Production, Cost, and the Perfect Competition Model

AP Microeconomics · Vocabulary in context

Word	Example
production function /prəˈdʌkʃn ˈfʌŋkʃn/	A **production function** shows how much output comes from given inputs.
short run /ʃɔːt rʌn/	In the **short run**, a firm cannot build a new factory.
fixed /fɪkst/	The size of the factory is **fixed** in the short run.
long run /lɒŋ rʌn/	In the **long run**, a firm can change everything, even its factory.
Total product /ˈtəʊtl ˈprɒdʌkt/	**Total product** is all the output of the workers.
Marginal product /ˈmɑːdʒɪnl ˈprɒdʌkt/	The **marginal product** of the fifth worker is the extra output that worker adds.
Average product /ˈævrɪdʒ ˈprɒdʌkt/	**Average product** is total output divided by the number of workers.
law of diminishing marginal returns /lɔː ɒv dɪˈmɪnɪʃɪŋ ˈmɑːdʒɪnl rɪˈtɜːnz/	The **law of diminishing marginal returns** says each extra worker adds less output.
Fixed cost /fɪkst kɒst/	Rent is a **fixed cost**: it stays the same however much you make.
Variable cost /ˈveərɪəbl kɒst/	Raw materials are a **variable cost**.
Total cost /ˈtəʊtl kɒst/	**Total cost** is fixed cost plus variable cost.

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Marginal cost /ˈmɑːdʒɪnl kɒst/	The **marginal cost** of one more cake is the cost of its flour, eggs and sugar.
Economies of scale /ɪˈkɒnəmiz ɒv skeɪl/	**Economies of scale** make each car cheaper in a big factory.
Diseconomies of scale /ˌdɪsɪˈkɒnəmiz ɒv skeɪl/	**Diseconomies of scale** happen when a firm grows too big to manage well.
minimum efficient scale /ˈmɪnɪməm ɪˈfɪʃənt skeɪl/	At the **minimum efficient scale**, the cost per unit first reaches its lowest point.
Explicit costs /ekˈsplɪsɪt kɒsts/	Wages and rent are **explicit costs**.
implicit costs /ɪmˈplɪsɪt kɒsts/	The salary you give up to run your own shop is one of the **implicit costs**.
Accounting profit /əˈkaʊntɪŋ ˈprɒfɪt/	**Accounting profit** is revenue minus explicit costs.
Economic profit /ˌiːkəˈnɒmɪk ˈprɒfɪt/	**Economic profit** also takes away implicit costs.
normal profit /ˈnɔːml ˈprɒfɪt/	A firm making **normal profit** earns just enough to stay in business.
entry /ˈentri/	High profits encourage **entry** of new firms.
exit /ˈegzɪt/	Losses lead to the **exit** of some firms.
perfectly competitive /ˈpɜːfektlɪ kəmˈpetɪtɪv/	A **perfectly competitive** market has many small sellers of the same product.

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price taker /praɪs ˈteɪkə/	A farmer selling wheat is a **price taker**: he must accept the market price.
constant-cost industry /ˈkɒnstənt kɒst ˈɪndʌstri/	In a **constant-cost industry**, costs stay the same as the industry grows.
increasing-cost industry /ɪnˈkriːsɪŋ kɒst ˈɪndʌstri/	In an **increasing-cost industry**, costs rise as the industry grows.
decreasing-cost industry /ˈdiːkriːsɪŋ kɒst ˈɪndʌstri/	In a **decreasing-cost industry**, costs fall as the industry grows.
productive efficiency /prəˈdʌktɪv ɪˈfɪʃənsi/	**Productive efficiency** means making goods at the lowest cost per unit.
allocative efficiency /ˈæləkətɪv ɪˈfɪʃənsi/	**Allocative efficiency** means making exactly what society wants most.

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