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Long-Term and Short-Term Cost of Production

Indisputably, all players engaged in the field of business relations and manufacturing facilities strive for the equilibrium and the maintenance of production levels in aggregate with related costs. In economics, however, the identified goal is different, which is explained by the coexistence of two terms—namely the long-term and short-term costs of production. One of the most noticeable reasons that require reviewing both long-term or short-term production costs are the discrepancies in these terms based on the context, which may be either microeconomic or macroeconomic ones. Notwithstanding, the relevance of both long-term and short-term production costs is crucial under the scope of the microeconomic context, whereas the macroeconomic one heavily relies on the simultaneous analyses of fiscal policies and monetary tools. Having considered the extensive range of applications for long-term and short-term costs of production, one may indicate that these terms are not properly interpreted disregarding their frequent use in economic analyses, meaning that the long-term cost of production should be analyzed as the process of having no fixed factors of production, whereas the short-term cost should determine variables and factors which are capable of impacting the overall production process.

First and foremost, the examination of the microeconomic use is required to shed light on how the long-term and short-term variables are different in their core, especially considering the external factors and variables. In the context of microeconomics, it should be noted that the long-term costs are commonly accumulated when the production rates in a specific business environment fluctuate over time in response to external factors, including economic profits or losses. With regards to the heavy reliance on external processes, the long-term cost of production tends to have no binding obligations in terms of fixed prices (Gellert). Therefore, the microeconomic context of the long-term cost of production refers to the business condition when the factors of production cannot be fixed to a single sum, meaning that the variables in the form of the labor, capital, entrepreneurship, and business climate profoundly impact continually fluctuating costs (Grant and Kenton 2019). On the flip side, one may underline just the opposite specifications of the short-term cost of production, which conventionally has the fixed allocation of financial resources.

Since the microeconomic context of the short-term cost of production is commonly accepted to be accumulated based on the variable costs than change the overall output, the factors of the raw materials and employee wages are always taken into consideration. Other than that, one may point to the crucial discrepancy between the costs of production, which is relevant to the ongoing state of affairs in the state's economy. While the long-term cost of production seems to be vulnerable due to the potential breakdowns or recessions, which serves to be among the most potent reasons that explain the impossibility of fixed financial management, the short-term cost of production neglects any changes in the state's economy mostly because of its prioritization on the existing operational costs and expenditures. Consequently, having reviewed the most crucial distinction from the perspective of microeconomics, one may find it obligatory to conduct a similar examination related to macroeconomics, which has peculiar differences regarding these terms.

Macroeconomic Applications

Secondly, reviewing the macroeconomics of long-term and short-term costs of production, the scale of the review stands out as one of the most prominent factors. Since the long-term and short-term costs of production in macroeconomics are tightly focused on the success of each separate firm, their application in macroeconomics reveals the interrelation with wages and prices. More precisely, the short-term cost of production is associated with the horizon over which both wages, prices, and related outputs are inflexible. Conversely, the long-term cost of production reveals how these factors stabilize over time through the lens of adjusting and adapting to the state's economy (Beggs 2018). The sub-factor of production in this particular setting refers to the way through which prices and wages are regulated via the monetary and fiscal instrument. Even though macroeconomic implications of the long-term and short-term costs of production seem to be less applicable than those of the microeconomic, the interrelation in terms of the estimations is obligatory (Beggs 2018). In other words, the costs of production, either long-term or short-term, find a commonality in terms of financial projections and evaluations, which serve to be crucial for the proper maintenance of continuous growth.

Costs of Production as a Single Unit

Another vital notion of appending is that the long-term and short-term costs of production are crucial for each business entity as a single unit but not as the choice between the variables. In particular, if a business decides to focus merely on the projections related to the short-term cost of production, the absence of a concrete business strategy and the long-term vision would end up as a financial catastrophe (Grant and Kenton 2019). In a similar analytical manner, the focus on the long-term cost of production and its feature of adding the cost in meanwhile the actual production leads to the frequent misconceptions during the first steps of production, eventually leading to the similar financial consequences in the form of the failure, lay-offs, and loss of competitive advantage. Having identified the long-term and short-term costs of production as a single unit, which is required for the operational capacity of any business entity on a microeconomic level, it becomes evident that the proper consideration of the pricing and cost-related variables is an objective of the highest priority.

Final Remarks

Having scrutinized the data concerning the significance of long-term and short-term costs of production, one may underline their applicability in both the microeconomic and macroeconomic contexts. As it was previously highlighted, the microeconomic setting relies upon the business entity's capabilities to comprise both the long-term and short-term costs to achieve business profitability. In turn, from the perspective of macroeconomics, it was identified that under no circumstances should the cost of production be neglected during the application of the monetary and fiscal policies, which correlated with the cost of production in terms of the state's economy specifications. Since the long-term cost of production is more of a strategic vision coupled with the state of affairs in the business climate, the short-term production is a thorough process of making the first leap forward, which often takes place in the form of estimating the cost of materials and employee wages. Therefore, the applicability of the cost of production in its two separate domains is believed to be crucial for the business environment as a whole, meaning that its relevance is indisputable for modern business enterprises.

Works Cited

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