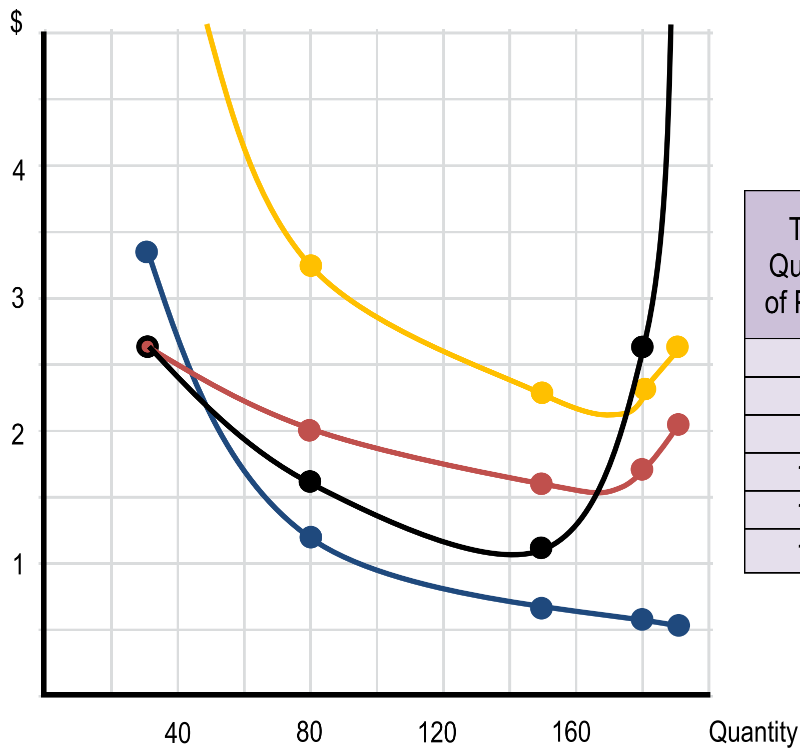
CONCEPT: GRAPHING COSTS

● This is one of the most important graphs in microeconomics.



Total Quantity of Pizzas	Marginal Cost per Pizza	AFC = FC/Q	AVC = VC/Q	ATC = TC/Q or AFC + AVC
0	-	-	-	-
30	2.67	3.33	2.67	6.00
80	1.6	1.25	2.00	3.25
150	1.14	0.66	1.60	2.27
180	2.67	0.56	1.78	2.34
190	8.00	0.53	2.10	2.63

Key Facts about the Graph:

● ***Shape of the curves***

□ The MC curve, AVC curve, and ATC curve are all ______________

□ As output increases, AFC gets smaller and smaller.

● ***Relationship of ATC, AVC, and AFC***

□ ATC = AFC + AVC

□ As output increases, the distance between ATC and AVC gets smaller and smaller.

● ***Relationship of Marginal Cost and Average Cost***

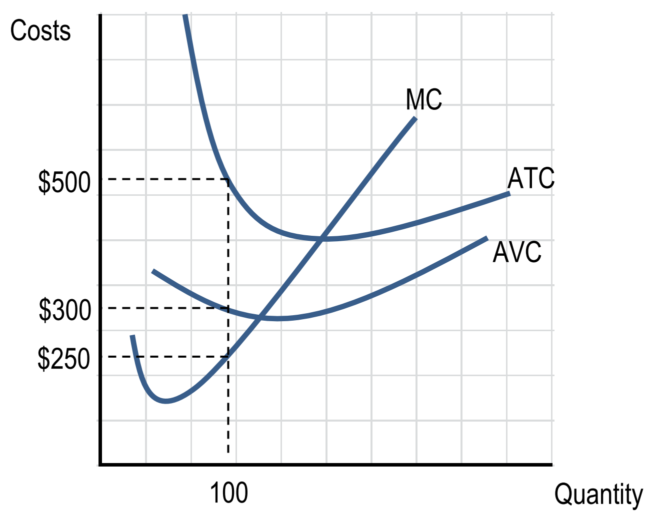
□ The marginal cost curve crosses the _________ and _________ curves at their minimum values.

□ When marginal cost is below ATC and AVC they are falling, when it is above ATC and AVC, they are rising.

PRACTICE: If average total cost is $50, quantity produced is 10 and total fixed cost $100, what is the total variable cost for the output of 10?

a) 500
b) 100
c) 400
d) 1000

PRACTICE: Based on the graph below, at a quantity of 100, AFC is equal to:



a) $50
b) $200
c) $250
d) Need more information

PRACTICE: When a firm is producing zero output, total cost equals:

a) Zero
b) Variable cost
c) Fixed cost
d) Average total cost
e) Marginal cost