

**MBA- I semester, paper- Managerial Economics, MB 102, TOPIC- Cost Analysis.**

**Cost Analysis-** Cost refers to the amount of expenditure incurred in acquiring something. In business firm it refers to the expenditure incurred to produce an output or provide service. Thus, the cost incurred in connection with raw material, labour, other heads constitute the overall cost of production. A managerial economist must have a clear understanding of the different cost concepts for clear business thinking and proper application. Output is an important factor which influences the cost.

The cost-output relationship plays an important role in determining the optimum level of production. The knowledge of the cost output relation helps the manager in cost control, profit, production, pricing, promotion etc. the relation between cost and its determinants explained through the following function.

$$C=f(S,O,P,T)$$

Where C= Cost

S= Size of Plant / Scale of operation

O= Output level

P= Prices of inputs

T= Technology

As per the formula, as the size of the plant increases, the economies of scale start following and hence the cost per unit will come down. Similarly, an increase in output results in increase in cost and vice versa. Apart from output, prices of inputs represent a positive relationship with cost of production. As we know, a sophisticated technology may reduce cost compared to outdated technology lastly, managerial efficiency also has a bearing on cost of production.