OCR Economics A-Level

Microeconomics

Topic 3 - Business Objectives

Flashcards

Profit maximisation

Profit maximisation

When firms produce at a point which derives the greatest profit; MC=MR

Sales revenue maximisation

Sales revenue maximisation

When firms produce at a point which derives the greatest revenue; MR=0

Sales volume maximisation

Sales volume maximisation

When firms produce at a point where they sell as many of their goods and services as possible without making a loss; AR=AC

Growth maximisation

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Growth maximisation

When firms aim to increase the size of their market share, for example through mergers

Utility maximisation

Utility maximisation

When firms aim to maximise social utility

Profit satisficing

Profit satisficing

When a firm earn just enough profit to keep its shareholders happy

Corporate social responsibility (CSR)

Corporate social responsibility

When firms take responsibility for consequences on the environment and behave more ethically

Principle-agent problem

Principle-agent problem

Where the agent makes decisions on behalf of the principle; the agent should maximise the benefits of the principle but have the temptation of maximising their own benefits

Conglomerate integration

Conglomerate integration

The merger of firms with no common connection

Horizontal integration

Horizontal integration

The merger of firms in the same industry at the same stage of production

Vertical integration

Vertical integration

When a firm merges or takes over another firm in the same industry, but at a different stage of production

Diversification

Diversification

When firms grow by expanding their production through increasing output, widening their customer base, developing a new product or diversifying their range

Long run

Long run

The length of time when all factors are variable

Short run

Short run

The length of time when at least one factor of production is fixed

Total cost (TC)

Total cost

The cost to produce a given level of output

Total fixed cost (TFC)

Total fixed cost (TFC)

Costs which do not vary with output

Total variable costs

Total variable costs

Costs which change with output

Average cost/average total cost (AC/ATC)

Average cost/average total cost

The cost of production per unit

Sunk costs

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Sunk costs

Costs that can't be recovered once they have been spent

Law of diminishing returns

Law of diminishing returns

If a variable factor is increased when another factor is fixed, there will come a point where each extra unit of the variable factor will produce less extra output than the previous unit; after a certain point, marginal output falls

Internal economies of scale

Internal economies of scale

An advantage that a firm is able to enjoy because of growth in the firm, independent of anything happening to other firms or the industry in general

External economies of scale

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External economies of scale

An advantage which arises from the growth of the industry within which the firm operates, independent of the firm itself

Economies of scale

Economies of scale

The advantages of large scale production that enable a large business to produce at a lower average cost than a smaller business

Diseconomies of scale

Diseconomies of scale

The disadvantages that arise in large businesses that reduce efficiency and cause average costs to rise

Increasing returns to scale

Increasing returns to scale

An increase in inputs by a certain proportion will lead to an increase in output by a larger proportion

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Decreasing returns to scale

Decreasing returns to scale

An increase in inputs by a certain proportion will lead to output increasing by a smaller proportion

Constant returns to scale

Constant returns to scale

Output increases by the same proportion that the inputs increase by

Minimum efficient scale

Minimum efficient scale

The lowest level of output necessary to fully exploit economies of scale

Total revenue (TR)

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Total revenue

Revenue generated from the sale of a given level of output

Average revenue (AR)

Average revenue

The price each unit is sold for

Loss

Loss

When revenue does not cover costs

Accounting profit

Accounting profit

Total monetary revenue minus total monetary costs

Supernormal profit

Supernormal profit

The profit above normal profit, TR>TC

Normal profit

Normal profit

The minimum reward required to keep entrepreneurs supplying their enterprise, the return sufficient to keep the factors of production committed to the business; TC=TR

Economic profit

Economic profit

Profit which considers the opportunity cost of production as well as monetary costs