Average Variable Costs Formula

Average variable cost is defined in economics as the variable cost per unit. Average variable cost is determined by dividing the total variable cost by the output.

Average variable cost is used by firms in determining when to stop their production in the short term. If the firm is receiving a good price which is above the average variable cost and covers the fixed costs, then the firm is able to continue the production.

In another scenario, where the firm is getting a price that is below the average variable cost, then the firm can shut down the production because the firm is unable to meet the fixed and variable costs.

The mathematical representation of the average variable costs formula is

AVC = VC / Q

Where,

AVC = Average variable cost

VC = Total Variable cost

Q = Output

The average variable cost can also be calculated in terms of average fixed cost and average total cost

AVC = ATC – AFC

Where,

ATC = Average total cost

AFC = Average fixed cost

The average variable cost curve is U shaped. It initially declines and finally it rises.