**Costs**

* The meaning of economic costs, implicit and explicit costs
* Distinguish between the short-run and long run for businesses
* The difference between **Fixed Costs and Variable Costs**.
* How to calculate Total Costs (TC), Average Total Cost (ATC) and Marginal Costs (MC).

1. What do we mean by economic costs?

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1. What do we mean by implicit costs?

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1. What do we mean by explicit costs?

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1. How does the economist view costs differently to an accountant?

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1. Give your own simplified example of the idea above. Make sure you use the ideas of implicit and explicit and economic costs.

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6.The **Short-run costs** involved with producing a product can be divided into two different types.

* **Fixed Costs (FC)** –

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* **Variable costs (VC)** –

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1. On the diagram below identify the difference between fixed and variable costs.

**Output**

**Output**

Costs

Costs

#### Fixed

## Variable

**8)** Using the table below classify the costs below as fixed or variable (Imagine the product is cuddly toys.

|  |  |  |
| --- | --- | --- |
| * **Fabric** | * **Electronic parts** | * **Property taxes** |
| * **Salaried workers** | * **Rent** | * **Packaging** |
| * **(Water, Gas)** | * **Administration costs** |  |

|  |  |
| --- | --- |
| **Fixed** | **Variable** |
|  |  |

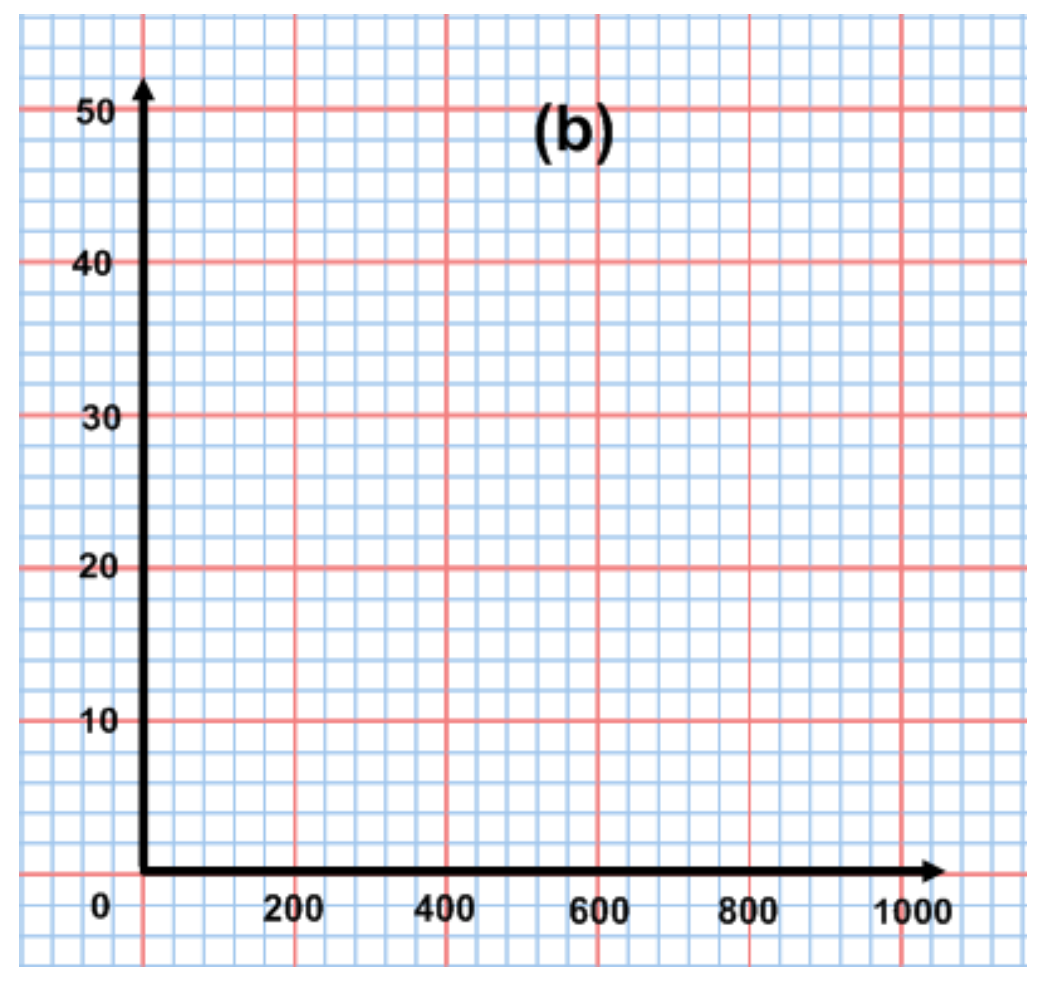
1. How do you calculate the **Total Costs** of a firm?

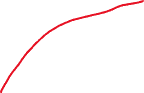
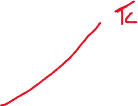
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1. Complete the costs table below for the production of utility vehicles.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Total Product (Output 00’s)** | **TVC** | **TFC** | TC | AFC | AVC | ATC | MC |
| 0 | 0 | 3 | 3 | 3 | 0 | 3 | - |
| 1 | 3 | 3 | 6 | 3 | 3 | 6 | - |
| 2 | 5 | 3 | 8 | 1.5 | 2.5 | 4 | 2 |
| 3 | 6 | 3 | 9 | 1 | 2 | 3 | 1 |
| 4 | 7 | 3 | 10 | 0.75 | 1.75 | 2.5 | 1 |
| 5 | 7.5 | 3 | 10.5 | 0.6 | 1.5 | 2.1 | 0.5 |
| 6 | 9 | 3 | 12 | 0.5 | 1.5 | 2 | 1.5 |
| 7 | 11 | 3 | 14 | 0.42 | 1.57 | 2 | 2 |
| 8 | 14 | 3 | 17 | 0.375 | 1.75 | 2.125 | 3 |

1. Plot the figures from the table onto the graph paper.





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1. What do you notice about the shape of the **Total Cost curve**?

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1. What do you notice about the shape of the **Average Total Cost curve**?

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1. What do you notice about the shape of the **Marginal Cost curve**?

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