

Frannie miller essay examples

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Introduction:

Marginal cost refers to the extra cost incurred by a firm due to an increase in output by one unit. The marginal cost curve, therefore, is a graphical representation used to show the increase in costs incurred by a firm with each successive increase of a unit of output. The marginal cost curve of a firm can take several shapes such as; a rounded check mark, a flat line or an upwardly sloped line (Baumol& Blinder, 2011).

The rounded check mark marginal cost curve:

Any firm that portrays an initial decline in marginal costs with an increase in output up to some point from which any increase in output results, in increasing marginal costs, will have a marginal cost curve with the shape of a rounded check mark.

An industry in the U. S that portrays a rounded check mark marginal cost curve is the manufacturing industry. Any firm in the manufacturing industry in the U. S, for example, Coca cola Company, will have to record decreasing marginal costs up to some point of production after which the marginal costs the firm incurs will increase with every extra unit of production (McEachern, 2010).

A flat line marginal cost curve

Firms may exhibit a flat line marginal cost curve if after incurring some certain amount of fixed cost per unit, any increase in a unit of output does not result in any increase; in the marginal costs of production. Any firm in the U. S retail industry, for example, Wal-Mart, will incur no additional marginal cost to supply an extra unit of a particular retail commodity since

they buy all units of the commodity at constant, fixed price from its manufacturer. The price of the commodity does not vary with the quantity of the commodity that Wal-Mart buys. Therefore, the marginal cost curve for the commodity will be a flat line (McEachern, 2010).

An upwardly sloped marginal cost line

Firms that exhibit a marginal cost curve that takes the shape of an upwardly sloped line are those firms that incur a constant amount of increase in marginal costs with every increase of a unit of output. An example of a firm in the service industry in the U. S is McDonalds. McDonalds portray a marginal cost curve that takes the shape of an upwardly sloped line since for every additional unit of labor they hire to work in their restaurants they incur a constant additional wage cost (Baumol& Blinder, 2011).

The importance of a marginal cost curve:

The marginal cost curve is important since plotting it gives firms an overall idea of the marginal costs they will incur to produce different quantities of output (Baumol& Blinder, 2011). However, the most important aspect of the marginal cost curve is the fact that it enables firms to determine the equilibrium quantities of output to produce.

How the marginal cost curves help economists to predict supply:

The marginal cost curves help economists to predict the quantity of a commodity that will be supplied by firms. A firm that is a monopoly is expected to produce an output that is equivalent to the point where the marginal cost curve meets the marginal revenue curve. Economists will also

expect firms operating in a perfect market to produce an output that is equivalent to the point where the marginal cost curve intersects with price (McEachern, 2010)

Baumol, ., W., & Blinder, A. S. (2011). Economics: Principles and Policy. Mason: Cengage Learning.

McEachern, W. A. (2010). Microeconomics: A Contemporary Introduction. Mason: Cengage Learning.