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Notes

1. **Features of AFC:-** (a) AFC diminishes with increase in output. (b) AFC curve is a rectangular hyperbola.(c) It can not intersect X-axis or Y-axis.

2. **Average variable cost** is per unit variable cost of production of a commodity. AVC is U-shaped due to law of variable proportion.

3. **Marginal Cost –** It refers to change in TC, due to additional unit of a commodity is produced. MC = ΔTC/ΔQ or MCn = TCn – TCn–1. But under short run, it is calculated from TVC.

Relation Between Short-Term Costs

4. **Total cost curve and total variable cost curve** remains parallel to each other. The vertical distance between these two curve is equal to total fixed cost.
   TFC curve remains parallel to X-axis and TVC curve remains parallel to TC curve.

   With increase in level of output, the vertical distance between AFC curve and AC curve goes on increasing. On contrary the vertical distance between AC curve and AVC curve goes on decreasing but these two curves never intersect because average fixed cost is never zero.

5. **Relation between MC and AVC.**
   When MC < AVC, AVC falls.
   When MC = AVC, AVC is minimum and constant
   When MC > AVC, AVC rises. MC curve cuts AVC curve at its lowest point. Both curves are U-shaped and starts from same point.

6. **Relation between MC and AC:-** (i) when AC falls, MC < AC. (ii) when AC rises, MC > AC. (iii) when AC is constant and minimum, MC = AC.

7. **Money received from the sale of product is called revenue.**
8. **Total revenue** is the total amount of money received by a firm from the sale of given units of a commodity.

9. Per unit revenue received from the sale of given units of a commodity is called **average revenue**. Average revenue is equal to price. Per unit price of a commodity it also called AR.

10. Marginal revenue is net addition to total revenue when one additional unit of output is sold.

11. **Relation b/w TR, AR, and MR when more quantity sold at the same price : under perfect competition.**
    (a) Average revenue and marginal revenue remains constant at all levels of output and AR and MR curves are parallel to ox-axis.
    AR= MR.
    (b) Total revenue increases at constant rate MR is constant and TR curve is positively sloped straight line passing through the origin.
12. **Relation between TR, AR and MR** when more quantity by sold at the lower price or there is monopoly or monopolistic competition in the market.
    (a) Average revenue and marginal revenue curves have negative slope. MR curve lies below AR curve. AR > MR
    (b) Marginal revenue falls, twice the rate of average revenue.

    (c) So long as marginal revenue decreases and positive, total revenue increases at diminishing rate. When marginal revenue is zero, total revenue is maximum and when marginal revenue becomes negative, TR starts falling.

13. Relation b/w AR and MR (General relationship)
    When MR = AR, AR is maximum and constant. MR can be negative, but not AR.
    When MR < AR, AR falls. When TR increases at an increasing rate, MR and AR also increases.

14. **Concept of Producer's Equilibrium:** If refers the stage where producer is getting maximum profit with given cost and he has no incentive to increase or decrease the level of output.
    (**A) MR and MC Approach:** Conditions of producers equilibrium according to this approach are :
    (a) MC = MR and also AR = MR, hence AR = MR = MC. MC should be rising.
    (b) MC curve should cut the MR curve from below at the point of equilibrium.
    Or
    MC should be more than MR after the equilibrium point, with increase in output.

15. **Normal Profit:-** It is a no profit no loss situation, it is achieved when P = AC.It is the minimum return that a producer expects from his capital invested in the business.