

[Summary]

Production Equilibrium

Subject:

Course:

Paper No. & Title:

Unit No. & Title:

Lecture No. & Title:

Business Economics

B. A. (Hons.), 1st Semester, Undergraduate

Paper – 101 Microeconomics – I

Unit – 3 Production Equilibrium

Lecture – 2 Production Equilibrium

Summary

We can conclude here that the iso cost line depends upon two things: a) prices of the factors of production and b) the total outlay which the firm has to make on the factors. Given these two things an iso cost line can be drawn.

In case of least cost combination we can conclude about the entrepreneur's choice of the quantities of the two factors, that the entrepreneur will be in equilibrium in regard to his use and purchases of the two factors when he is using such quantities of the two factors that the marginal physical products of the two factors are proportional to the factor prices. And in case of output maximization for a given level of outlay i.e. cost we can conclude that with the given level of outlay there will be a single iso-cost line that represents the outlay that firm has decided to spend and a rational producer will be interested in maximizing output of the commodity.

The expansion path represents minimum cost combinations for various levels of output, it shows the cheapest way of producing each output, given the relative prices of the factors and when both the factors are variable and the prices of factors are given, a rational entrepreneur will seek to produce at one point or the other on the expansion path.