Response

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Response

# Response to Question 1

The marginal is the rise or decline in the overall cost of production if one more unit of output is increased. Marginal cost is inversely related to the marginal product, as one increases other automatically decreases (Gans, King, Stonecash, & Mankiw, 2011). The marginal cost of production regulates how much cost the company has to incur in order to produce one additional unit. The reduction in the marginal productivity of a flexible source means that each extra unit of productivity from each added unit of variable source is reducing or diminishing. This will result in the rise of the marginal cost of production as more of those resources will be used to increase production. Such a phenomenon can be understood from a simple example. If the marginal product of the resource i.e. labor is decreasing, the company will have to pay more to each worker as compared to the number of products each of them is making. The marginal labor cost will increase as a result increasing the marginal cost of production.

# Response to Question 2

Efficiency means full utilization of all the resources and full production. It emphasizes that all the available resources are used and they are providing maximum productivity. Efficiency can be of two types, productivity efficiency, and allocative efficiency. Productive efficiency is about employing the least costly techniques of production to produce the desired outcomes. Allocative efficiency occurs when consumers’ preferences are considered and an ideal combination of goods and services is produced (“Allocative Efficiency | Economics Help,” n.d.). Allocative efficiency can be attained by distributing goods and services in an optimal manner. On the other hand, production efficiency can be achieved when production is at its lowest point on the short run average cost curve that is the marginal cost is equivalent to marginal revenue.

# References

Allocative Efficiency | Economics Help. (n.d.). Retrieved July 14, 2019, from https://www.economicshelp.org/blog/glossary/allocative-efficiency/

Gans, J., King, S., Stonecash, R., & Mankiw, N. G. (2011). *Principles of economics*. Cengage Learning.