




OCR Economics AS-level **Microeconomics**








Topic 2: How Competitive Markets Work

2.6 Costs and revenues

Notes



-  In the short run, at least one factor of production cannot change. This means there are some **fixed costs**.
-  In the long run, all factor inputs can change. This means all costs are **variable**. For example, the production process might move to a new factory or premises, which is not possible in the short run.
-  The measure of the short run varies with industry. There is no standard. For example, the short run for the pharmaceutical industry is likely to be significantly longer than the short run for the retail industry.

-  **Fixed costs** are costs which do not vary with output. For example, rents, advertising and capital goods are fixed costs. They are indirect.
-  **Variable costs** change with output. They are direct costs. For example, the cost of raw materials increases as output increases.
-  The total cost is the cost to produce a given level of output and is calculated by:
-  **Total costs = total variable costs + total fixed costs**
-  Average costs is the cost per unit and is calculated by:
-  **Average costs = total costs / quantity produced**
-  **Marginal cost** is the cost of producing one extra unit.

