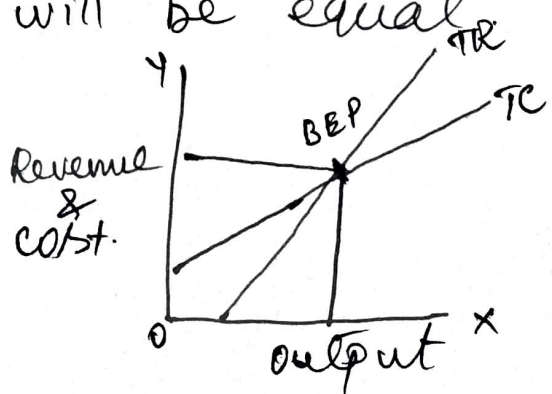


Measurement of Cost-Output Relationship

- 1) Accounting Approach
- 2) Engineering "
- 3) Statistical "

Break-Even Analysis

Where the firm's costs and revenues will be equal



Production Function :-

A production function expresses the relationship between a combination of inputs and outputs.

Factors of Production :-

Land
Labour
Capital
Organization.

Laws of Returns to Scale :- (Phases)

- I. Constant Returns to Scale.
- II. Increasing Returns to Scale.
- III. Decreasing Returns to Scale.

Laws of Production :-

- ① Law of Variable Proportions
 - ② Law of Returns to Scale.
-