

1	Introduction	1
	References	6
2	The Production Function	7
2.1	Introduction	7
2.2	Production Technology	7
2.3	The Input Set	10
2.4	The Output Set	11
2.5	The Production Function	12
2.6	Diminishing Marginal Returns	13
2.6.1	The Law of Diminishing Marginal Returns	14
2.6.2	Graphical Illustration of the Production Function	15
2.6.3	Mathematical Representation of the Production Function	16
2.6.4	The Production Elasticity	17
3	Optimisation with One Input	19
3.1	Introduction	19
3.2	Optimisation from the Input Side	20
3.3	Optimisation from the Output Side	24
4	Production and Optimisation with Two or More Inputs	29
4.1	Introduction	29
4.2	Cost Minimisation	30
4.3	The Expansion Path and the Form of the Production Function	33
4.4	Maximisation of Production Under Budget Constraint	38
4.5	Profit Maximisation	39
4.6	The Pseudo Scale Line and Optimisation with Fixed Inputs	42
4.7	Substitution Between Inputs	43
	References	44

5	Costs	45
5.1	One Variable Input	45
5.2	Multiple Variable Inputs	48
5.3	Short and Long Run Costs	53
5.4	Calculation of Costs in Practice	54
	Reference	57
6	Productivity, Efficiency and Technological Changes	59
6.1	Introduction	59
6.2	Definitions	59
6.2.1	Productivity	59
6.2.2	Efficiency	61
6.2.3	Technological Changes	63
6.2.4	The Scale of Production	63
6.3	Changes in Productivity	65
	References	68
7	Input Demand Functions	69
7.1	Introduction	69
7.2	One Variable Input	70
7.3	Multiple Variable Inputs	73
7.3.1	Increasing Output Price	78
7.4	Input Demand Under Budget Constraint	79
7.5	Demand When the Input Price Depends on the Demand	80
	Reference	82
8	Land and Other Inputs	83
8.1	Introduction	83
8.2	Land as a Special Input	83
8.3	Example of Homogeneous Production Function	86
	References	88
9	The Company's Supply Function	89
9.1	Introduction	89
9.2	The Supply Curve	89
9.3	Adjustment in the Long Run	91
9.4	Derivation of the Supply Function. An Example	92
10	Optimisation of Production Under Restrictions	95
10.1	Introduction	95
10.2	General Method for Optimisation Under Restrictions	96
10.3	Examples of Usage	100
10.3.1	Set-Aside Versus Restriction of Production	102
10.3.2	Limited Input	103

10.3.3	Compulsory Set-Aside of Land	104
10.3.4	Adaptation Due to Product Price Decrease	105
10.3.5	Restriction of Output: Illustrated by Milk Quota Example	105
	References	110
11	Economies of Scale and Size	111
11.1	Introduction	111
11.2	Economies of Size	112
11.3	The Optimal Size of the Firm	115
11.4	Economies of Scale	116
11.5	Summary	120
	References	120
12	The Fixation of the Production Factors	121
12.1	Introduction	121
12.2	Degree of "Fixation"	121
12.3	Theory of Fixation of Production Factors	122
12.4	Disadvantages (and Advantages) of Fixed Factors	125
12.5	Limiting the Fixation of the Factors	127
12.6	The Duration of the Fixation	128
12.7	Measuring the Fixation of Production Factors	128
13	Decreasing Sales Curve	129
13.1	Introduction	129
13.2	Perfect Competition as a Reference	129
13.3	Monopoly	132
13.4	Optimisation Under Monopoly	133
13.5	Optimisation from the Input Side	137
13.6	Product Differentiation and Monopolistic Competition	139
	13.6.1 Acquisition of Input	142
	13.6.2 The Production Process	142
	13.6.3 Delivery of Output	142
	Reference	143
14	Production Over Time	145
14.1	Introduction	145
14.2	General Theory	146
14.3	The Replacement Calculation	149
	14.3.1 Introduction	149
	14.3.2 Optimal Termination Time for One Individual Asset . . .	150
	14.3.3 Optimal Replacement Time for Replacing an Asset with a New One	153
	Appendix	161

15 Risk and Uncertainty	163
15.1 Introduction	163
15.2 Expected Profit and Other Criteria	164
15.3 The Cost of Risk	166
15.3.1 The Wrong Choice of Inputs	167
15.3.2 The Wrong Choice of Production	168
15.4 The Theory of Risk and Uncertainty	168
15.4.1 Concepts	168
15.4.2 Utility Functions	169
15.4.3 The State-Contingent Approach	177
References	180
16 Economic Rent and the Value of Land	181
16.1 Introduction	181
16.2 Land Rent and Marginal Land	183
16.3 The Use Value of Land	185
16.4 The Land Price Determination	186
16.5 Location and Land Rent	188
17 Production of Multiple Products	191
17.1 Introduction	191
17.2 The Product Transformation Curve	191
17.3 The Optimal Combination of Output	196
17.4 Product Expansion Path	199
17.5 Intermediate Products and Trade	199
17.6 Multiple Inputs and Outputs	202
18 The Linear Programming Model	207
18.1 Introduction	207
18.2 The Production Process	210
18.3 The Financial Result of the Production Process	213
18.4 Multi-process Models	214
18.5 Substitution Between Input Factors	215
19 Production Planning in the Linear Production Model: Linear Programming	221
19.1 Introduction	221
19.2 Fixed and Variable Inputs	221
19.3 Optimization with Fixed and Variable Inputs	222
19.4 An Example	224
19.5 Quasi-fixed Input	225
19.6 Intermediate Goods	227
19.7 Determination of the Production Model Parameters	229
19.8 Interpretation of the Dual Problem	232
References	234

20	Use of Linear Programming in Practical Production Planning . . .	235
20.1	Static Models	236
20.1.1	Introduction	236
20.1.2	From Problem to LP Model: An Example	237
20.1.3	Graphical Solution	238
20.1.4	Solution with the Use of Computer Software	244
20.1.5	Process Formulation	244
20.1.6	Restrictions	248
20.2	Multi-period Models	252
20.2.1	Introduction	252
20.2.2	General Model	253
20.2.3	Examples of Formulations	255
20.2.4	Concluding Remarks	261
20.3	Integer Programming	261
20.3.1	Introduction	261
20.3.2	Examples of Formulations	262
20.3.3	Solving the Integer Programming Problems	266
	References	267
21	Modelling Supply Functions Using Linear Programming	269
21.1	Introduction	269
21.2	Estimation of the Cost Function of Individual Firms	270
21.3	The Production Model	271
21.4	The Linear Programming Model	274
	References	276
	Appendix A: Profit Concepts	277
A.1	Introduction	277
A.2	The Purpose of Calculation of Profit	277
A.2.1	Profit from an Accounting Perspective	278
A.2.2	Calculation of Profit as the Basis for Planning	285
A.3	Conclusion	286
	Bibliography	287
	Index	289