

## SECTION NOTES 12

Covering material from Lecture on February 21<sup>st</sup>

### CLASS OUTLINE

1. Short-Run vs. Long-Run Costs
2. Implications of downward sloping demand

### 1 Short-Run vs. Long-Run Costs

Recall, short-run costs refer to the situation where one input is fixed. Long-run costs refer to both inputs being variable. Looking at this graphically we have.



**NB:** For the homework assume that we are always at the quantity where  $SRMC = SRAC$ , or the short-run cost-minimizing level of output.

## 2 Implications of Downward Sloping Demand

In the near future we will be discussing the relationship between profits and output decisions. For now we want to focus on downward sloping demand and the idea of Marginal Revenue. Just like we have increasing marginal costs, with a downward sloping demand, we will have a downward sloping marginal revenue. Maximized profits are determined by the relationship between marginal costs and marginal revenue.

