

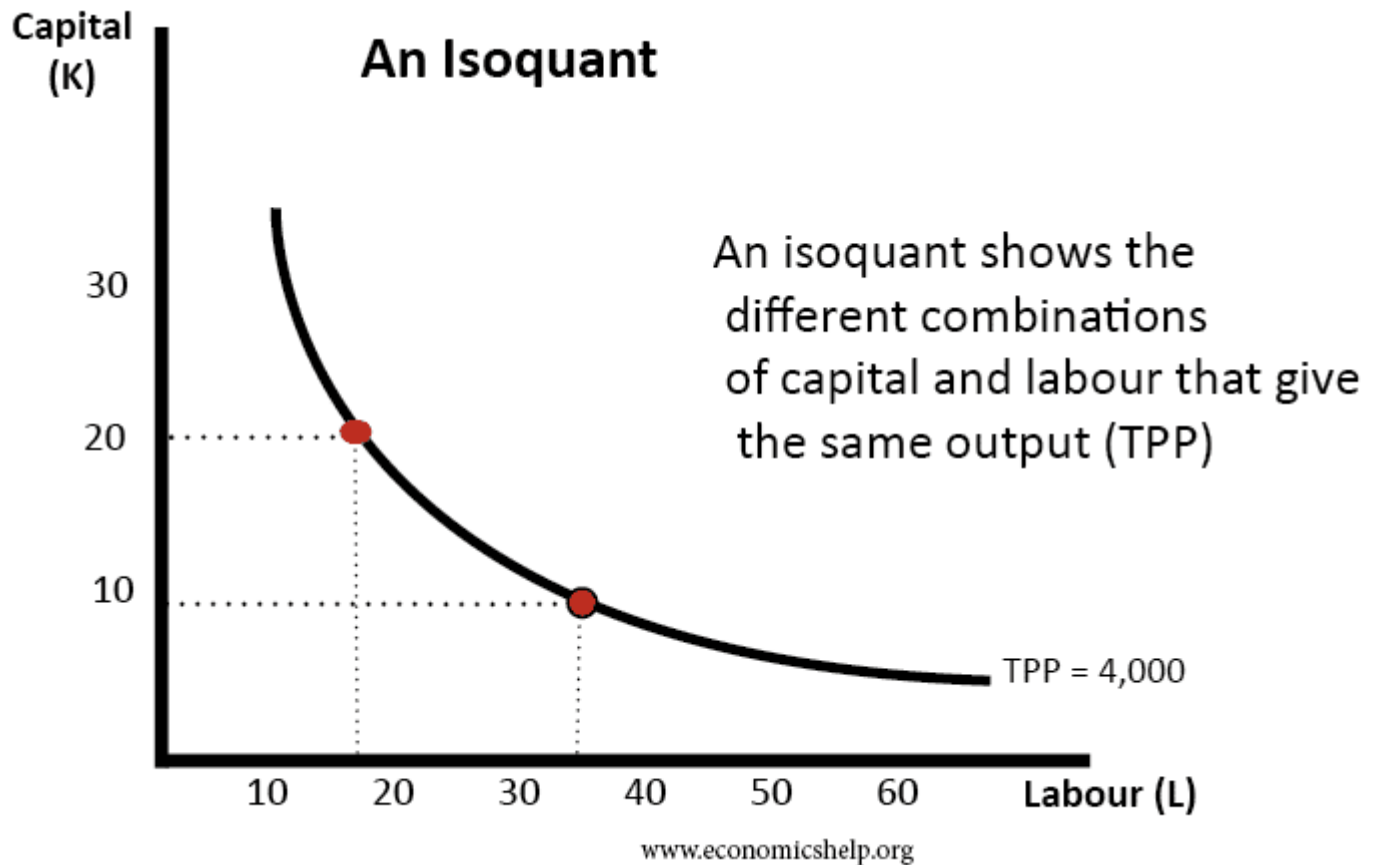
Isoquants

Isoquant and isocosts

- An isoquant shows all combination of factors that produce a certain output
- An isocost show all combinations of factors that cost the same amount.
- Isocosts and isoquants can show the optimal combination of factors of production to produce the maximum output at minimum cost.

Definition isoquant

An isoquant shows all the combination of two factors that produce a given output



In this diagram, the isoquant shows all the combinations of labour and capital that can produce a total output (Total Physical Product **TPP**) of 4,000. In the above isoquant, this could be

- 20 capital and 18 labour or (more capital intensive)
- 9 capital and 35 labour. (more labour intensive)

An isoquant is usually shaped concave because of the law of diminishing returns. With fixed capital employing extra workers gives a declining increase in the marginal product (MP)