Vivekanand College, Kolhapur (Autonomous)

Department of Economics

Subject- Micro Economics

Topic- Cost: Concepts and Curves

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Cost Concept-

What is Cost in Economics?

- A firm uses various inputs for the production of goods and services.
- the firm has to make payments for such inputs as they are not free.
- The expenditure incurred on these inputs is known as the cost of production in Economics.
- The concept of cost in economics refers to the total expenditure incurred in producing a commodity.
- In economics, cost is the sum total of explicit and implicit cost.

Cost Concept-

1. **Explicit Cost-** it refers to the actual money expenditure on inputs or payment made to outsiders for hiring their factor services. For example- wages paid t the employees, rent paid to the hired premises, payment for raw material.

2. **Implicit Cost-** it is the estimated value of the inputs supplied by the owners including normal profit. For example, interest on own capital, rent of own land etc. such costs are the costs of self-supplied factors.

- the relation between cost incurred and output is known as ‘cost function’. Cost function refers so the functional relationship between cost and output.
- It can be expressed as,

$C = f(Q)$

Where –

C= cost of production

Q= quantity of output

f= functional relationship

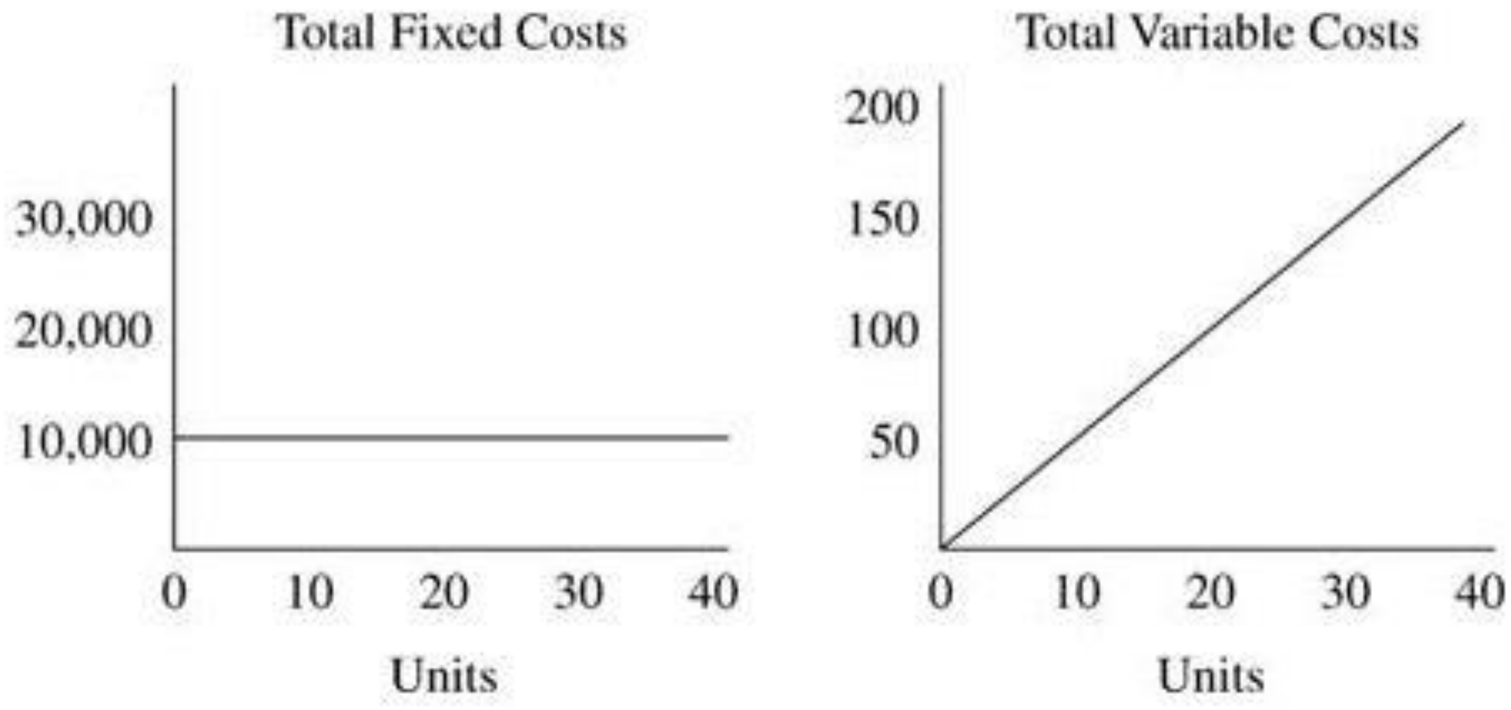
Opportunity Cost-

- Opportunity cost is the next best alternative foregone.
- Opportunity cost is the forgone benefit that would have been derived from an option not chosen.
- Opportunity cost refers to what you have to give up/ sacrificed to buy what you want in terms of other goods or services.
- When economists refer to the **“opportunity cost”** of a resource, they mean the **value of the next-highest-valued alternative use** of that resource. If, for example, you spend time and money going to a movie, you cannot spend that time at home reading a book, and you can’t spend the money on something else.

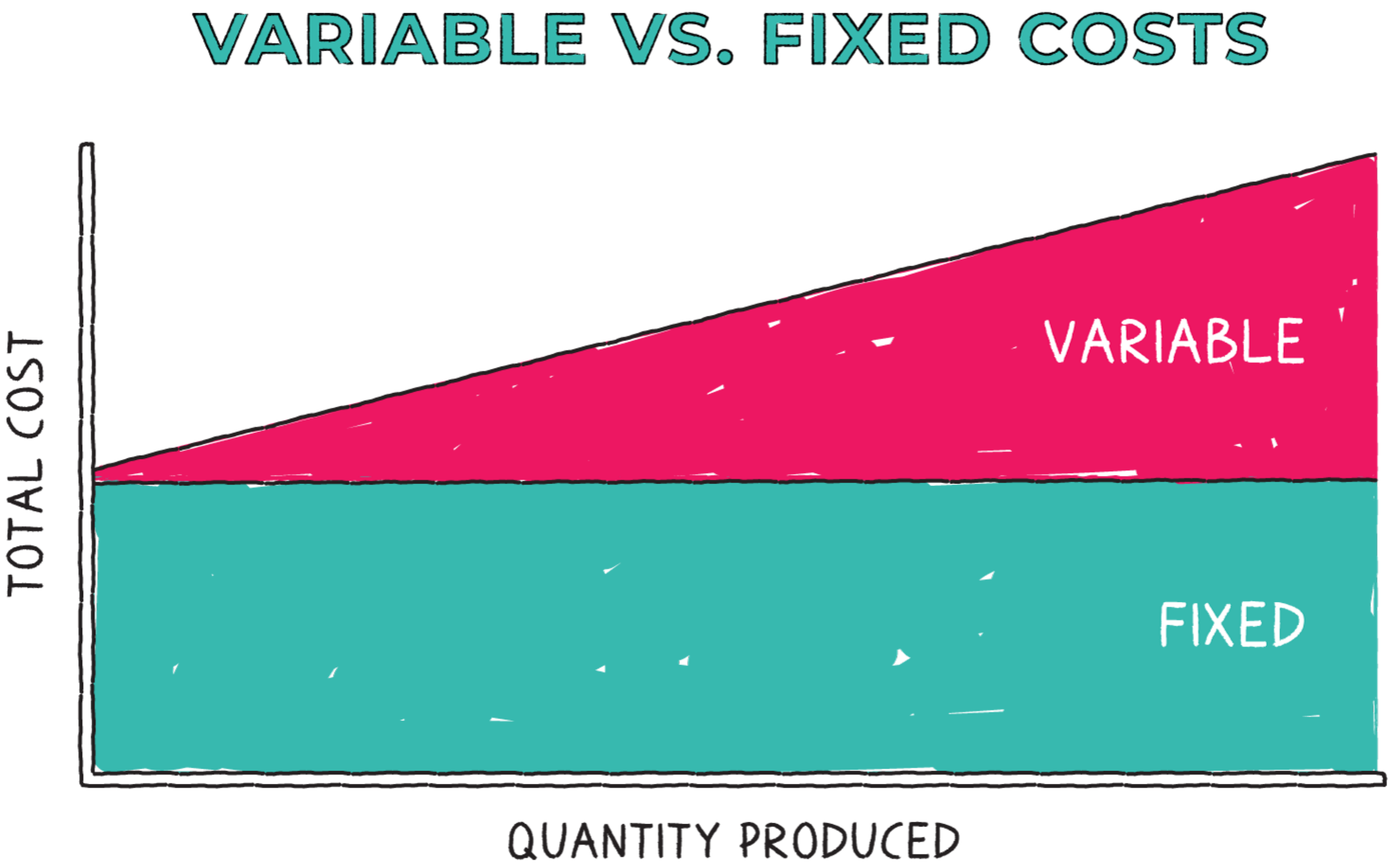
Fixed Cost v/s Variable Cost-

- Fixed costs of a firm are those costs which do not vary as a total with the size of its output over a certain range. They remain same over a certain range of output. It remains the same no matter how much a company produces. These costs are normally independent of a company's specific business activities and include things like rent, property tax, insurance, and depreciation.
- Variable costs are any expenses that change based on how much a company produces and sells. This means that variable costs increase as production rises and decrease as production falls. Some of the most common types of variable costs include labor, utility expenses, commissions, and raw materials.

Fixed cost curve and Variable cost curve



- Total Cost


VARIABLE VS. FIXED COSTS
TOTAL COST
VARIABLE
FIXED
QUANTITY PRODUCED