

Farm Business Management: The Fundamentals of Good Practice

Chapter 2: A Synopsis of Production Economics (Answers)

1. Level 3 of the insecticide; that is where the marginal cost and marginal return are equal.
2. Maximizing levels are wheat 300 tonnes, clover 15 tonnes and wool 4 tonnes. This is where the marginal value products are equal.
3. The rest of the table is:

Fertilizer input	Yield of product	Marginal product	Marginal return	Marginal cost
0	2000			
20	2500	25/fertilizer unit	\$1000	\$200
40	2800	15/fertilizer unit	\$600	\$200
60	2900	5/fertilizer unit	\$200	\$200
80	2950	2.5/fertilizer unit	\$100	\$200

The optimal level will therefore be 60 units of fertilizer.