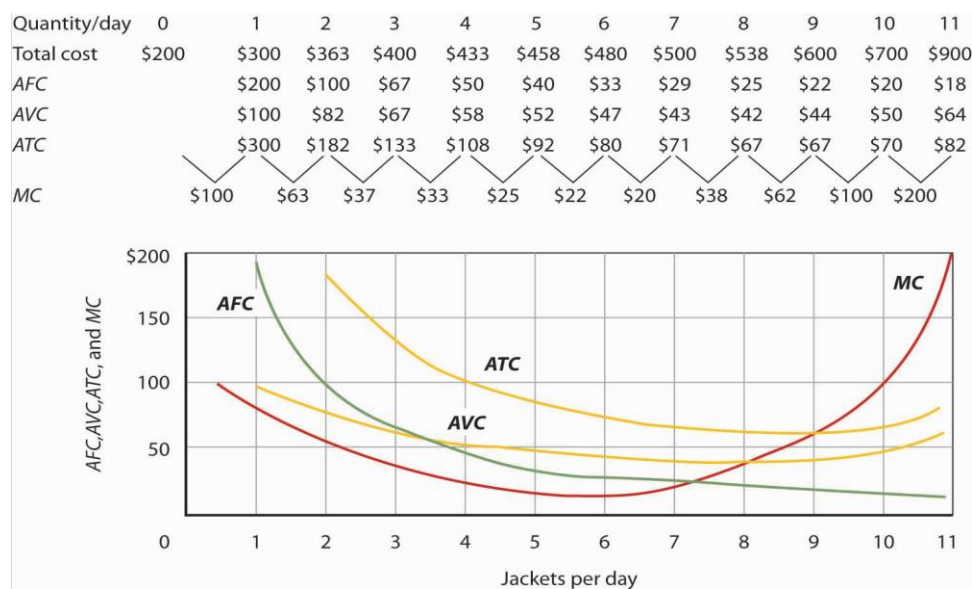


Q As a principle of economics, there is a direct relationship between marginal cost and quantity meaning both variables move in the same direction (also called a positive relationship).

Ans.

The statement is incorrect,

There is no direct relationship between quantity and marginal cost. As the quantity of the product increases the marginal cost first decreases and after a certain optimum point, it will start increasing. Marginal cost is the cost of producing one more unit of a good, as the firm produces more and more goods the marginal cost will increase. So, until an optimum point there is a negative relation between marginal cost and quantity and after an optimum point, there is a direct relation between them.



As we can see in the above figure, as the firm produces more and more goods the marginal cost of the firm decreases till the 6<sup>th</sup> unit which is the optimum level of production and then from 7<sup>th</sup> unit it starts increasing which shows that there is direct relation between marginal cost and quantity after an optimum level of production.