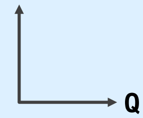
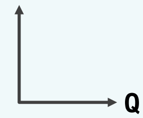
TOPIC: FIXED COSTS

- **Fixed Costs** include rent, salaries, and insurance.

	When activity increases…	Equation	Graph
Total Fixed Costs		$Y = a$	
Average Fixed Costs		$Y = \frac{a}{X}$	

Y: Cost being measured a: Constant X: Activity Level

EXAMPLE

Tylor's Tickets is a cinema with 4 screens. The rent on the building is $10,000 per month and the company calculates $5,000 per month in straight line depreciation on their projection and sound equipment. Assume the business has no fixed costs other than rent and depreciation. Calculate Tylor's average fixed cost per unit for each possible quantity given below.

Sales per Month	Average Fixed Cost
2000 tickets	
2500 tickets	
3000 tickets	

PRACTICE

If a company's costs are all fixed costs, which of the following quantities will result in the lowest average fixed cost?

a) 5,000 units.

b) 10,000 units.

c) 15,000 units.

d) All the above will result in the same average fixed cost.