Production, Revenues, Costs and Profits

What is the long run?	The period of time in which all factors of production are variable
What is the short run?	The period of time in which at least one factor of production is fixed
What is the most commonly fixed factor in the short run?	Capital
What is product?	Output
What is productivity?	Output per unit of input
What is average product?	Output per unit of input
What is marginal product?	The additional output produced b an additional unit of input
What is the law of diminishing marginal productivity	As one factor of production is increased, the additional input produced by the last output will eventually begin to fall
Why is total product maximised a marginal product crosses zero?	If MP is above zero, TP is rising. If MP is below zero, TP is falling. So when MP crosses zero, TP stops rising and starts falling.
Why does MP=AP at AP's turning point?	When MP>AP, it pulls the average up. When AP>MP, it pulls the average down. When MP=AP, we have a turning point.
What are fixed costs?	Costs which do not vary with the level of output
What are sunk costs?	An irretrievable cost which cannot be recovered if a firm leaves the market
What are variable costs?	Costs which depend on the level of output produced
What are total costs?	The sum of (total) fixed costs and (total) variable costs
What are total variable costs?	Average variable cost x quantity

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What are total variable costs?	Average variable cost x quantity
What are average (total) costs?	Total cost ÷ quantity
What are average fixed costs?	Total fixed costs ÷ quantity
What are average variable costs?	Total variable cost ÷ quantity
What is marginal cost?	Change in total cost ÷ change in quantity
How do Economists and Accountatns differ in their approach to costs?	Economists take opportunity cost into account whereas accountants do not
Which costs are only relevant in the short run and why?	Fixed costs: all costs are variable in the long run, as this is the period in which all factors are variable
Why does MFC=0?	Fixed Costs do not change, so the difference between values is 0
Explain why MVC=MTC?	MTC=MVC+MFC, but MFC=0
Describe the shape of the TC curve?	Upward sloping, getting steeper as q increases
Describe the relationship between the TC curve and the TVC curve?	Vertically parallel
Describe the shape of a typical MC curve?	Nike tick
Describe the shape of a typical AC curve?	Shallow U-shaped
Why are TC and TVC parallel?	The difference between them is TFC, which is constant
Why does MC cross AC at ACs turning point/.	When MC<AC, it pulls AC down. When MC>AC, it pulls AC up. When MC=AC, we have a turning point?
What is the long run?	The period of time in which all factors of production are variable
What is the short run?	The period of time in which at least one factor of production is fixed

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The concept of returns to scale concerns the relationship between which two variables?	Input and output
What is meant by 'constant returns to scale'?	Where input and output increase by the same %
What is meant by 'decreasing returns to scale'?	Where the % increase in input is smaller than the % increase in output
What is meant by 'increasing returns to scale'?	Where the % increase in input is bigger than the % increase in output
The concept of Economies of scale concerns the relationship between which two variables?	Output and costs
What are economies of scale?	Where an increase in output results in a lower average unit cost
What are diseconomies of scale?	Where an increase in output results in a higher average unit cost
Name 3 types of economies of scale	Internal, External, Financial, Technical, Network, Marketing, Purchasing, Risk-Bearing
What are internal economies of scale?	Economies of scale arising as a result of firm growth
What are external economies of scale?	Economies of scale arising as a result of industry growth
What are financial economies of scale?	Larger firms may be able to secure loans or financial capital more easily or more cheaply
What are technical economies of scale?	Larger firms can be more productive thanks to specialization, the container principle and more productive capital that smaller firms can't afford

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What network economies of scale?	Networks have high fixed costs, but spread over a larger output this results in a lower average cost
What are marketing economies of scale?	Larger firms have a lower unit cost of advertising. TV and billboard ads are worthwhile for big firms but too expensive for smaller firms
What are purchasing economies of scale?	Bulk buying: Firms may be able to secure a lower average unit price when buying larger quantities
What are risk-bearing economies of scale?	Larger firms often have the resources to survive if a risk doesn't pay off. There are often more people to share the loss between. They may also be able to spread the risk through diversification (an economy of scope)
Give a possible cause of diseconomies of scale	Difficult communication, difficult co-ordination, principal-agent problem
What is the principal-agent problem?	Where a manager doesn't know enough about the actions of the people working for him
Which cost curves are irrelevant in the long run and why?	Fixed costs: all costs are variable in the long run, as this is the period in which all factors are variable
What is minimum efficient scale?	The minimum quantity that firms can produce with its lowest possible LRAC
What are the axes on an LRAC diagram?	Average cost and output
What shape is the LRAC curve?	U shaped, tangential to SRAC curves
How can you show economies of scale on an LRAC diagram?	Portion where LRAC is falling
How can you show diseconomies of scale on an LRAC diagram?	Portion where LRAC is rising

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If PED is elastic, what happens to revenue when price decreases?	Increases
If PED is inelastic, what happens to revenue when price decreases?	Decreases
Is a demand curve with elastic PED relatively shallow or relatively steep?	Shallow
Is a demand curve with inelastic PED relatively shallow or relatively steep?	Steep
What is the AR curve otherwise known as?	Firm's demand curve
What is marginal revenue?	Change in total revenue divided by change in output
What two things happen at the same quantity where TR is maximised?	MR=0, PED becomes inelastic
What is the relationship between the AR curve and the MR curve?	The MR curve is twice as steep as the AR curve
What does the total revenue curve look like for an industry?	Hill shaped
What does the average revenue curve look like for an industry?	Straight downward sloping line (less steep)
What does the marginal revenue curve look like for an industry?	Straight downward sloping line (more steep)
What is the relationship between the values of AR and MR at each revenue level?	The quantity for AR is always twice the quantity for MR

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What is 'normal profit' in Economics?	Payment to the entrepreneur (a cost)
What is accounting profit?	Revenue-Accounting Costs
How do economic costs differ from accounting costs?	Economic costs include opportunity costs whereas accounting costs don't
What is supernormal profit?	Revenue-Economic Costs
What is the profit maximising condition?	MC=MR
Explain the profit maximising condition	If MC<MR so each additional unit increases profit so it's profitable to produce more. If MC>MR, each additional unit decreases profit so it's profitable to produce less. If MC=MR, we have the maximum amount we can make before profit starts to fall.

Quizlet