The law of diminishing returns is a key one in economics

When marginal costs increase, it means that when a firm very large, the cost also rise at the same time and it the difficult of organisation increases because , therefore, it is obvious that marginal costs would rise.

In the long run, “ all inputs that are under the firm’s control can be varied” (Mukherjee, Mukherjee & Ghose, 129). It means that there and no fix cost. Long- run cost shows through long- run cost curve and it is conveys important information about the production processes that a firm has available for manufacturing a good. And in particular, it also tells us about how costs vary. For example: the firms in industries will change their industry to profitable one. Because they have varied their capital, this is no more short – run, but already long – run. When other firms enter the industry then to things happen: the supply increase and the price of factor of production is also increase. Marginal cost and long-run cost are related to each other, if marginal cost curves change, long-run cost curve change as well.

In the economic theory there exists one law which can illustrate the connection between two different kinds of product average and marginal. It is the Law of Diminishing Returns.

The Law of diminishing returns is a key one in economics. It is used to explain many of the ways the economy works and changes. In economics, diminishing returns refers to how the marginal production of a factor of production starts to progressively decrease as the factor is increased. The returns will begin to diminish in the long run.

According to MC Taggart, Findlay, & Parkin (2007, p. 207) “ Diminishing marginal returns occur when the marginal product of a worker is less than the marginal product of the previous worker.” Diminishing marginal returns arise because more and more worker use the same fixed plant . It also understand that when additional units of a factor of production are added to fixed amounts o other input in production , at some point the increase in output which results will decrease. (Mc Auliffe, 1999). In a production system with fixed and variable inputs, each additional unit of the variable input yields smaller and smaller increases in outputs. Conversely, producing one more unit of output will cost increasingly more. This concept is also known as the law of diminishing marginal returns or the law of increasing relative cost.

Marginal costs are the additional cost of producing one more unit (Daly, Farley, 2004). Marginal costs decrease at low output and through a short range because economic from greater specialisation (MC Taggart, Findlay, & Parkin, 2007). Marginal costs begin to rise because of diminishing returns. Diminishing return is a further reason for increasing marginal costs because when addition unit of output, the cost of the additional output marginal cost must eventually increase.

Question 4 :

The relation between average product and marginal product is one of several that reflect the general relation. This general relation surfaces throughout the study of economics. The general relation is through the relationship between the marginal product and the average product.

The marginal product is “ the additional output produced per period when one more unit of an input is added” (Anderson, 2005, p 71). So we can understand as marginal product is the change in quantity when one additional unit of input used but keeping all other inputs unchanged. Therefore the average product is the quantity of total output produced per unit of a variable input (Taylor and Weerapana, 2009).

C: UsersKevinDesktopProd005w. gif

http://www. AmosWEB. com.

The relationship between the marginal product and the average product we can see through the product curve that it can show us whether one more extra input is efficiency or inefficiency in order to make decision about change the firm’s input if there is required. When the marginal product exceeds the average product, then the average rises. For the diagram, the first few quantities of variable input (workers), marginal product is rising and lies above average product. This is consistent with an increasing average product. For example if company hires an additional worker in this early stage of production, then the marginal product of this worker is greater than that of the existing workers. This, as such, increases the average for all workers. The marginal cost rises above average total cost because total cost must start to rise at level of output. On the other hands, if the marginal is less than average, the average will fall because once the marginal product curve moves below the average product curve, then the average product curve declines. For example as the diagram, company hires an additional worker in the middle of this range; the marginal product of this worker is less than that of the existing workers, which pulls down the overall average. Further information, according to Hoag and Hoag(2004, p 144) ” the average marginal relationship also exist with cost”. If the marginal cost is exceeds the average cost, the average cost will be rising. Alternately, the average product exceed the marginal product, the average cost must be falling.