ECO404 - Managerial Economics Faqs For Midterm Exam Preparation Spring 2013

FAQs

Question: Differentiate between explicit and implicit costs.

Answer: Explicit costs: Explicit costs are the actual out of pocket expenditures of the firm to purchase or hire the inputs it requires in production. Implicit costs: Implicit costs refer to the value of the inputs owned and used by the firm in its own production processes.

Question: Differentiate between accounting profit and economic profit.

Answer: Business or Accounting Profit: Total revenue minus the explicit or accounting costs of production. Economic Profit: Total revenue minus the explicit and implicit costs of production.

Question: Differentiate between direct demand and derived demand.

Answer: Direct Demand Individual's demand for goods and services that directly satisfy consumer desires is known as direct demand. This is also known as consumer demand. Derived Demand Goods that are demanded not for direct consumption but rather for their use in providing other goods and services are known as derived demand. Their demand is derived from the demand for the products they are used to provide. Input demand is called derived demand. It is also called business demand.

Question: Differentiate between the situation of surplus and shortage.

Answer: Surplus: A surplus is created when producers supply more of a product at a given price than buyers demand. Surplus describes a condition of excess supply. Shortage: A shortage is created when buyers demand more of a product at a given price than producers are willing to supply. Shortage describes a condition of excess demand.

Question: Differentiate between short run and long run.

Answer: Short run: The short run is the period of time in which sellers already in the market respond to a change in equilibrium price by adjusting variable inputs. Buyers already in the market respond to changes in equilibrium price by adjusting the quantity demanded for the good or service. Long run: The long run is the period of time in which new sellers may enter a market, existing sellers may exit from a market, existing sellers may adjust fixed factors of production, and buyers may react to a change in equilibrium price by changing their tastes and preferences.

Question: Differentiate between microeconomics and macroeconomics.

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