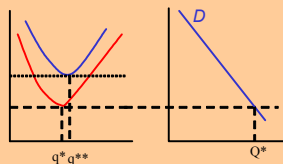# Changes in Factor Prices

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Changes in Factor Prices

• Remember our basic cost function

$$C = C(q,r,w)$$

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

$C = C(q,r,w)$

• The Impact of a change in factor prices on the market.

• How a shift in market demand can cause a change in factor prices

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An Exogenous Change

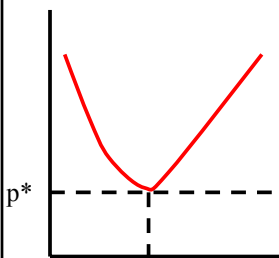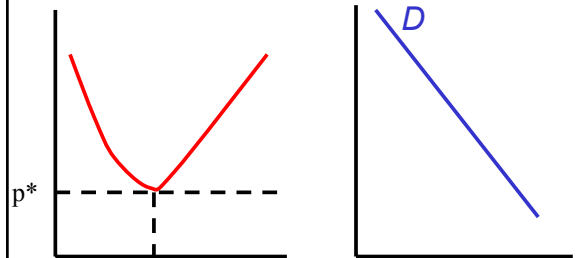• Suppose the price of a factor of production changes.

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.

An Exogenous Change

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- While there is obviously some substitution, there will be an increase in cost.
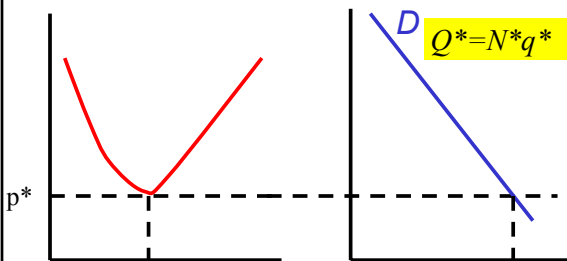- This is called an exogenous (external) change.
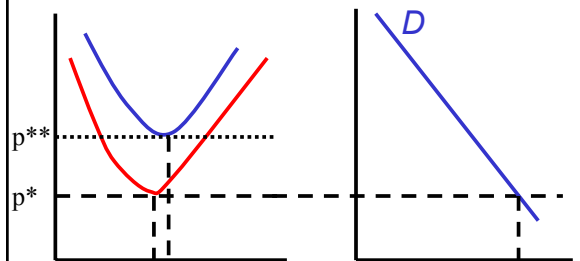

An Exogenous Change

p*

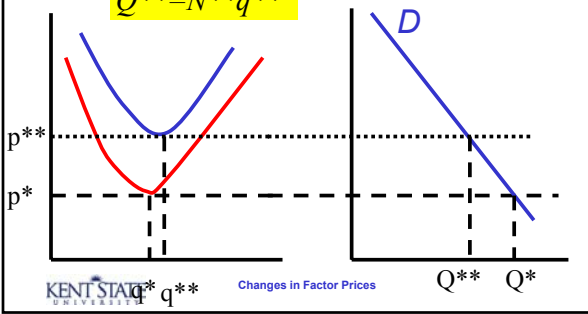q*

An Exogenous Change

D

p*

q*

An Exogenous Change

D $Q^*=N^*q^*$

p*

q*   Q*

An Exogenous Change

D

p**

p*

q* q**   Q*

An Exogenous Change

$Q^{**}=N^{**}q^{**}$

An Exogenous Change

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

End

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