

Considering Costs



Fixed and Variable Expenses



Expenses (costs to the business)

- Money a business spends on goods and services in order to operate the business in order to earn revenue



Fixed Costs

- Constant expenses that don't change day to day. A.k.a. "overhead"
- Independent of the output level
 - Rent
 - Insurance
 - Interest and Payment
 - Salaries (fixed)
 - Utilities (only certain utilities are fixed. E.g. telephone, Internet service)
 - Advertising
 - Depreciation



Variable Costs

- Dependent on the level of production
- Within the control of the producer
- Dependent on the output level
 - Electricity
 - Raw Materials
 - Wages



Total Costs

- The total cost of a business equals fixed costs and variable costs.



Marginal Costs

- Is the increase in total cost when additional units are made

Quantity Produced	Fixed Costs	Variable Costs	Total Costs	Marginal Costs	Average Total Cost	Average Fixed Cost	Average Variable Costs
0	35	0	35	$\$59 - \$35 = \$24$	\$59	\$35	\$24
1	35	24	59	$\$75 - \$59 = \$16$	\$37.50	\$17.50	\$20
2	35	40	75	$\$95 - \$75 = \$20$	\$31.67	\$11.67	\$20
3	35	60	95	$\$120 - \$95 = \$25$	\$30	\$8.57	\$21.25
4	35	85	120	$\$150 - \$120 = \$30$	\$30	\$7	\$23
5	35	115	150	$\$190 - \$150 = \$40$	\$31.67	\$5.83	\$25.83
6	35	155	190	$\$245 - \$190 = \$55$	\$35	\$5	\$30
7	35	210	245				