ECO404 - Managerial Economics Glossary For Midterm Exam Preparation Spring 2013

Glossary

Accounting Profit : Accounting Profit or business profit is equal to total revenue minus the explicit or accounting costs of production.

Adverse Selection : The situation in which low quality products or services drive high quality products or services out of the market as a result of asymmetric information between buyers and sellers.

Alternative or Opportunity Costs : The cost to the firm of using a purchased or owned input which is equal to what the input could earn in its best alternative use.

Analysis of Variance : A test of the overall explanatory power of the regression using the F-statistic.

Asymmetric Information : The situation in which one party to a transaction has more information than the other party on the quality of the product or service offered for sale.

Autocorrelation : The problem that can arise in regression analysis with time series data, where consective errors have the sane sign or change sign frequently. It leads to exaggerated t statistics and to an unreliable R2 and F-statistic.

Average Fixed Cost (AFC) : Total fixed cost divided by total output

Average Product (AP) : Total product divided by quantity of variable input used

Average Total Cost (ATC) : Total costs divided by total output

Average Variable Cost (AVC) : Total variable costs divided by output.

Barometric Firm : The oligopolistic firm that is recognized as the true interpreter or barometer of changes in demand and cost conditions warranting a price change in the industry.

Barometric Forecasting : It is the method of forecasting turning points in business cycles by the use of leading economic indicators.

Bertrand Model : The oligopoly model where each firm assumes that the other will keep its price constant. It leads to the perfectly competitive solution even with only two firms.

Binding Constraint : A variable that is fully used a a particular point.

Bundling : The form of tying in which the firm requires customers buying or leasing one of its products or services to also buy or lease another product or service when customers have different tastes but the firm cannot price discriminate (as in tying).

Business Ethics : The code or guidelines that prescribe acceptable behavior in business behavior and business transactions.

Business Profit : The revenue of the firm minus its explicit or accounting costs.

Certainty : The situation in which there is only one possible outcome to a decision and this outcome is known precisely; risk free.

Change in demand : A shift in the demand curve of a commodity as a result of a change in the consumer’s income, change in the price of related commodities, tastes, or in any of the determinants of demand other than the price of the commodity.

Change in quantity demanded : The movement along a particular demand curve resulting from a change in the price of the commodity, while holding everything else constant.

Cobb-Douglas production function : A production function of the form Q = AKaLb where, Q, K and L are physical units of output, capital and labor and A, a and b are the parameters to be estimated empirically.

Coefficient of correlation ‘r’ : The measure of the degree of co-variation between two variables; the positive or negative square root of the coefficient of determinant ion in simple regression analysis.

Coefficient of determination ‘R2’ : The proportion of the explained to the total variation in the dependent variable in regression analysis.

Collusion : A formal or informal agreement among oligopolists to adopt policies to restrict or eliminate competition and increase profits.

Economic Profit : Economic Profit is equal to total revenue minus the explicit and implicit costs of production.

Macroeconomics : Macroeconomics is the study of the total or aggregate level of output, income, employment, consumption, investment, and prices for the economy viewed as a whole.

Marginal Revenue (MR) : Change in total revenue associated with a one unit change in output

Microeconomics : Microeconomics is the study of the economic behavior of individual decision-making units.