

# Supply: production, costs and profits research paper

[Business](#), [Company](#)



A firm investing in production factors uses them to produce competitive products.

Monetary value of the use of economic resources of the company for the production and sale of products or services is called the cost of production or cost of services .

Cost of products (services) is a set of costs on a production and marketing costs associated with the provision of services . In cost reflects all costs incurred by labor and materials costs in the form of raw , material , fuel and energy resources , depreciation of fixed assets, wages. Cost comprises direct material and labor costs , as well as management overhead and service firms . Product cost is a synthetic concept that in value terms summarizes the total cost of the enterprise on the means of production , wages and payment services to third parties for the production , transportation and sales.

The specific composition of costs is governed by law , as it is associated with features of the tax system and the need to distinguish between the costs of company's sources of reimbursement .

### **Cost of qualitatively and quantitatively different from the cost .**

Value and its monetary value - price, quantity above cost.

Economic cost of essentially close to the financial costs of production and differ significantly from the economic costs of production. Cost reduction - the basis of lower prices , and thus the basis of competitiveness , is a major source of profit growth .

The traditional policy of the company is usually appointed for each item selling price above cost. The difference represents a profit. But in a market environment, the company must consider when extreme differentiation production and marketing process, to recognize the usefulness of forecasting the growing importance of the development of industrial and commercial strategy, the concept of the cost of acquired more complex content, and so today he preferred the term "costs".

Social labor costs on production and marketing in our society constitute social costs of production, which reflect the value of those goods.

### **Social costs of production are composed of:**

- cost expended means of production (in the form of depreciation);
- consumed objects of labor (in the form of raw materials, fuel, etc.);
- value of the product created by work for themselves (in the form of wages);
  
- value of the product created by the labor of society (in the form of company's net income, expressed in two basic forms: profit and tax).

2.

Under such circumstances, the company is in short equilibrium point.

Change the size of the plant is placed, if the firm is not in the long-run equilibrium point - ie minimum long-term average costs does not coincide with the point of minimum average cost curve.

3.

## **This can be done to achieve profits in the long run.**

Long term is different from the short-term that is taking all costs variable character. Can also change the scale of production, because the company can expand its production capacity. In the long run may be taken such basic decisions as curtailing the production of a product, change the profile of the enterprise, development of new markets. If the firm plans to stay in the market, it must determine at what volume of goods it maximizes its profit.

## **Assume that the firm maximizes economic profit in the short term with the volume issue Q1**

LATC and LMC curves reflect marginal and average total cost in the long run. Crossing the prices LMC gives the volume of production at which the firm in the long run profit-maximizing (Q2). In the first case, the profit margin expresses the area of a rectangle PEAB, in the second embodiment, the profit margin has increased significantly (area of a rectangle PKCD). Any deviation from the Q2 output in the long run will reduce the firm receives a profit. Consequently, in the long run the firm maximizes its profits at such volume of production at which the long-term marginal cost equals the price of products on the market.

Basic conditions of perfect competition, provide rich opportunities flow of capital from one branch to another. But, at the same time, it should be understood that any firm which has won a certain segment of the market, not in a hurry to leave. For profit by any entity needed stability and sustainability. How to achieve perfect competition? Under what conditions "foreign" firms do not wish to take your place in the market and you will have no incentive to leave their industry?

If firms in the long run in any industry enjoy higher profits, it will certainly be attracted to the market by other firms. Increase in total sales can reduce the price of goods, which will lead to the fact that small firms with low-tech production will go out of business. Until when will be the hesitation? As long as the market price is established at the level of the minimum average total cost in the long run. In this case, this market will cease to be attractive to other companies as operating businesses will receive zero profits.

For those companies who have mastered this market, it will mean that they will receive the accounting profit, but will not receive economic profit, which includes implicit costs. Therefore, an incentive to exit the business they will not.

### **You can make three points that lie at the heart of long-run equilibrium in a competitive market :**

- Market demand coincides with the supply and the resulting equilibrium price suits both sellers and buyers.
- All companies in the industry maximize profits, that is, are in equilibrium.
- All firms receive zero profits.

These three conditions are created for a long time, but in the short run firms can obtain a sufficiently high economic profit.

4.

$$Q = 1000 \quad AFC = 100 \quad AVC = 50 \quad TC = 1000 + 50Q \quad P = 200 \quad TR = PQ$$

$$TC = FC + VC \quad FC = AFC * Q = 100 * 1000 = 100000 \quad VC = AVC * Q = 50 * 1000 =$$

$$50000 \quad TC_{1000} = 50000 + 100000 = 150000$$

$$TR_Q = PQ * Q = 200 * 1000 = 200000 \quad \text{Total Profit} = TR_Q - TC_Q = 200000 -$$

$$150000 = 50000$$

## **Works Cited**

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