Definitions and Concepts for AQA Economics A-level

Paper 1: Microeconomics

Topic 4 - Production Costs and Revenues

Automation: Automatic control; the process by which machines control other machines

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

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

Capital productivity: Output per unit of capital.

Constant returns to scale: When output increases by an equal proportion the increase in inputs

Decreasing returns to scale: When output increases by a smaller proportion than the increase in inputs

Diseconomies of scale: When long-run average costs rise as output rises.

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

Economies of scope: When it is cheaper to make a range of products

Economy of scale: When long-run average costs fall as output rises.

External economy of scale: Firms saving resulting from growth of the industry a firm is part of.

Fixed cost: Costs of production that do not vary with output, only in the short run.

Increasing returns to scale: When output increases by a larger proportion than the increase in inputs

Internal economy of scale: Firms saving resulting from growth of the firm itself.

Labour productivity: Output per worker.

Law of diminishing returns: By continually adding variable factors atop fixed factors, eventually both average and marginal returns to the fixed factor fal

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 total cost per unit of output.

Long-run production: When a firm changes the scale of all factors of production.

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

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

Operating costs: Same as variable costs

Overheads: Same as fixed costs

Production: A set of processes that converts inputs into outputs.

Productive efficiency: Minimised average total cost.

Productivity: Output per unit of input.

Profit: Total revenue subtract total costs.

Rate of return: Income received from an investment

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

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

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

Sunk cost: Non-recoverable costs of entering a market

Supernormal (abnormal) profit: Any level of profit over and above normal profit

Technical economy of scale: Cost saving through changing the production process.

Total cost: Total fixed cost added to total variable cost.

Total revenue: Price of each good, multiplied by quantity sold.

Variable cost: Costs incurred when paying for the variable factors of production.

X-inefficiency: **When a firm lacks the incentive to control costs. This causes the average cost of production to be higher than necessary.**