

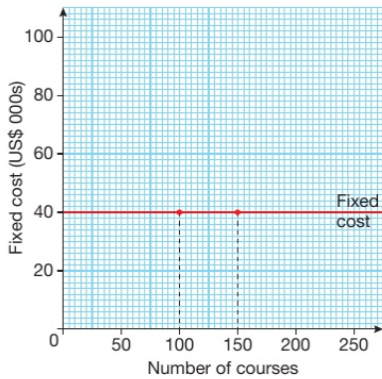
Unit 27

Costs

1. Type of costs?

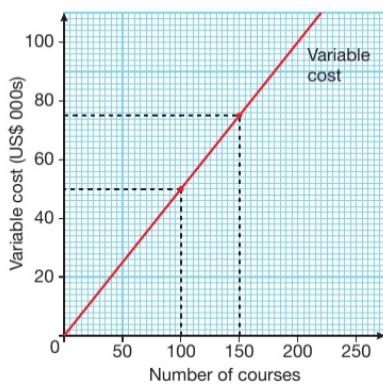
1.1 Fixed costs : costs that do not vary with the level of output in short run

For example : Rent, Insurance, Interest payment, etc.

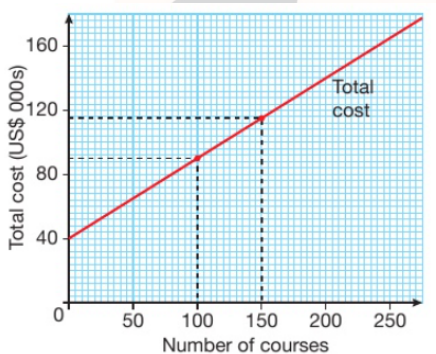


1.2 Variable costs : costs that do vary with the level of output

For example : Raw material, Packaging cost



1.3 Total costs : Fixed cost + variable cost



2. Average cost

: is the cost of producing a single unit of output. The formula for calculating average cost is given by

$$\text{Average cost} = \frac{\text{Total cost}}{\text{Quantity produced}}$$

3. Total revenue

: Money generated from the sale of output. It is price multiplied by quantity.

$$\text{Total revenue} = \text{Price per unit} \times \text{Quantity}$$

4. Calculating profit

: The difference between total revenue and total costs

