

GUIDED READING Activity 5-2

For use with textbook pages 122–125

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. Law of Variable Proportions

- A. What does the Law of Variable Proportions state? _____
- B. What happens when more than one factor of production is varied?

II. The Production Function

- A. Introduction
 - 1. What is a production function? _____
 - 2. What are raw materials? _____
- B. Total Product
 - 1. What happens to resources if there are too few workers? _____
 - 2. What happens to output if there are too many workers? _____
- C. Marginal Product—What is marginal product? _____

III. Three Stages of Production

- A. Introduction
 - 1. At what point are changes in marginal product of special interest?

 - 2. What are the stages of production based on? _____
- B. STAGE I: Increasing Returns
 - 1. What is the criterion for determining how long total output will rise?

 - 2. When should companies stop hiring? _____
- C. STAGE II: Diminishing Returns
 - 1. What happens to the rate of increase in total production during this stage?

 - 2. What is the principle of diminishing returns? _____
- D. STAGE III: Negative Returns
 - 1. What happens to marginal product during this stage? _____
 - 2. What happens to total plant output during this stage? _____
 - 3. What effect does this stage have on hiring? _____