Law of Diminishing Marginal Return

According to the law, the extra production that occurs from equal increments of a variable input will eventually decline as the proportion of variable input to fixed inputs increases.

This phenomenon usually occurs because there is an optimal proportion of the first resource to other resources, and if a firm has a surplus of the first resource, it can produce additional output, but at a decreasing rate.

In other words, the more of the first resource the firm has, the more out of proportion the first resource eventually becomes relative to other resources and the less productive it becomes.