Chapter 9	McConnell, Brue and Flynn 20th

Businesses and the Costs of Production

Our attention now turns from the behavior of consumers to the behavior of producers. This chapter begins the discussion of a foundational set of concepts regarding production and producer costs. In market economies, a wide variety of businesses produce an even wider variety of goods and services. Firms require economic resources in order to produce products. In obtaining and using resources, a firm makes monetary payments to resource owners (for example, workers) and incurs opportunity costs when using resources it already owns (for example, entrepreneurial talent). Those payments and opportunity costs make up the firm's costs of production.

Then, in the next several chapters, the previously learned concepts of product demand, product prices, and revenue will be merged back into the analysis with the concepts discussed. We will discuss how firms compare revenues and costs in determining how much to produce. Our ultimate purpose is to show how those comparisons relate to economic efficiency, a central idea in the study of microeconomics.