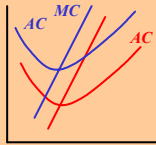


Additional Properties of Cost Functions

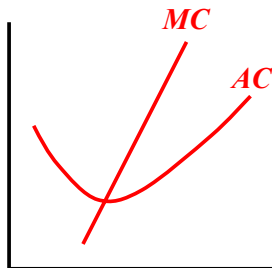


Fourth Trick Question

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

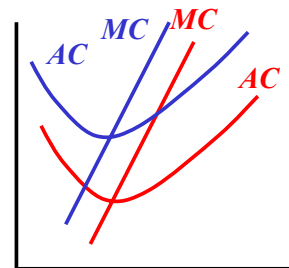
Fourth Trick Question

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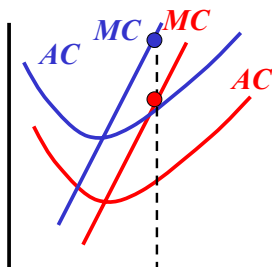
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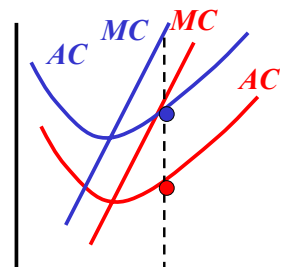
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Fourth Trick Question

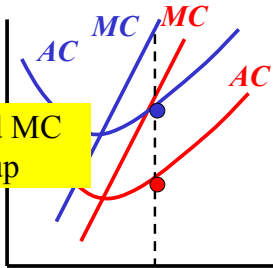
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Fourth Trick Question

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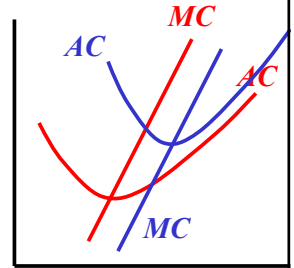
Here AC and MC are both up



Fourth Trick Question

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

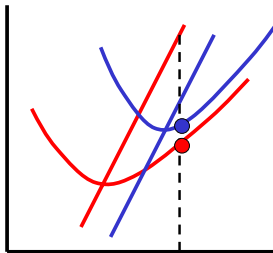
But look at this case



Fourth Trick Question

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

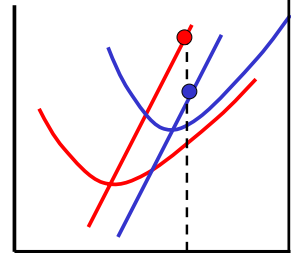
$AC > AC$



Fourth Trick Question

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

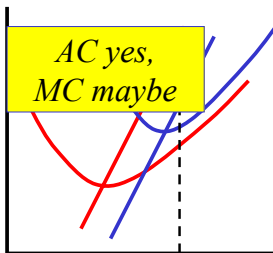
But $MC < MC!$



Fourth Trick Question

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

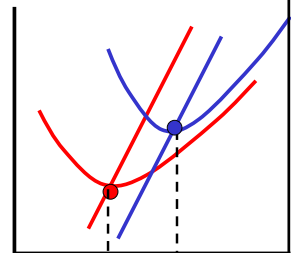
AC yes, MC maybe



Fourth Trick Question

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

The minimum of the AC occurs at a higher level of output



Fifth Trick Question

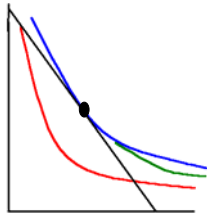
- Does improved technology mean lower costs?

Fifth Trick Question

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

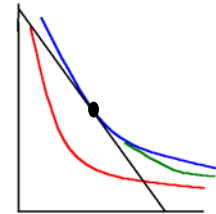
Fifth Trick Question

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



Fifth Trick Question

- Does improved technology mean
- Maybe yes, maybe no
- technology means fewer inputs for same output.



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

Three Principles of Technology

- 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?

Sixth Trick Question

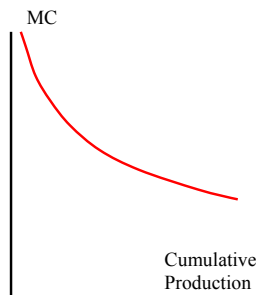
- Perhaps

Sixth Trick Question

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

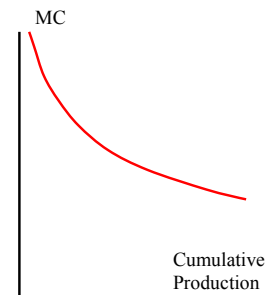
Sixth Trick Question

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



Sixth Trick Question

- Perhaps
- 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

Seventh Trick Question

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- A new competitor, Wonder Widgets, figures that it can produce widgets for \$4.50 each.

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?

Seventh Trick Question

- Perhaps

Seventh Trick Question

- Perhaps
- But one can learn from observing
 - Reverse engineering
 - Talk in the trade

Seventh Trick Question

- 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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