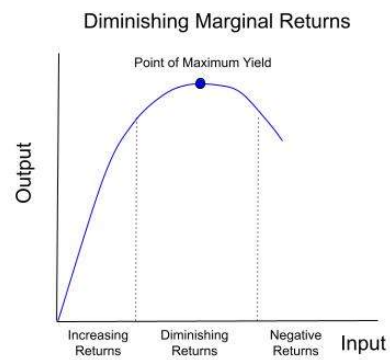
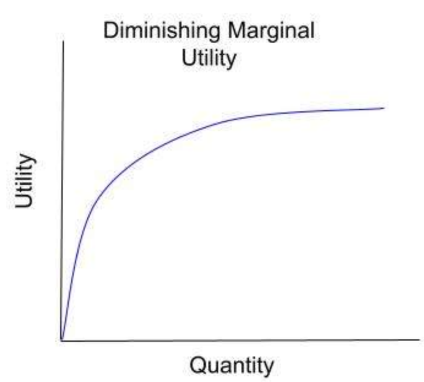
BUSU 620 - Economic Analysis
Key Terms

Depreciation: Over time, assets decrease in value and the measurement of this reduction is called depreciation. For example, if you purchase any technology, over time, as the item is used and the technology becomes outdated, it loses value.

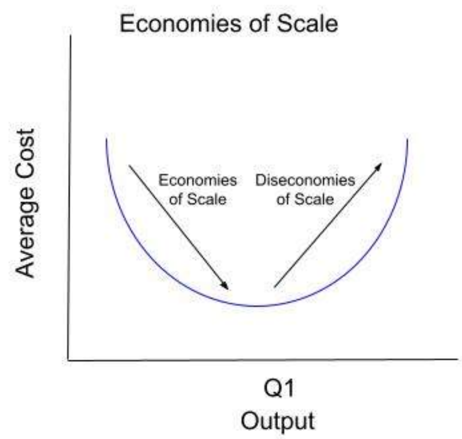
Diminishing Marginal Returns: Diminishing Marginal Returns explains that as production quantity is increased, there is generally a maximum quantity for optimal output, followed by less returns. For example, your printer may be more efficient at the onset, but as more wear and tear impacts the equipment the speed and quality of output will drop with each additional print.



Diminishing Marginal Utility: Consumers experience less satisfaction or marginal utility from the consumption of additional units of a product or service, leading to Diminishing Marginal Utility and a downward facing utility curve. For example, purchasing one electronic device like a tablet adds value for the consumer, as does one or two more, but most consumers would not see the value of 20 electronic tablet devices.



Economies of Scale: Economies of scale are cost advantages that companies experience when their operations become more efficient and costs are reduced. Conversely, diseconomies of scale are experienced when costs per unit of output are increasing.



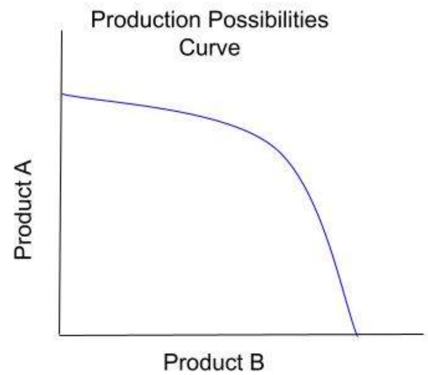
Firm Structure: A firm structure is generally determined at the onset of a new business venture; and, while the structure can be changed, this can be challenging in some cases because the structure will determine day-to-day operations, tax structures, and risks. Examples of different business structures include the following: sole proprietorship, partnership, limited liability corporation (LLC), C Corp, S Corp, B Corp, close corporation, non-profit corporation, and a cooperative.

Goods: Goods are generally tangible items that can be purchased. Normal goods experience an increase in demand as consumer's income levels rise; whereas, inferior goods experience a decrease in demand as consumer's income levels rise. An example of a normal good is a luxury car and an example of an inferior good is a black and white television.

Opportunity Cost: When making any decision, there is a potential loss from the alternate choice that was not selected, called an opportunity cost. For example, if a company decides to focus on improving an existing product, there is an opportunity cost in that those same resources (time, labor, materials) could have been allocated toward developing a new product.

Price: Price is the amount charged for a good or service. It is most optimal for businesses to price a product at the level that matches what consumers are willing to pay at an aggregate level.

Production Possibilities Curve: The Production Possibilities Curve (PPC) graph demonstrates scarcity through the different combinations of output available when considering production of two products, along with factors like existing resources and technology. As human capital and material resources are allocated toward the development of one product, it means that less of the other product can be developed. The only exception is if additional resources or technology are introduced into the system. Also, operating within the PPC indicates a misallocation of resources leading to unproductive operation levels.



Quantity: Quantity is the amount of a product being developed. The quantity produced should align with consumer demand to avoid creating too much or too little of a product, which would lead to a surplus or shortage in supply.

Scarcity: Scarcity in an economic context refers to the limited resources available as a factor of production. Some examples of scarce resources include water, gasoline, and lumber.

Services: Services are activities provided by others for a payment. Some examples of services include call center customer service work, childcare, elder care, legal services, public relations, and social services.