Changes in Factor Prices

- Remember our basic cost function
  \[ C = C(q, r, w) \]

- So far, we have not worried about \( r \) and \( w \). Now we will.

\[ C = C(q, r, w) \]

- The Impact of a change in factor prices on the market

An Exogenous Change

- Suppose the price of a factor of production changes.

- The Impact of a change in factor prices on the market.
  - How a shift in market demand can cause a change in factor prices
Changes in Factor Prices

An Exogenous Change

• Suppose the price of a factor of production changes.
• While there is obviously some substitution, there will be an increase in cost.

• This is called an exogenous (external) change.
Changes in Factor Prices

An Exogenous Change

\[ Q^{**} = N^{**} q^{**} \]

Price goes up. Quantity sold goes down. Average size of firm and number of firms indeterminate.

End

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