JAGATPUR P.G. COLLEGE, VARANASI

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The Price of a commodity is determined by its Demand and supply. The cost of production of a given out put is the total amount of money spent in making it. It is equal to the total Remuneration paid to the factors of production engaged in producing it.

Kinds of Cost

1. Money Cost
2. Opportunity Cost
3. Real Cost

1. Money Cost

Ordinary, the Term cost of production" refers to the money expenses incurred in the production of a commodity. Money cost, thus is total money outlay of the firm which includes material, wages, salaries, Rent, power charges. In short money cost is the payment made for the factors in terms of money.

2. Opportunity Cost

Economists often define costs in terms of "Alternative cost" or opportunity cost." The factors of production are not only scarce but they have alternative uses. In the words of Furgusan, "The Alternative or opportunity cost of producing one unit of commodity 'x' is the amount of commodity 'y' that must be sacrificed in order to use resources to produce 'x' rather than 'Y'.

In the other words we can say opportunity cost is the opportunity cost or opportunity foregone in terms of the next best alternative use of a factor.

3. Real Cost

Real cost connotes to those payments which are made to factors of production to compensate for the toil and efforts in rendering their services. According to Marshall, "The exertions of all the different kinds of labour that are directly or indirectly involved in making it, together with the abstinences or rather the waiting required, for saving the capital used in making it, All these scarifies together will be called the real cost of production of the commodity."

Cost of Production in Short Period and Long Period

Total cost of production		**Average cost of production**	
Total Fixed cost of production	**Total variable cost of production**	**Average fixed cost**	**Average variable cost**

Total Fixed Cost

Fixed costs are amount spent by the firm on fixed inputs in the short run. Fixed cost are thus, those cost which remain constant of the level of output. These costs remain unchanged even if the output of the firm is nil.

Total variable Cost

Total variable cost are those cost incurred on variables factors. These cost vary directly with the level of output.

Average Cost

According to Dooley, " The Average cost of production is the total cost per unit of output in other words average cost of production is the total cost of production divided by the total number of units produced.

Marginal Cost

The concept of Marginal cost of production is recently developed by Austrian School of Economics .Marginal cost is an addition to the total cost caused by producing one more unit of output.

According to Fergusan, "Marginal cost is the Addition to total cost due to the addition of one unit of output.

Long Run Marginal Cost

Change in the total cost, in the long run due to production of one more or one les unit of commodity is called long run marginal cost.

According to Fergusan, "Long run marginal cost is the addition to total cost attributable to an additional unit of output when all inputs are optionally adjusted.

Related questions :

1. What is the difference between Money Cost and Opportunity Cost?
2. What is cost & kinds of cost?
3. .Explain the opportunity cost?
4. What is the difference between fixed cost and variables costs?

References :

1. V.C. Sinha- Business Economics

2. J.P. Mishra – Business Economics

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