

**Average Fixed Cost (AFC)**- the total fixed cost divided by total output. **Average Physical Product (APP)**- the output per unit of resource. **Average total cost (ATC)**- per unit cost derived by dividing total cost by the quantity of output. **Average Variable Cost (AVC)**- total variable cost divided by total output. **Break-even price**- A price that is equal to the minimum point of the ATC curve; economic profit is zero. **Constant Returns to Scale**- when costs remain constant as the quantity of production is increased. **Cost of Equity**- the alternative returns that the shareholders could have gotten had they chosen to invest elsewhere; the investor's opportunity cost. **Diseconomies of Scale**- when producing each unit of output becomes more costly as output rises, we say there are diseconomies of scale. **Economies of Scale**- when producing each unit of output becomes less costly as the amount of output increases; diminishes deadweight loss. **Equity Capital**- cost of ownership. **Firm**- can be sole proprietorships, partnerships, corporations, company, business, and enterprise; national or multinational. **Government intervention**- Government scrutiny lessens deadweight loss. **Local Monopoly**- a monopoly that exists in a limited geographic area. **Long Run**- everything is variable – nothing is fixed; referred to as planning horizon. **Long-Run Average Total Cost (LRATC)**- lowest-cost combinations of resources with which each level of output is produced when all resources are variable. **Marginal Cost**- additional cost of producing one more unit of output. **Market Structure**- selling environment in which a firm produces and sells its product. **Minimum Efficient Scale (MES)**- If the long-run average total cost curve reaches a minimum, the level of output at which the minimum occurs. **Market Power**- is the power to set prices. **Marginal Physical Product (MPP)**- the amount of additional output that is produced when one additional unit of a resource is used in combination with the same amount of other resources. **Marginal Revenue**- the additional revenue from selling one more unit of output. **Monopoly**- market structure in which there is just one firm, entry by other firms is not possible and there are no close substitutes. **Monopolistic Competition**- large number of firms; easy entry; differentiated products, (mini-monopoly—the only producer of that specific product.); downward sloping demand curve. **Natural Monopoly**- A monopoly that arises from economies of scale. **Negative Economic Profit**- a firm that subtracts value, whose cost of equity capital is greater than its accounting profit. **Oligopoly**- Few firms; Entry more difficult; firms are interdependent; the demand curve= downward sloping. **Perfect Competition**- market structure characterized by: Many large firms, Identical products, easy entry; demand curve= horizontal. **Potential competition**- causes monopolist to lower prices, lessening deadweight loss. **Positive Economic Profit**- if a firm is returning more to its owners than the owners' opportunity cost. **Price Discrimination**- a firm with market power is able to charge different customers different prices. **Price Taker**- firm in a perfectly competitive market; the price of the product is determined by market supply and demand, they have to go along with the market price. **Private Company**- does not have its ownership shares traded on an exchange. Nonetheless, we can refer to the owners of a company whether the company is public or private. **Public Company**- has its shares traded on a stock exchange. **Regulated monopoly**- a monopoly firm whose behavior is overseen by a government entity. **Scale**- means size; in the long run, all resources are variable with 3 possible results for costs. **Short Run** refers to any period of time during which at least one resource cannot be changed. **Short-Run Average Total Cost (SRATC)**- the total cost of production divided by the total quantity of output produced when at least one resource is fixed. **Shutdown price**- the minimum point of the AVC curve. **Supply**- the quantities of output that sellers are willing and able to offer for sale at every price. **Total Costs (TC)**- the expenses a business has in supplying goods and/or services. **Total Fixed Costs (TFC)**- payments to resources whose quantities cannot be changed during a fixed period of time – the short run. **Total Physical Product (TPP)**- the relationship b/w a variable resource and output, for a given quantity of fixed resource(s); subject to law of diminishing marginal returns. **Total Variable Costs (TVC)**- payments for additional resources used as output increases. **Zero Economic Profit**- firms produce where marginal costs equals price; a firm that neither adds value nor subtracts it; but generates nothing in excess of this; economic efficiency.

ATC= Total Cost/Total Output

APP= Total Output/Total Input

MC= Change in total cost/change in quantity of output

MR=TR-Q

MPP= Change in Total Output/Change in Total Input

Supply Rule: MR=MC (profit maximizing output level)

Accounting Profit= PQ-land cost- labor cost- capital cost

Economic Profit= accounting profit- cost of equity capital

Land=Rent

Labor= Wage

Capital=Interest

Total Revenue (TR)- price of goods and services multiplied by quantity sold, PQ.

Profit= PQ-cost of land, labor cost, capital cost

When marginal cost is greater than average cost, average cost rises -- ATC curve slopes up.  
When marginal cost is below ATC, then ATC falls -- ATC curve slopes down.

Market Structure Defined by 3 characteristics:

- The number of firms in the market
- The ease of entry and exit of firms
- The degree of product differentiation

**GOOD TO KNOW: Law of Diminishing Marginal Returns** - states that in all productive processes, adding more of one factor of production, while holding all others constant ("ceteris paribus"), will at some point yield lower per-unit returns.

A Firm must decide:

1. Which/how many goods to produce
2. Which/ how many input to employ
3. -Which it should produce from other firms  
-Management Structure

-A firm in perfectly competitive industry has a perfectly elastic demand curve.

-If the typical firm in a perfectly competitive market is experiencing an economic loss, firms will exit the market and the price will increase.

Perfect Competition aka Price Taker