Short Run Costs & Production

Name_____

Consider the glove producing activity from class where you combined labor (you, the workers) with capital (2 writing utensils) and land (specified desk area). Labor was the variable input, and the capital and land were the fixed inputs.

Suppose labor costs $10/person, capital $5/writing utensil, and land $5/desk, and assume production as specified below. Fill in the empty cells in the table.

Labor	Output (Q)	Marginal Product (MP)	Total Variable Cost (TVC)	Total Fixed Cost (TFC)	Total Cost (TC)	Marginal Cost (MC)	Average Total Cost (ATC)	Average Variable Cost (AVC)	Average Fixed Cost (AFC)
0	0	---				---	---	---	---
1	10								
2	25								
3	30								
4	32								

Complete each of the following statements with increases(s) or decrease(s):

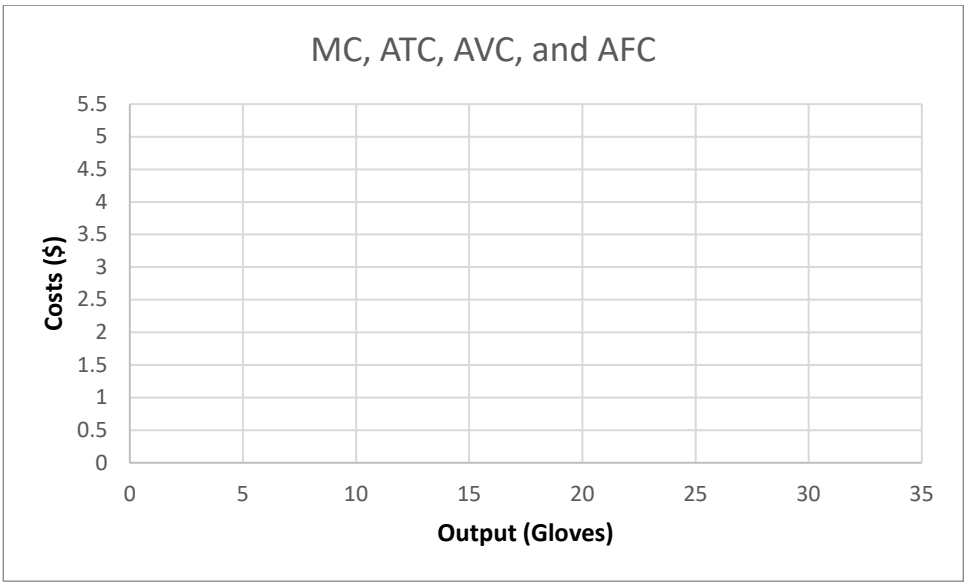
1. As production expands (i.e., as Q increases), marginal product (MP) _____ then _____.

2. As production expands (i.e., as Q increases), marginal cost (MC) _____ then _____.

3. As production expands (i.e., as Q increases), ATC and AVC both _____ then _____.

4. As production expands (i.e., as Q increases), AFC continually _____ .

On the graph below, plot the MC, ATC, AVC, and AFC curves.



5. At output levels where MC exceeds ATC and AVC, both ATC and AVC _____.