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**B.A. Economics**

**B.A. Sem-2**

**Paper - MIC-2**

**Topic - Marginal Cost**

**Marginal Cost**

Marginal cost is referred to as the cost that is incurred by any business when there is a need for producing additional units of any goods or services.

It is calculated by taking the total cost of producing the additional goods into account and dividing that by the change in the total quantity of the goods produced.

Marginal cost includes variable costs like material and labour. It also includes increments in any fixed costs such as overhead, administrative, and selling.

The marginal cost formula is used to optimise the cash flow generation and is represented as follows:

**Marginal cost = (Change in cost) / (Change in quantity)**

The change in cost is referred to as the change in the cost of production when there is a need for change in the volume of production. Manufacturing additional units requires more manpower and more raw materials, which causes changes in the overall production cost.

The change in quantity is the increase or decrease in the volume of production. There will be a difference in cost with an increase or decrease in production.

**How to Calculate the Marginal Cost?**

Before you start calculating marginal cost, you need to understand two concepts: change in prices and change in quantity.

**Change in Costs:** There may be an increase or decrease in the prices in the production process. It is likely to happen when the manufacturing needs to increase or decrease the output volume. For example, if the production process requires two more workers to meet the output, it would change the costs. The difference in cost is calculated by subtracting the production costs in the first run from production costs in the next one.

**Change in Quantity:** In the process of production, the amount of product can increase or decrease. The quantities should be sufficient to evaluate the changes in the cost. For example, if 4000 pairs of shoes were made in the initial production run but 9000 more need to be made, you can calculate the change in the quantity by deducting the number of shoes made in the first run from the volume of the output of the next.