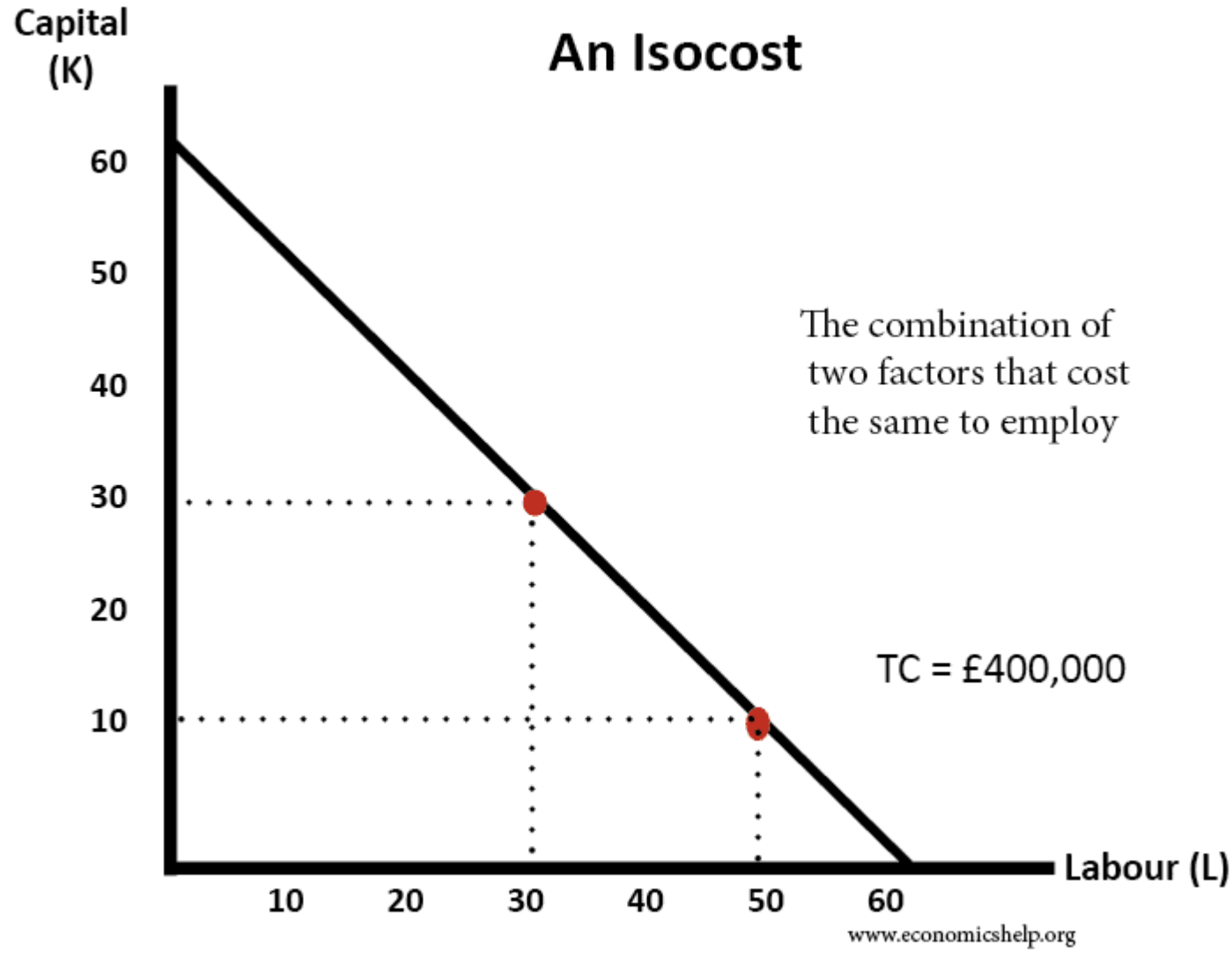
Dr.Surendra Kumar Class-B.A.Part-I

Isoquants

Isocost

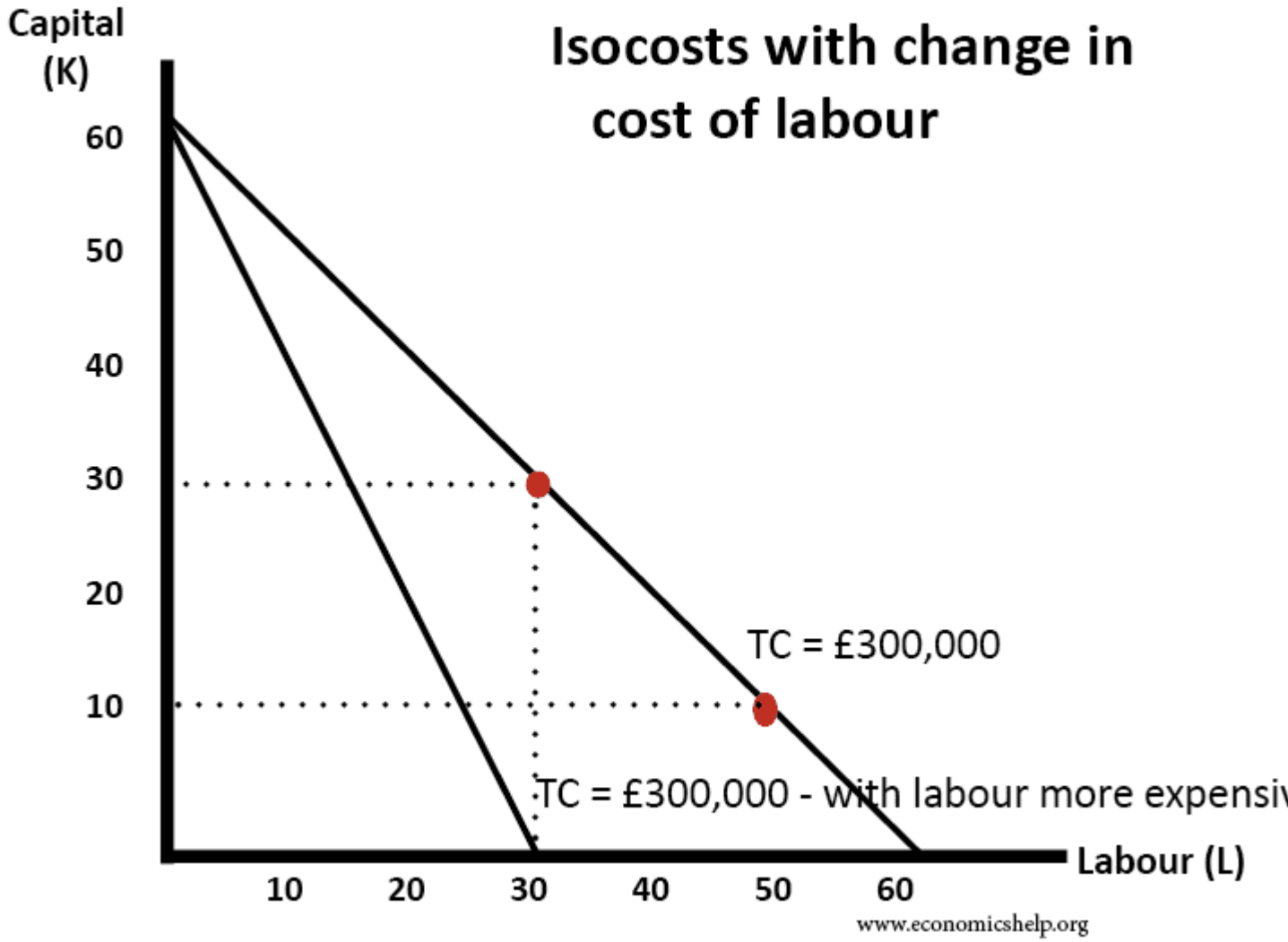
An isocost shows all the combination of factors that cost the same to employ.



In this example, a unit of labour and capital cost £6,666 each.

- If we employ 30K and 30L, the total cost will be £200,000 + £200,000
- If we employ 10 K and 50L, the total cost will be £66,666 +£333,333 = £400,000

Change in labour costs



- In this example, initially, the cost of labour and capital is both £5,000. (e.g. 60L = 60 x £5,000 = £300,000)
- However, if Labour cost rises to £10,000, then the isocost shifts to the left. Now, to keep cost at £300,000, a firm could only employ 30 workers (30 x £10,000)
- The slope of an isocost is therefore P_L / P_K