Fourth Trick Question

• Does an increase in total cost mean that AC and MC have both gone up?
Additional Properties of Cost Functions

Fourth Trick Question

• Does an increase in total cost mean that AC and MC have both gone up?

Here AC and MC are both up

But look at this case

AC > AC

But MC < MC!

AC yes, MC maybe

The minimum of the AC occurs at a higher level of output
Fifth Trick Question

- Does improved technology mean lower costs?
- Improved technology means fewer inputs for same output.

Maybe yes, maybe no

Three Principles of Technology

- Don’t confuse changes in technology with changes in technique.
  – Every time we move from one point on the production isoquant to another, we change technique

Don't confuse changes in technology with changes in technique.
- Distinguish between firm specific technologies and industry technologies.
Three Principles of Technology

- Don’t confuse changes in technology with changes in technique.
- Distinguish between firm specific technologies and industry technologies.
- Technological change occurs gradually.

Sixth Trick Question

- Last year, Acme Widgets produced widgets at $5 each. This year the plant manager reports that he can cut production cost to $4 each. Does this mean he simply was not doing his job last year?

- Perhaps

- Then again, he may have exploited the learning curve.

- The more you make the better you get at it
Seventh Trick Question

• Acme Widgets produced widgets for $5 last year and $4 this year
• A new competitor, Wonder Widgets, figures that it can produce widgets for $4.50 each.
• Does it mean that Wonder Widgets stole trade secrets from Acme?

• Perhaps
• But one can learn from observing
  – Reverse engineering
  – Talk in the trade
• The point is that trade secrets are hard to keep
End

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