Answer on Question #77888 - Economics - Other

The law of diminishing returns states that at a certain point involving the additional input causes the relatively smaller growth in the output, ceteris paribus. This effect occurs in the short-run period when one input is fixed. The increase in the one variable factor reaches the point, at which it becomes less productive. Consequently, the marginal and average product starts to decline. In the long run, the particular law is not applicable, because all factors are variable.

Diagram 1 illustrates the law of diminishing returns graphically. First, increase in the number of workers leads to the rise in the marginal product. Involving three workers have the lowest marginal costs and the marginal product is the highest at this point. Then, the MC rises meaningfully. This causes the decrease in the MP and leads to the diminishing returns.

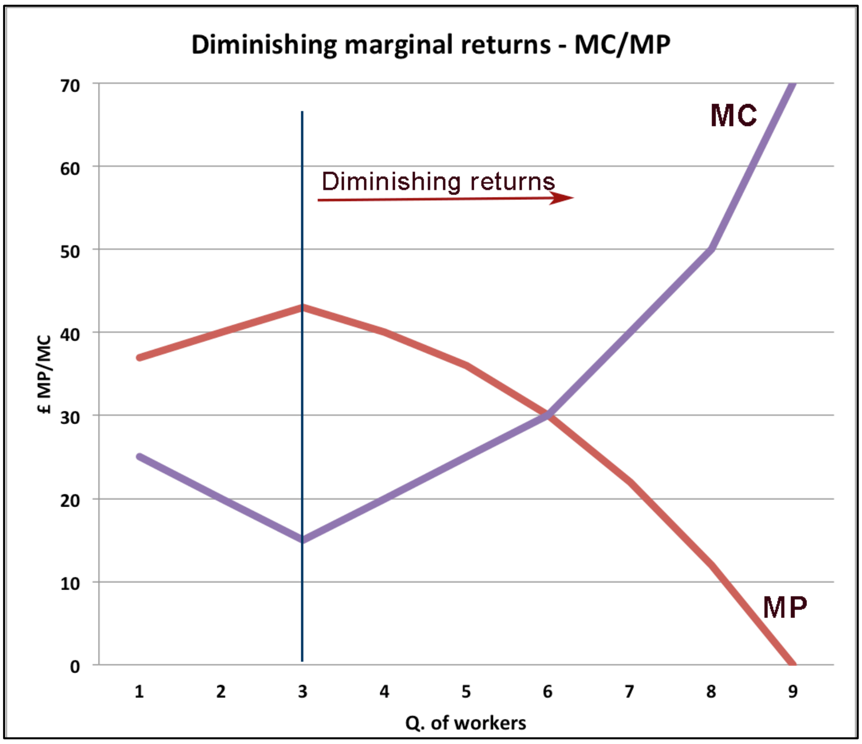

Diagram 1 – Diminishing marginal returns

Source: EconomicsHelp.org (2016). The law of diminishing marginal returns. Retrieved from https://www.economicshelp.org/microessays/costs/diminishing-returns/