

ECON 203: Principles of Microeconomics

Class 13: Costs of Production

Knowledge Recap

- According to the law of supply, firms increase quantity supplied in response to an increase in price.
 - Describes general behavior of all firms in a market.
- In the next two classes, we turn to the study of decisions made by individual firms.
 - Revenue, costs, and profit (generic for all types of markets).
 - Firms' decision in competitive markets.

Costs and Profit

- Total Revenue: the amount a firm receives for the sale of its output.

$$\text{Total Revenue} = \text{Price per unit} * \text{Quantity sold}$$

- Total Cost: the value of the inputs a firm uses in production.
- Profit: the amount a firm keeps as a result of production.

$$\text{Profit} = \text{Total Revenue} - \text{Total Cost}$$

- Firm's objective: to maximize profit.