

Cost of Production

The (1)_____ of any firm are made up of their fixed costs and variable costs. (2)_____ are those costs which do not vary with the level of output. For example, if a firm rents a factory for \$200 per week, this cost is the same whether it produces 200 items or 1000 items. Other examples of fixed costs include (3)_____, telephone bills, heating and (4)_____ repayments.

(5)_____ are those expenses which do not vary directly with the level of (6)_____. The buying of materials to make goods will be a (7)_____ cost.

Wages will also increase if workers have to work longer hours to produce more, or if more labour is hired by a firm. Variable costs appear as an (8)_____ sloping line on a graph whereas fixed costs appear as a straight (9)_____ line on a graph.

Fixed costs horizontal loan machine hire output total costs upward
variable Variable costs

Key

Cost of Production

The total costs of any firm are made up of their fixed costs and variable costs. Fixed costs are those costs which do not vary with the level of output. For example, if a firm rents a factory for \$200 per week, this cost is the same whether it produces 200 items or 1000 items. Other examples of fixed costs include machine hire, telephone bills, heating and loan repayments.

Variable costs are those expenses which do not vary directly with the level of output. The buying of materials to make goods will be a variable cost.

Wages will also increase if workers have to work longer hours to produce more, or if more labour is hired by a firm. Variable costs appear as an upward sloping line on a graph whereas fixed costs appear as a straight horizontal line on a graph.