



The Journal of Sri Krishna Research & Educational Consortium
**ASIA PACIFIC JOURNAL OF RESEARCH
IN BUSINESS MANAGEMENT**
Internationally Indexed & Listed Referred e-Journal



Analysis of Behaviour of Cost in Rubber Products Manufacturing Industries in India using Cost function Models

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ABSTRACT

In this paper by using regression models we are trying to find the determinants of total cost of production and economies of scale in rubber and rubber products manufacturing industries in India for the period of fifteen years from 1991-92 to 2005-06. From the estimated values of output elasticity with respect to total cost, wage cost and material cost we can conclude that there exist diseconomies of scale in rubber products manufacturing industries. From the estimated results of quadratic cost function it is observed that only in the case of wage cost total cost increases at a decreasing rate. It was likely to be contrary in the case of total cost and material cost. In this study we found that there exists decreasing returns of scale in the industry. Technological factor highly influenced the total cost on rubber products manufacturing industries and found that technological factor helped in saving material cost in this industry. The study explains that technological change not much influenced to reduce the wage cost in this industry. In respect to cubic cost function, the total cost function and material cost function behaved in cubical form in the industry. The marginal cost curve of wage cost does not possess U shape implying that wage cost function does not behave in cubical form in this industry.