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The Relation between Average Cost and Marginal Cost



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Introduction

- It is important to understand the link between average cost and marginal cost.
- 1. When marginal cost is below average cost, it is pulling average cost down.
- 2. When MC is above AC , it is pulling up AC
- 3. When MC just equals AC , AC is constant. At the bottom of a U-shaped AC , $MC = AC$ minimum AC .



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Continued

- To understand these rules, begin with the first one.
- If MC is below AC , this means that the last unit produced costs less than the average cost of all the previous units produced.
- This implies that the new AC (i.e., the AC including the last unit) must be less than the old AC , so AC must be falling.



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Fixed, Variable, and Total Costs

(1) Quantity q	(2) Fixed cost FC	(3) Variable cost VC	(4) Total cost TC
0	55	0	
1	55	30	
2	55	55	
3	55	75	
4	55	105	
5	55	155	
6	55	225	

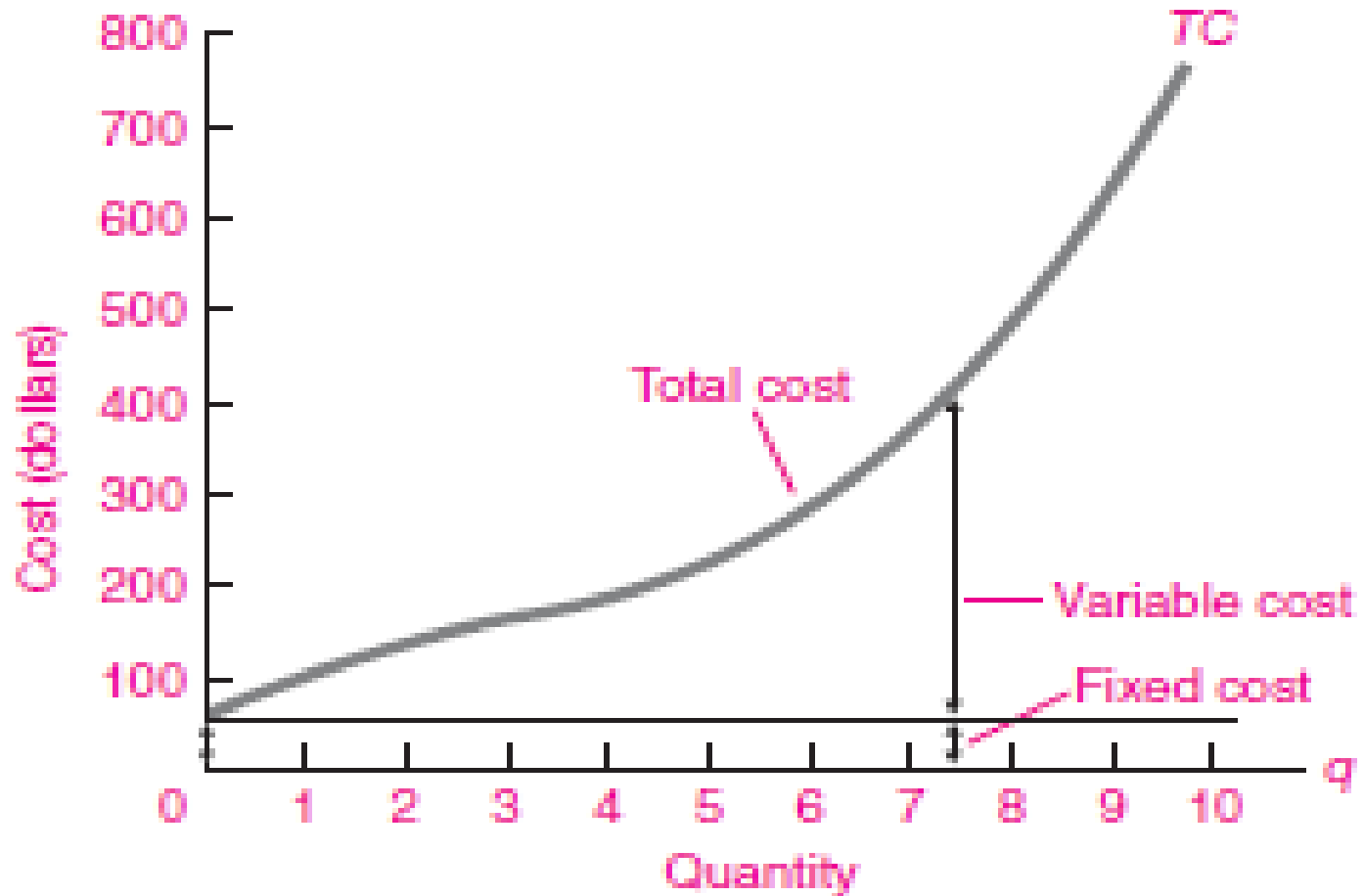


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Total, Fixed and Variable Cost

(a) Total, Fixed, and Variable Cost





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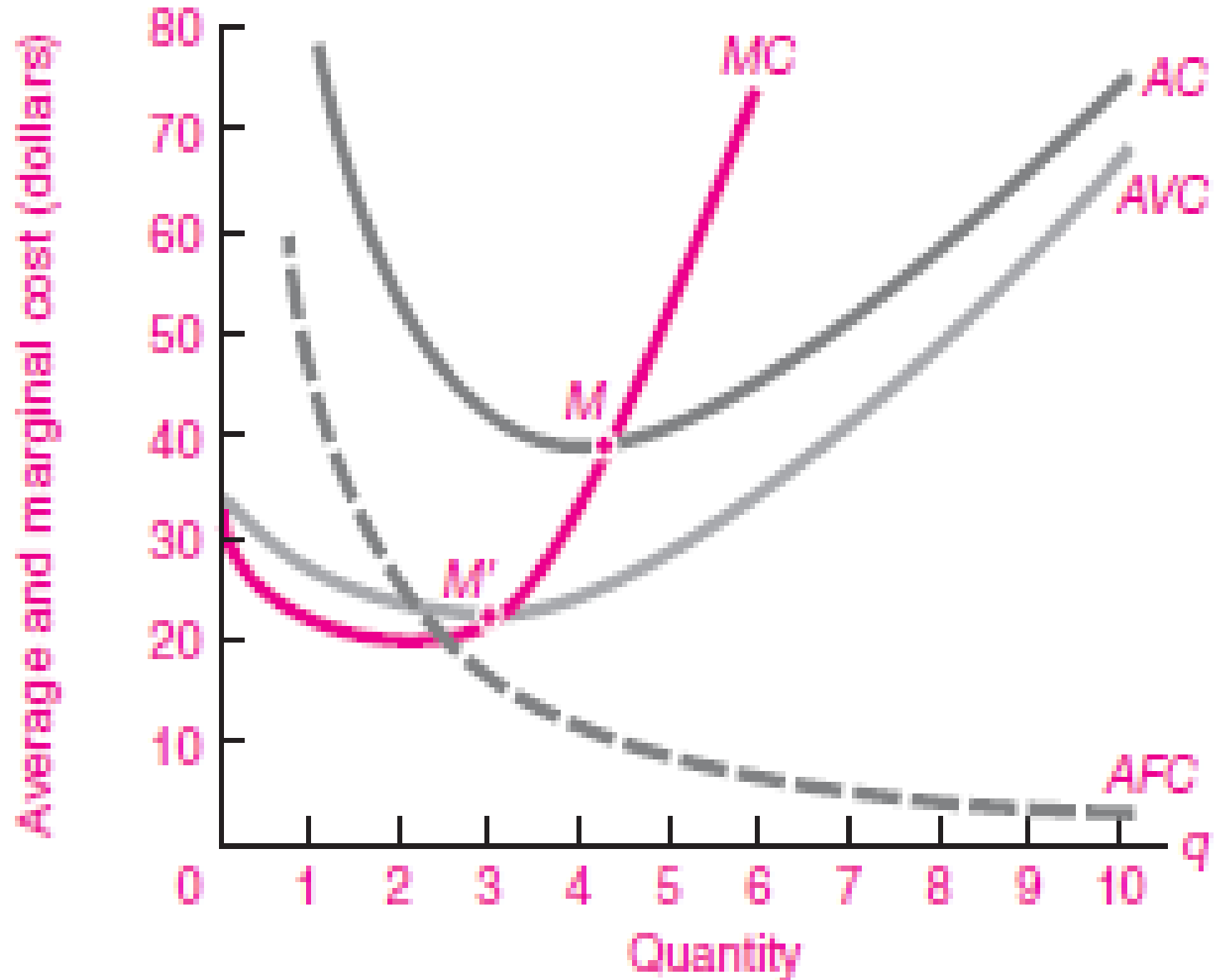
Calculate Marginal Cost and Average Cost



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Average Cost and Marginal Cost





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Happy Learning

