

GUIDED READING Activity 5-2

For use with textbook pages 127–130

THE THEORY OF PRODUCTION

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. The Production Function

A. Introduction—What is a production function? _____

B. The Production Period

1. What is the short run? _____

2. What is the long run? _____

C. Total Product—What is total product? _____

D. Marginal Product—What is marginal product? _____

II. Three Stages of Production

A. Stage I—Increasing Marginal Returns

1. What is the criterion for determining how long total output will rise at an increasingly faster rate?

2. When do companies try to hire more workers? _____

B. Stage II—Decreasing Marginal Returns

1. What happens to the rate of increase in total production during this stage? _____

2. What is the principle of diminishing returns? _____

C. Stage III—Negative Marginal Returns

1. What happens to marginal product during this stage? _____

2. What happens to total output during this stage? _____

3. What effect does this stage have on hiring? _____
