1. Abnormal Profit

At Q_m, P_m > P_{cost}
All costs are covered and then some!

2. ad valorem tax

eg a VAT or sales tax

3. Allocative Efficiency

Community Surplus is maximized at P^*

4. AR, MR: Perfect Competition

The red line is actually 2 lines that are equal to each other.

5. Average Fixed Costs

The red line diminishes, but never becomes zero.
"a" (blue to green) is equal to "c" (red to axis)
b = d
(c/q_1) = (d/q_2)

6. Average Product

The blue line shows productive efficiency at its highest point (where the green line intersects it)

7. Average Revenue: Imperfect Competition

The light blue curve is the same as the demand curve and is negatively sloped.
8. Average Revenue: Non-Collusive Oligopoly

The green curve is relatively elastic at prices above Ppm and relatively inelastic at prices below Ppm.

9. Average Total Costs

The blue line is the sum of the green and red lines.

10. Average Variable Costs

The green line decreases, then increases due to the law of eventually diminishing marginal returns. It gets closer to the blue line, but will never touch it.

11. Break-Even Profit

At Qpm, Ppm=Pcost
All costs are covered, with no extra

12. Change in Demand

E.G. due to a new marketing campaign.

13. Change in Quantity Demanded

Due to a change in supply.

14. Change in Quantity Supplied

Due to a change in Demand.

15. Change in Supply

E.G. due to an improvement of technology
16. **Community Surplus**

A concept which implies that at all quantities until Q, both producers and consumers are more than satisfied with the market price (P).

17. **Complement**

18. **Constant Returns to Scale (LR)**

At Q3 further expansion does not lower costs.

19. **Consumer Surplus**

Instead of paying the higher price (P1), the consumer can pay the market price (P*). This is measured as additional utility for the good (the blue arrow).

20. **Decreasing Returns to Scale (LR)**

Movements along LRAC beyond Q3 result in higher costs.

21. **Elastic Supply**

22. **Equilibrium**

At P*, Qs = Qd

23. **Increasing Returns To Scale (LR)**

Movements along LRAC to Q3 result in lower costs.

24. **Inelastic Supply**

Qs = +C + dP
25. Inferior Good

Inferior Goods are goods for which an increase in price leads to an increase in demand, indicating that they are inferior goods.

26. Marginal Costs

Marginal Costs (MC) show the change in total costs as the quantity produced changes by one unit. The purple line falls, then rises. It intersects the blue and green lines at their lowest points.

27. Marginal Product

The green line intersects the highest point of the blue line, then intersects the X axis at the red line's highest point.

28. Marginal Revenue: Non-Collusive Oligopoly

Marginal Revenue (MR) is the additional revenue earned by producing one additional unit of output. In a non-collusive oligopoly, MR will always be found on the vertical section of the red curve.

29. Marginal Revenue: Non-Collusive Oligopoly

The dark blue curve is derived from the light blue curve and is twice as steep.

30. Negative Externality of Consumption

Negative Externality of Consumption occurs when the consumption of a good or service generates external costs that are not borne by the consumer. At Q*, social benefits are less than private benefits.

31. Negative Externality of Production

Negative Externality of Production occurs when the production of a good or service generates external costs that are not borne by the producer. At Q*, social costs are greater than private costs.

32. Normal Good

Normal Goods are goods for which an increase in price leads to a decrease in demand. They can be classified as necessity or luxury goods.

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33. Operate at a Loss

At Qpm, Pavc < Ppm < Patc

Losses are minimized by producing

34. Perfectly Elastic Demand

Quantity Demanded is infinite at P1. Any increase in price would eliminate all demand.

35. Perfectly Inelastic Demand

Any change in price would have no effect on D.

36. Positive Externality of Consumption

At Q*, social benefits exceed private benefits

37. Positive Externality of Production

At Q* social costs are less than private costs

38. Price Ceiling

Since price cannot be raised beyond Pc, the government might subsidize the product to eliminate the scarcity (shown by an increase in supply from S1 to Ssub.)

39. Price Elastic Demand

An increase in price reduces total revenue, and vice versa

40. Price Floor

Since price cannot be lowered beyond Pf, the government might buy up the surplus (shown by an increase in demand from D1 to D2.)
41. Price Inelastic Demand

An increase in price reduces total revenue, and vice versa.

42. Price Mechanism

Disequilibrium in Qs & Qd cause price to move toward Pe, until the disequilibrium is eliminated.

43. Producer Surplus

Instead of earning the lower price (P1), the producer can earn the market price (P*). This is measured as additional benefit derived from producing the good (the blue arrow).

44. Productive Efficiency

Where MC intersects AC, AC is minimized.

45. Profit Maximisation

Beyond Q1, MC > MR so TR declines.

46. Revenue Maximization

The firm produces until MR = 0.

47. Scarcity

At P1, Qs < Qd.

48. Shutdown

At Qpm, Pavc > Ppm. Losses are minimized by not producing.
49. **Specific Tax**

![Specific Tax Diagram](image)

Eg a toll charge or a fee

53. **Surplus**

![Surplus Diagram](image)

At P1, Qs > Qd

50. **Subsidy: Elastic Demand**

![Subsidy: Elastic Demand Diagram](image)

The consumers benefit less than producers. The subsidy produces a relatively high amount of additional units (Q2 - Q*).

54. **Tax Incidence: Elastic Demand**

![Tax Incidence: Elastic Demand Diagram](image)

Producers bear more of the weight than the consumers. Tax revenue is lower.

51. **Subsidy: Inelastic Demand**

![Subsidy: Inelastic Demand Diagram](image)

The consumers benefit more than producers. The subsidy is expensive when compared to the additional units produced (Q2 - Q*).

55. **Tax Incidence: Inelastic Demand**

![Tax Incidence: Inelastic Demand Diagram](image)

Consumers bear more of the weight than the producers. Tax revenue is higher.

52. **Substitute**

![Substitute Diagram](image)

56. **Total Costs**

![Total Costs Diagram](image)

The blue line is produced by adding together the other two; it is a vertical translation of the green line.
57. **Total Fixed Costs**

The red line stays the same. It is also represented by the space between the other two lines.

58. **Total Product**

The red line increases at an increasing rate, then at a decreasing rate, then decreases.

59. **Total Revenue: Imperfect Competition**

The blue curve is maximised when the red curve = 0.

60. **Total Revenue: Perfect Competition**

The blue line increases in a linear manner because the red line is horizontal.

61. **Total Variable Costs**

The green line becomes less steep, then more steep, due to the law of eventually diminishing marginal returns.

62. **Unit Elastic Demand**

A change in price does not change total revenue.

63. **Unit Elastic Supply**

\[ Q_S = 0 + dP \]
64. Welfare loss (to society)

At quantities less than Q*, benefits are greater than costs and should be produced.