**Abnormal profit**
Abnormal profit occurs when the total revenue is greater than the total costs.

**Allocative efficiency**
Allocative efficiency occurs when the social marginal benefit of a unit (which is reflected in the price paid by the customer) equals the social marginal cost of producing the good.

**Average cost**
The average cost is the cost per unit. (It is also called the average total cost.) It is calculated by using (total costs/output)

**Community surplus**
This measures the welfare for society. It is measured by consumer surplus plus producer surplus.

**Consumer surplus**
The consumer surplus is the difference between the price charged for a product and the price that that consumers are willing to pay for it because of the utility they derive from it. It represents unpaid for utility.

**Cross price elasticity of demand**
The cross price elasticity of demand measures the responsiveness of demand for one product in relation to changes in the price of another all other factors unchanged.

**Demand curve**
A demand curve shows the quantity consumers are willing and able to buy at each and every price, all other factors being unchanged.

**Diseconomies of scale**
Diseconomies of scale (internal) occur when there are increases in the long-run average costs as the scale of production increases.



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**Externality**
An externality occurs when there is a difference between private and social costs and benefits. There may be positive and negative externalities and production and consumption externalities.

**Fixed costs**
Fixed costs are costs that do not change with the amount of products produced. They are unrelated to output.

**Free market**
This occurs when resources are allocated by market forces of supply and demand without government intervention.

**Game theory**
Game theory is an approach to oligopoly in which each firm's strategy depends on its expectations of how the others in the market will behave.

**Income elasticity of demand**
The income elasticity of demand measures the responsiveness of the demand for a product in relation to changes in income, all other factors unchanged.

**Internal economies of scale**
Internal economies of scale occur when there are reductions in the long-run average costs as the scale of production increases.

**Long run**
The long run is the period of time when all of the factors of production are variable.

**Marginal cost**
The marginal cost is the extra cost of producing an extra unit. It is calculated by (change in total costs/ change in output).

**Marginal revenue**
Marginal revenue is the extra revenue earned by selling another unit. It is calculated by (change in total revenue/change in output).



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**Marginal revenue product**
The marginal revenue product measures the value of the output produced by employing an extra worker.

**Marginal utility**
Marginal utility is the satisfaction an individual gains from consuming an extra unit.

**Monopolistic competition**
Monopolistic competition is a market structure in which there are many firms but each offers a differentiated product.

**Monopoly**
A monopoly is a single seller that dominates a market.

**Monopsony**
A monopsony is a single buyer that dominates a market.

**Normal profit**
Normal profit occurs when the total revenue equals the total costs.

**Oligopoly**
An oligopoly is a market structure in which a few firms dominate the market.

**Opportunity cost**
The opportunity cost is what is given up in the next best alternative.

**Price discrimination**
Price discrimination occurs when different prices are charged to different customers for the same product.

**Price elasticity of demand**
The price elasticity of demand measures the responsiveness of the demand for a product in relation to changes in its price, all other factors unchanged.



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**Price elasticity of supply**
The price elasticity of supply measures the responsiveness of the supply of a product in relation to changes in its price, all other factors unchanged.

**Producer surplus**
The producer surplus is the difference between the price paid to producers for products and the price the producers are willing to supply at.

**Production possibility frontier**
A production possibility frontier shows the maximum combination of products that an economy can produce given its resources.

**Productive efficiency**
Productive efficiency occurs when more of one product can only be produced if less of another product is produced. It also occurs when a firm produces at the minimum of the average cost curve, that is, at the lowest cost per unit possible or when the economy operates on the production possibility frontier.

**Public good**
A public good is a product that is non-diminishable and non-excludable.

**Supply curve**
A supply curve shows the quantity that producers are willing and able to produce at each and every price, all other factors being unchanged.

**Total cost**
The total cost equals the fixed costs plus the variable costs.

**Total revenue**
The total revenue is the value of sales (calculated as the price of a product multiplied by the quantity sold).

**Total utility**
Total utility is the overall satisfaction an individual gains from consuming a product.



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**Utility**
The utility refers to the satisfaction that a consumer would receive from consuming a product.

**Variable costs**
Variable costs are costs that change with output.



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