

AQA Economics A-level

Microeconomics

Topic 4 - Production Costs and Revenues

Flashcards

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Automation



Automation

Automatic control; the process by which machines control other machines



Average cost



Average cost

Total production cost divided by total output (cost per unit of output).



Average revenue



Average revenue

Total revenue divided by total output
(revenue per unit of output).



Capital productivity



Capital productivity

Output per unit of capital.



Constant returns to scale



Constant returns to scale

When output increases by an equal proportion the increase in inputs



Decreasing returns to scale



Decreasing returns to scale

When output increases by a smaller proportion than the increase in inputs



Diseconomies of scale



Diseconomies of scale

When long-run average costs rise as output rises.



Division of labour



Division of labour

Different workers performing different tasks in a good's/services' production, specialising to an extent.



Economies of scope



Economies of scope

When it is cheaper to make a range of products



Economy of scale



Economy of scale

When long-run average costs fall as output rises.



External economy of scale



External economy of scale

Firms saving resulting from growth of the industry a firm is part of



Fixed cost



Fixed cost

Costs of production that do not vary with output, only in the short run



Increasing returns to scale



Increasing returns to scale

When output increases by a larger proportion than the increase in inputs



Internal economy of scale



Internal economy of scale

Firms saving resulting from growth of the firm itself



Labour productivity



Labour productivity

Output per worker



Law of diminishing returns



Law of diminishing returns

By continually adding variable factors atop fixed factors, eventually both average and marginal returns to the fixed factor fall



Long run



Long run

Time period in which none of the factors of production are fixed, and all can be varied.



Long-run average cost



Long-run average cost

Long-run total cost per unit of output



Long-run production



Long-run production

When a firm changes the scale of all factors of production



Mechanisation



Mechanisation

When a firm transfers from becoming more labour intensive to becoming more capital intensive



Minimum efficient scale (MES)



Minimum efficient scale (MES)

The lowest level of output at which average costs are minimised. Dependent on the market structure as well as barriers to entry



Normal profit



Normal profit

Total revenue equals total costs; the minimum profit required to keep a firm operating in an industry



Operating costs



Operating costs

Same as variable costs



Overheads



Overheads

Same as fixed costs



Production



Production

A set of processes that converts inputs into outputs



Productive efficiency



Productive efficiency

Minimised average total cost



Productivity



Productivity

Output per unit of input



Profit



Profit

Total revenue subtract total costs



Rate of return



Rate of return

Income received from an investment



Returns to scale



Returns to scale

The scale by which a firm's output changes as the scale of all inputs are altered



Short run



Short run

Time period in which at least one of the factors of production are fixed and cannot be varied.



Specialisation



Specialisation

A worker only performing a specific task or a small range of tasks



Sunk cost



Sunk cost

Non-recoverable costs of entering a market



Supernormal (abnormal) profit



Supernormal (abnormal) profit

Any level of profit over and above normal profit



Technical economy of scale



Technical economy of scale

Cost saving through changing the production process



Total cost



Total cost

Total fixed cost added to total variable cost

