E-notes:

Economics

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Cost

Cost is the total expenditure incurred in producing a commodity.
It is the sum-total of explicit and implicit cost.

Explicit Cost:

It is the actual money expenditure on inputs or payments made to outsiders for hiring their factor services.
Eg: wages paid to employees, rent for premises etc.

Implicit cost:

It is the estimated value of the inputs supplied by the owners including normal profit.

For eg: Interest on own capital, rent for own land / premises, salary for self-service of an entrepreneur etc.

It is the cost of self-supplied factors.

Difference between explicit cost and implicit cost:

Basis	Explicit cost	Implicit cost.
Meaning	It is the payment to outsiders.	It is the cost of self-supplied factors.
Payment	It involves actual payment	It involves imputed value of factors
Example.	Payment of wages, insurance, premium etc	Interest on capital, rent on own premises etc