Glossary

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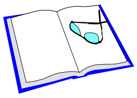

- **Economics:** the art of applying economic theory in business and administrative decision making.

- **Economic profit** = Total revenue – Economic cost

- **Economic cost** = Explicit cost + implicit cost

- **The value of the firm (VF)** is the PV of the expected future net cash flows discounted by the appropriate discount rate.

- **Direct Demand**: is the demand for the product.

- **Derived Demand**: is the demand for inputs which are determined by the profitability of producing various products, and experts' opinion.

- **Qualitative Marketing Techniques** include consumer interviews, and market experiments.

- **Quantitative Marketing Techniques** include statistical relationships, trends, regression analysis, and game theory.

- **Short-run Cost** is when the time is not enough to change all inputs; therefore costs are classified into fixed and variable costs.

- **Long-run Cost** is when the time is long enough to change all inputs, therefore all costs are variable.

- **Sunk Cost** is the cost that does not change or vary across decision alternatives.

- **Opportunity Cost:** often known as implicit cost or non-cash cost. It is the foregone cost associated with current next best use of an asset.

- **Learning Curve** when knowledge gained, experience is used to improve production techniques which results in a decline in the long-run average cost.

- **Economies of Scope** occurs when the joint production cost is less then the cost of producing multiple outputs separately.

- **Cost-Volume-Profit Analysis** is the volume of output which equates TR with TC.

- **Degree of Operating leverage**: it focuses on how TC and profits vary with operating leverage or the extent to which fixed production facilities are used.

- **Internal Rate of Return**: it is the discount rate which equates the present value if the expected cash flow to the initial cost of investment.

- **Pay back Period**: is the number of years it takes a firm to recover its original investment.

- **Capital Budgeting** is to make investment decisions that will maximize the value of the firm.

- **Expected Value of Profit** is the values of the profits weighed by the underlying probability distribution.

- **Certainty Equivalent Adjustment** Factor X Equivalent certain sum / Expected risky sum