Econs Chapter 6 Glossary of terms

Law of diminishing marginal returns: As extra units of a variable factor are added to a given quantity of a fixed factor, the output from each additional unit of the variable factor will eventually diminish.

Long run: The long run is a period of time in which all factors of production are variable, but the state of technology is fixed. All planning takes place in the long run.

Short run: The short run is that period of time in which at least one factor of production is fixed. All production takes place in the short run.

Total product: is the total output that a firms produces, using its fixed and variable factors in a given time period.

Average product: is the output that is produced, on average, by each unit of the variable factor.

Marginal product: is the extra output that is produced by using one extra unit of the variable factor

Economic cost: the opportunity cost of the firm's production

Explicit costs: any costs to a firm that involve direct payment of money

Implicit costs: are earnings that that a firm could have had if it had been employed in factors in another use or it had hired out or sold them to another firm

Total fixed costs: is the total cost of the fixed assets that a firm uses in a given time period.

Total variable cost: the total cost of the variable assets that a firm uses in a given time period. TVC increases as the firm uses more of the variable factor

Total cost: total cost of all fixed and variable factors used to produce a certain output

Average cost: costs per unit of output

Average fixed cost: the fixed cost per unit output

Average variable cost: the variable cost per unit output

Marginal cost: is the increase in total cost in producing an extra unit of output

Profit (economic): The total revenue less the total economic cost (implicit and explicit)

Profit (accounting): The total revenue less the total cost (explicit)

Total revenue: Total sales of a firm for a given number of goods // calculated by the product of price and quantity

Supernormal economic profits (abnormal profits): abnormally high profits where TR > TC

Negative economic profit (subnormal profits): (Simply put, it's a loss) where TC > TR

Zero economic profit (normal profits): where the firm breaks even, TC = TR