

ANURADHA BHARTI

Dept. of Economics, U.R. College

B.A. (Hons) Economics

MICROECONOMICS

Part-I (LNMU)

PAPER-I

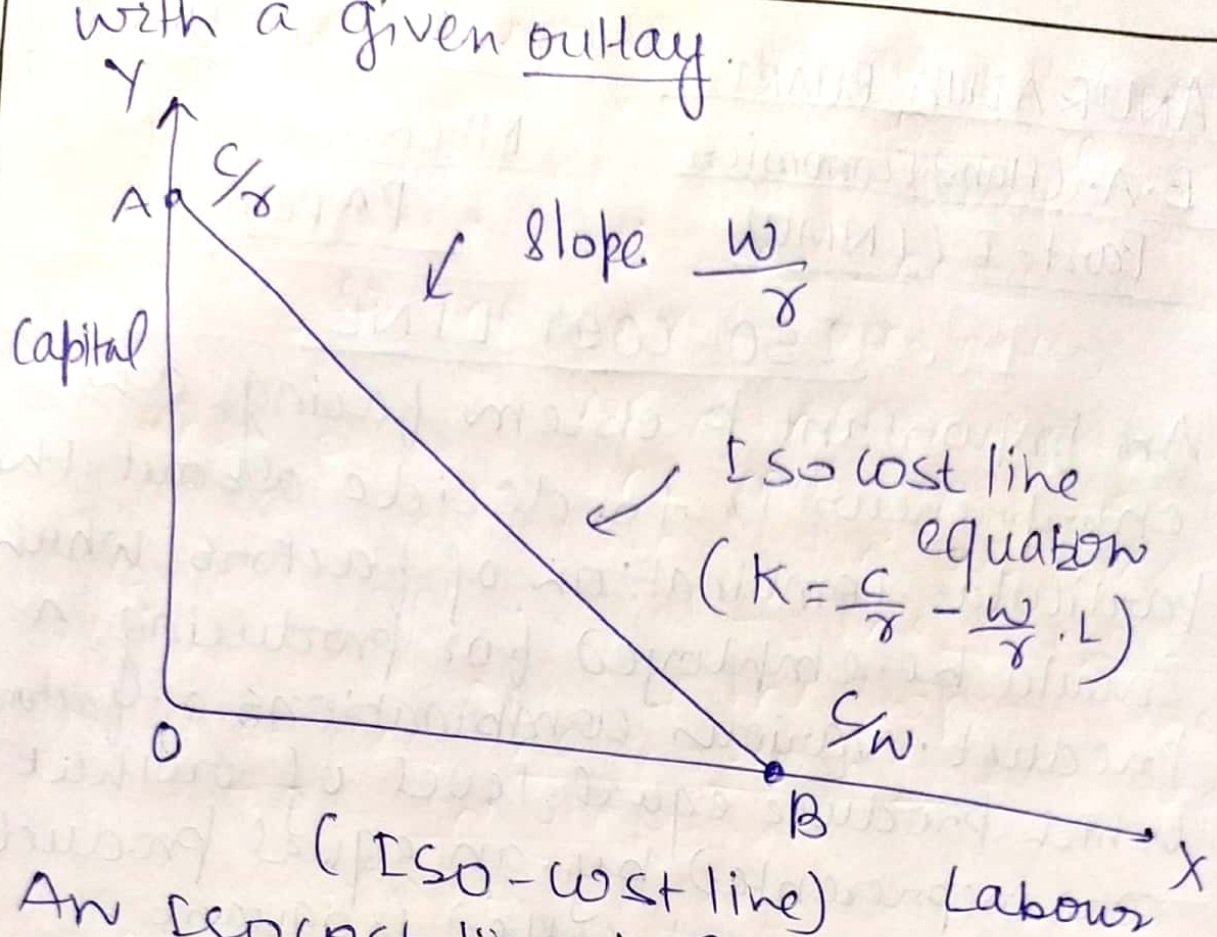
ISO-COST LINE

An important problem facing an entrepreneur is to decide about the particular combination of factors which should be employed for producing a product. Various combinations of factors which produce equal level of output are represented by an equal product curve or what is called isoquant.

The choice of a particular combination of factors by an entrepreneur depends upon (a) technical possibilities of production, and (b) the prices of factors used for the production of a particular product. Technical possibilities of production are represented by the isoquant map.

ISO-COST LINE

The prices of factors are represented by the iso-cost line. The iso-cost line plays an important role in determining what combination of factors the firm will choose for production. An iso-cost line shows various combinations of two factors that the firm can buy



An isocost line is defined as the locus of various combinations of factors which a firm can buy with a constant outlay. The iso-cost line is also called the Price-line or outlay line.

Equation of Iso-cost line

The total cost equation can therefore be described as follows -

$$C = wL + \gamma K$$

$$K = \frac{C}{\gamma} - \frac{w}{\gamma} L$$

Here, the slope of iso-cost line is $\frac{w}{\gamma}$.

In the next class, we will read about shift in isocost line and least-cost combination of factors.