

# Short run vs. long run

Finance



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A person that decides to use his time studying for college has the opportunity cost of the money he could make working in the private industry. At a minimum college students have the opportunity cost of the federal minimum salary of \$7.25 an hour.

Economics can be divided into two-time phases which are the long run and the short run. In the short run, the quantity of at least one input is fixed and the quantities of the other inputs are varied, but in contrast in the long run the quantities of all inputs are varied (Moffatt, 2010). Two inputs that are usually fixed in the short run are land and capital. The law of diminishing returns takes effects in the short run (Tutor2u, 2010). The production of firms changes in levels of output during the long run.

When a person goes to a car dealership having knowledge of economics can help the buyer negotiate a better deal. The car sales business operates in a cycle. We are currently in November which implies that the dealership has to get rid of its entire 2010 inventory to make room for the 2011 models. I can argue to the car salesman this point in order to ask for a price reduction.

Another argument that I can use in order to obtain a price reduction is to talk about the state of the economy. Due to the fact that unemployment is currently close to 10%, there are not that many people buying new cars. I deserve a price discount since your company cannot afford to lose my business. A third way to negotiate a better deal is by showing the auto dealership your credit score. I could argue that a person with an excellent credit score deserves a price discount.

There are many types of costs that are relevant for a firm. One of the largest expenses accounts in the corporate world is the payroll account. The salaries of employees are a major source of the cost structure of a company. Another

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cost driver incorporation is the cost of materials. In the retail industry cost of goods sold represents materials cost, while in the manufacturing industry raw materials represent the major source of materials cost. A third important source of costs in the business industry is overhead costs. Overhead costs include expenses such as utilities, depreciation, insurance, advertising, and legal fees.