

Study Guide: Definitions
Economics 685
Managerial Economics

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Introduction

1. **Managerial Economics** is the application of economic theory to decisions made by managers and firms.
2. **Economics** is the study of the allocation of scarce resources.
3. The **value** of a firm is the present value of the firm's cash flows.
4. **Economic Profits** are profits after taking into account capital and labor provided by owners.

Production Theory

5. The **Production Function** is a graph, table, or equation showing the maximum output rate that can be achieved by any specified set of inputs.
6. **Law of diminishing marginal returns:** if all other inputs are held constant, then the additional output from increasing one input eventually falls.
7. The **Marginal Product** is the additional output from an additional unit of an input.
8. **Marginal Revenue Product** is the amount of additional revenue from an additional unit of an input.
9. The **Marginal Expenditure** is the amount of additional costs from an additional unit of input.

Cost Theory

13. **Explicit Costs:** Accounting Costs, or costs that would appear as costs in an accounting statement.
14. **Implicit Costs:** Other costs, such as the cost of the owners capital and labor, and/or the cost of alternative uses of each input.
15. **Opportunity Costs:** The value of all inputs to a firm's production in their most valuable alternative use.

16. **Total Variable Cost** The total cost of all inputs that change with the amount produced (all variable inputs).
17. **Total fixed costs** The total cost of all inputs that do not vary with the amount produced (all fixed inputs).
18. **Sunk costs** Are costs that have been incurred and cannot be reversed.
19. **Average Costs:** Costs divided by output.
20. **Marginal Costs:** The cost of one additional unit of an input.
21. **Long Run Average Costs:** The minimum cost per unit of producing a given output level when any sized plant can be built.