Limiting Factors

Accounting & Finance

Deciding what to make when a resource runs short.

When one resource is scarce, maximise contribution per unit of that resource.

Rank by: Contribution ÷ Units of scarce resource

Product A: £30, 3 hrs	**£10 per hour**
Product B: £24, 2 hrs Make B first.	**£12 per hour**
Two scarce resources	**Use linear programming**

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× **Ranking by contribution per unit**

✓ **Ranking per unit of the scarce resource**

The highest-contribution product may consume so much of the scarce resource that it generates less total contribution.

The shadow price is what one more unit of the scarce resource is worth. It is the ceiling on what to pay to obtain it.