

Economics for managers chapter

[Economics](#)



What is the relationship between a firm's total revenue, profit, and total cost? Each of these has an effect on the other, which will cause them to go up or down based on the output of the business. A firm aims to keep costs down, while increasing total revenue and profit.

2. Give an example of an opportunity cost that an accountant might not count as a cost. Why would the accountant ignore this cost? The money she would make working a full time job with an annual salary. That is not money coming into the business.

3.

What is marginal product, and what does it mean if it is diminishing?

Marginal product is the increase in outputs from one additional input. When marginal product begins to diminish it means that your product is taking more time to make than it should, most likely due to lack of equipment.

Problems and Applications Chapter 13 1 . This chapter discusses many types of costs: opportunity cost, total cost, fixed cost, variable cost, average total cost, and marginal cost. Fill in the type of cost that best completes each sentence:

a. What you give up for taking some action is called the opportunity cost. . Average total cost is falling when marginal cost is below it and rising when marginal cost is above it. C. A cost that does not depend on the quantity produced is a fixed cost. D. In the ice-cream industry in the short run, marginal cost includes the cost of cream and sugar but not the cost of the factory. E. Profits equal total revenue less total cost. F. The cost of producing an extra unit of output is the variable cost.

2. Your aunt is thinking about opening a hardware store. She estimates that it would cost \$500, 000 per year to rent the location and buy the stock.

In addition, she would have to quit her \$50,000 per year job as an accountant. A. Define opportunity cost. What you give up to get something else in return. In this case \$50,000 a year. B. What is your aunt's opportunity cost of running a hardware store for a year? If your aunt thought she could sell \$510,000 worth of merchandise in a year, should she open the store? Explain. At least \$550,000, which is the cost of rent for the building and the annual salary she would be giving up. I would advise her to keep her job and give up the hardware store dream.

Fill in the column of marginal products. What pattern do you see? How might you explain it? Marginal Product rises at first, and then declines because of diminishing marginal returns. B. A worker costs \$100 a day, and the firm has fixed costs of \$200. Use this information to fill in the column for total cost. C. Fill in the column for average total cost. (Recall that $TACT = ETC/Q$.) What pattern do you see? Average total cost is U-shaped: at lower rates of output average total cost declines as output expands at higher rates of output, average total cost rises as output expands. D. Now fill in the marginal cost column. Recall that $MAC = TACT / \Delta Q$. What pattern do you see? Marginal cost falls but then rises, more quickly than average total cost. E. Compare the column for marginal product and the column for marginal cost. Explain the relationship. When marginal product rises, marginal cost falls, when marginal product falls, marginal cost rises. F. Compare the column for average total cost and the column for marginal cost. Explain the relationship. When the marginal cost is below the average cost, the average cost falls, but when the marginal cost is above the average cost, the average cost rises.