Key Terms and Concepts: Chapter 6

Accounting Profit (or Loss)	The difference between total revenue and total costs where the latter are defined according to accepted accounting principles.
Average Fixed Cost	Fixed cost divided by quantity produced.
Average Product	The ratio of output to an input. For example, the average product of labor is q/L.
Average Total Cost	Total cost divided by quantity produced.
Average Variable Cost	Variable cost divided by quantity produced.
Economic Loss	Occurs when total cost, defined as opportunity cost, exceeds total revenue.
Economic Profit	Occurs when total cost, defined as opportunity cost, is less than total revenue.
Economics and Diseconomies of Scale	See "Internal Economies and Diseconomies of Scale."
External Diseconomies of Scale	Firm long-run average costs are directly related to industry output.
External Economies of Scale	Firm long-run average costs are inversely related to industry output.
Factors of Productions (or Inputs)	The resources available to produce what we want, typically classified as land, labor, capital, and entrepreneurial ability.
Fixed Cost	Costs that do not vary with the level of output.
Internal Economies of Scale	Firm long-run average costs are inversely related to firm output.
Internal Diseconomies of Scale	Firm long-run average costs are directly related to firm output.
Law of Diminishing Marginal Product	Asserts that after some input level an added (small) dose of the input leads to smaller increases in output, c.p. Applies in the short-run.
Long-Run	All factors of production are variable, but technology is given. A planning period.

Marginal Cost	The change in total cost due to a (small) change in output, c.p.
Marginal Product	The change in total product (output) due to a (small) change in an input, c.p.
Money Costs	Costs of production paid with money.
Nonmoney Costs	Costs of production not paid with money, but are costs (opportunity costs) nonetheless.
Opportunity Costs	The benefits foregone due to a chosen course of action, or decision.
Price Elasticity of Supply	The percentage change in the quantity supplied or a good or service due to a (small) percentage change in the price of the good or service, c.p.
Principal/Agent Problem	The problem that arises when agents, e.g., managers, pursue their own interests even if those interests are not those of the principal, e.g.,owners of corporations. To be a problem requires both different interests between the principal and the agents, and positive monitoring costs.
Producers' Surplus	The difference between the minimum compensation necessary to supply a given amount of a good or service and the amount received per period.
Production Function	An expression of the relationship between inputs and output holding technology constant.
Quantity Adjuster	Occurs when the buyer or seller can not affect the price of a transaction. They are able to select only the quantity.
Returns to Scale	How output is affected by a given percentage change in all inputs. If the percentage change in inputs is greater than, the percentage change in output there is Decreasing Returns to Scale. If the percentage change in inputs is less than, the percentage change in output there is Increasing Returns to Scale. If the percentage change in inputs is equal to the percentage change in output there is Constant Returns to Scale.
Short-Run	The period when at least one input to an outcome is fixed.
Supply	The relationship between the marginal minimum necessary compensation and the quantity supplied per period.
Total Costs	In the short-run, the sum of variable and fixed cost. In the long-run, since all inputs are variable, total cost equals variable cost.
Variable Costs	Costs that vary with the scale of output.