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*B. Com part-1 subsidiary paper -1 Business Economics
and Environment unit – 3 production function.*

Cost Analysis

Q.1 Describe Cost and Cost Concept.

Ans.: Production cost means all types of monetary expenditures incurred for the production of a commodity.

Cost of production

Money Cost Real Cost Opportunity Cost

Total Cost Average Cost Marginal Cost

Explicit Cost Implicit Cost

(1) Money Cost : Money cost is also called nominal cost. It refers to all types of direct or indirect expenses incurred on the production of a commodity.

(2) Real Cost : Real cost is a philosophical concept which implies all the efforts, service, pains and sacrifices made in producing a commodity.

The concept of real cost was defined by Prof. Marshall as “social cost”. Social cost implies the cost borne by the entire society in producing a commodity.

(3) Opportunity Cost : Opportunity cost is also alternative cost or transfer cost. It refers to the cost of foregone alternatives.

(4) Total Cost : According to Dooley, “Total cost of production is the Sum of all expenditure incurred in producing a given volume of Output. It is the sum total of fixed cost and variable cost.

Total Cost =Fixed Cost +Variable Cost

- (i) Fixed Cost :** Fixed costs are those costs which do not change With any changes in the quantity of production or size of Output during the period. They remain constant during the Whole period at any level of output. Whether the production Is zero or less or more fixed costs are also known as Supplementary cost e.g. rent, interest payable, municipal Cost taxes, salary, etc.

- (ii) Variable Cost :** Variable cost are those costs which vary with The change in the quantity of output or production. These Cost increase with and increase in output and decrease with A decrease in output. These costs are related to variable Factor of production. They are also known as prime cost. e.g. Cost of direct labour, cost of raw material, transport cost, etc.

(5) Average Cost : The ratio between the total cost of production and the quantity of a given level of output is the average cost of production of a given output level for a firm.

Total Cost Avg. Cost

Output in Units

Average cost can also be defined as the sum of average fixed cost and average variable cost.

Average Cost = Average Fixed Cost + Average Variable Cost