

# *CONCEPTS OF COST*

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## THE TRADITIONAL THEORY OF COST

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- **Long -Run Costs of the Traditional Theory:**
- In long –run no factor of production is fixed ,all factors of production become variable .  
Producer can increase or decrease the number of all factors of production,i.e.,producer can alter its plant size in the long period.The firm can change its scale to suit it needs. Long run cost curve is **planning curve**, in the sense that it is a guide to the entrepreneur in his decision to plan the future expansion of his output.

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- **Long- run Total Cost Curve:**
- Long –run Total Cost is the minimum cost at which given level of output can be produced. According to **Leibhafasky** , "The long- run total cost of production is the least possible cost of producing any given level of output when all inputs are variable. "A certain amount objects in the long run , a firm can produce at minimum cost. This is because the firm has sufficient time in which it can choose the ideal size plant and Least Cost Factor Production.

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- Long –run Total cost is always less than or equal to Short- run Total cost, but it is never more than short-run cost,i.e.,**LTC** ≤ **STC**(Long - Run Total Cost (LTC) will

either be less than (<) or equal to (=) Short- Run- Total Cost.)

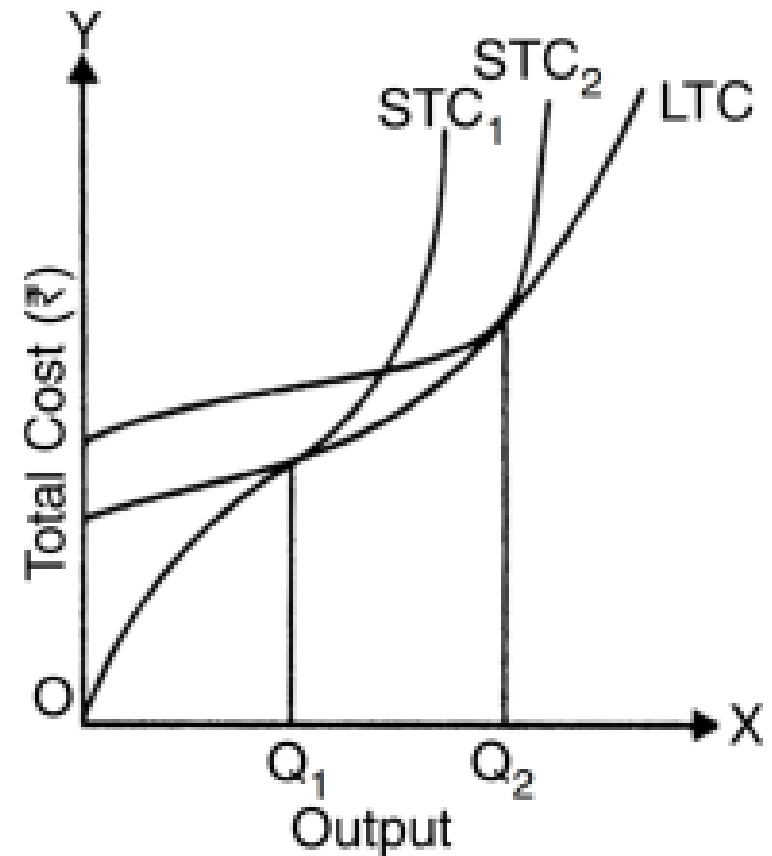
Long- run cost curve can be explained with the help of diagram.

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## Long- Run Total Cost.(LTC)

FIGURE

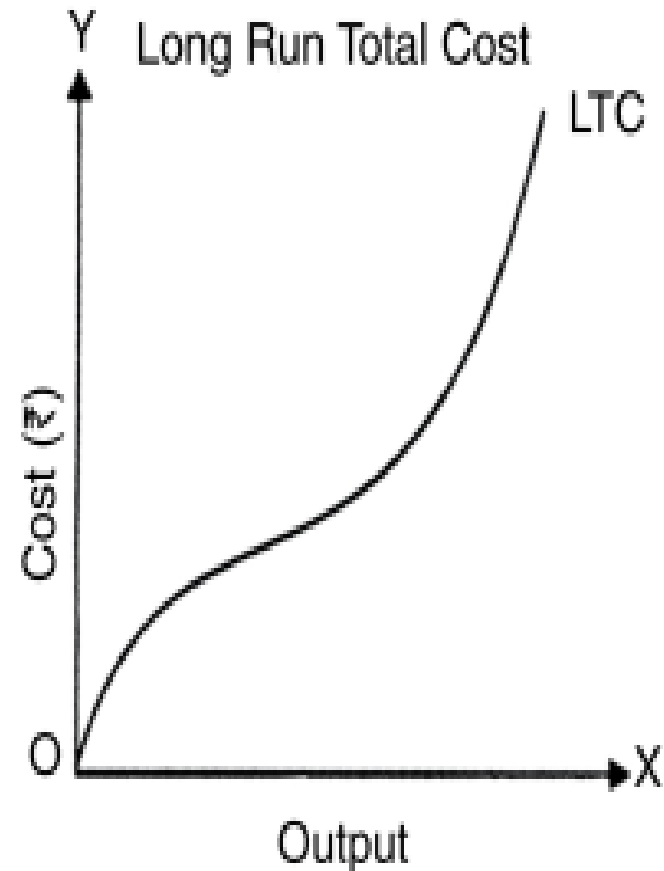
- In this figure,  $STC_1$  and  $STC_2$  (in two different sizes of plants) are short-run total cost curves. The LTC curve is made by joining the minimum points of short-run total cost curves. That is why, the curve LTC, envelopes curve  $STC$ .



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## *LONG –RUN TOTAL COST*

- In this figure, long-run total cost curve (LTC) is shown. This curve is in the shape of inverted 'S'. The main features of the curve:
- The Long –run total cost curve starts from the origin point O, while the short-run total cost curve originates from any point of the axis OY. The significance of this is due to in long –run ,at zero production level , LTC becomes zero as all the factors are variable in the long period and there is absence of fixed cost (which never becomes zero).
- Long-term total cost curve slope is positive. This means a large amount of the production costs are high.



- To be continued.....