

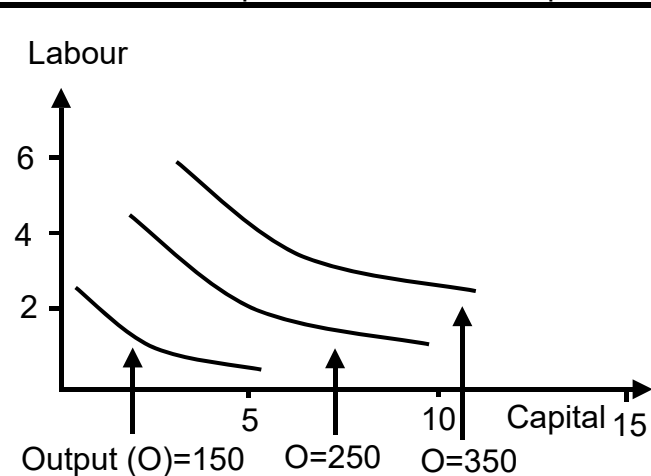
Production Technique (isoquants and isocosts)

1 Assumptions

- Two factors of production (capital and labour) are used. The prices of these factors are given.
- Different input combinations can be used to produce a certain output.
- To produce a certain output, the factor combination with the lowest cost is chosen.

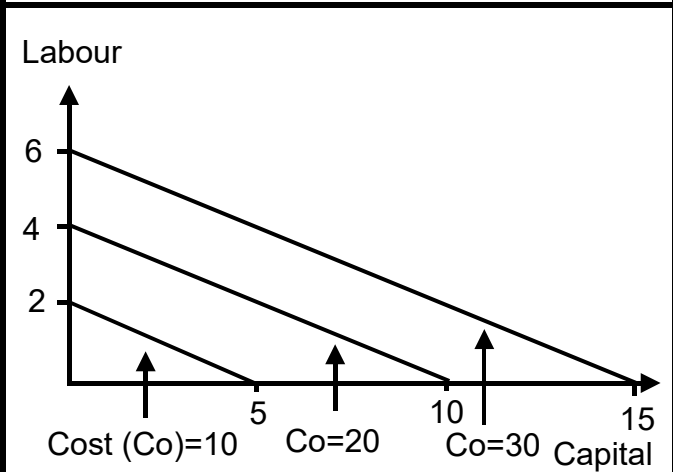
2 Isoquant curves

Each isoquant shows different factor combinations to produce x units of output.

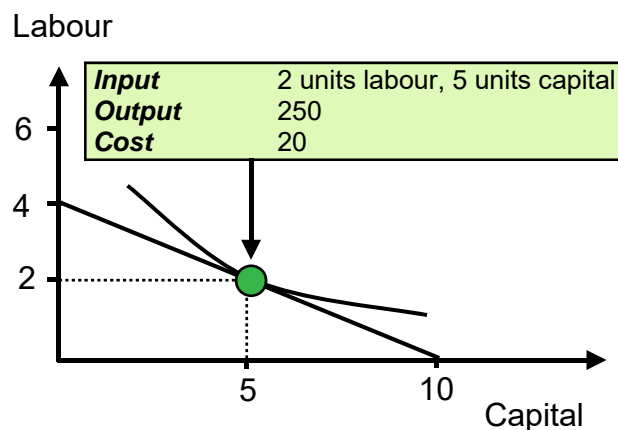


3 Isocost lines

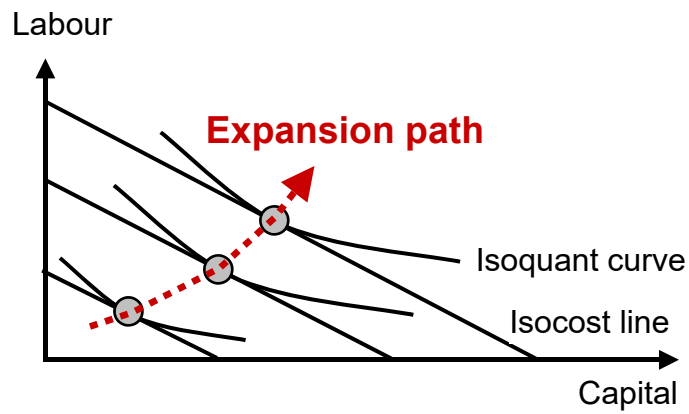
Each isocost line shows different factor combinations with the same total cost.



4 Cost minimization to produce a certain output



5 Expansion path



The expansion path shows combinations of input variables (labour, capital) where production costs are minimized at a given output level.