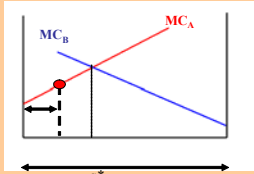


Applications of Cost Functions

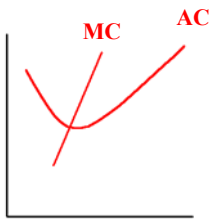


Lectures in Microeconomics-Charles W. Upton

Allocating output between two different plants

- A manufacturer has two different plants, A and B.
- He wants to produce q^* .
- How should he allocate the production between the two plants?

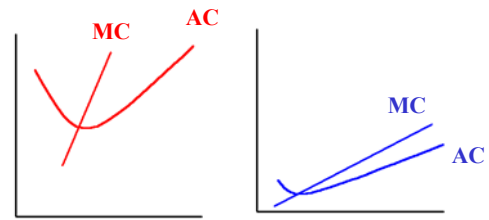
The two AC and MC functions



Plant A

Applications of Cost Functions

The two AC and MC functions

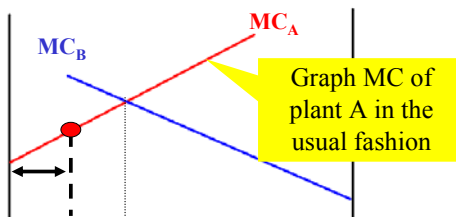


Plant A

Plant B

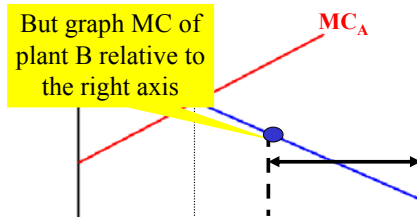
Applications of Cost Functions

Optimizing Production



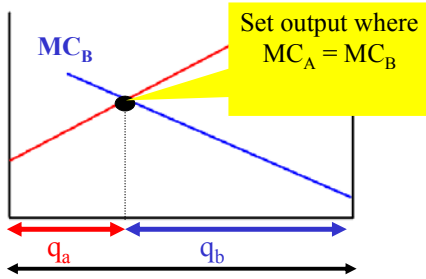
Applications of Cost Functions

Optimizing Production



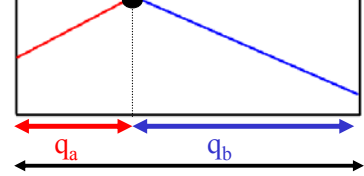
Applications of Cost Functions

Optimizing Production

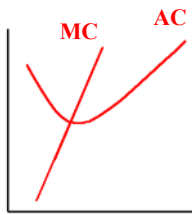


Wrong Answers

Use plant with lower AC
Use plant with lower MC

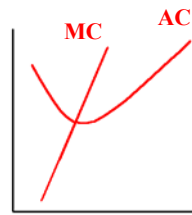


New Plants

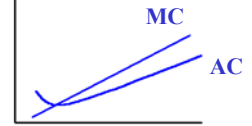


Plant A-Old Design

New Plants

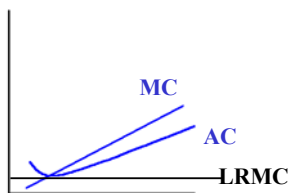
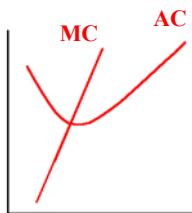


Plant A-Old Design

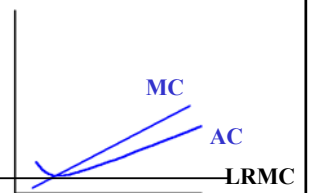
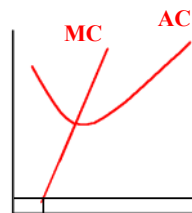


Plant B-New Design

New Plants



New Plants

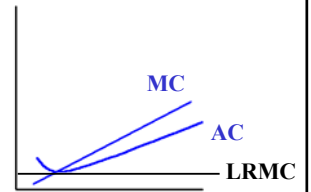


The Moral of the Story

- $MC_A = MC_B$

The Moral of the Story

- $MC_A = MC_B$
- LRMC = minimum



End

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