

Topic 2: The relationship between Microeconomics and Management Accounting

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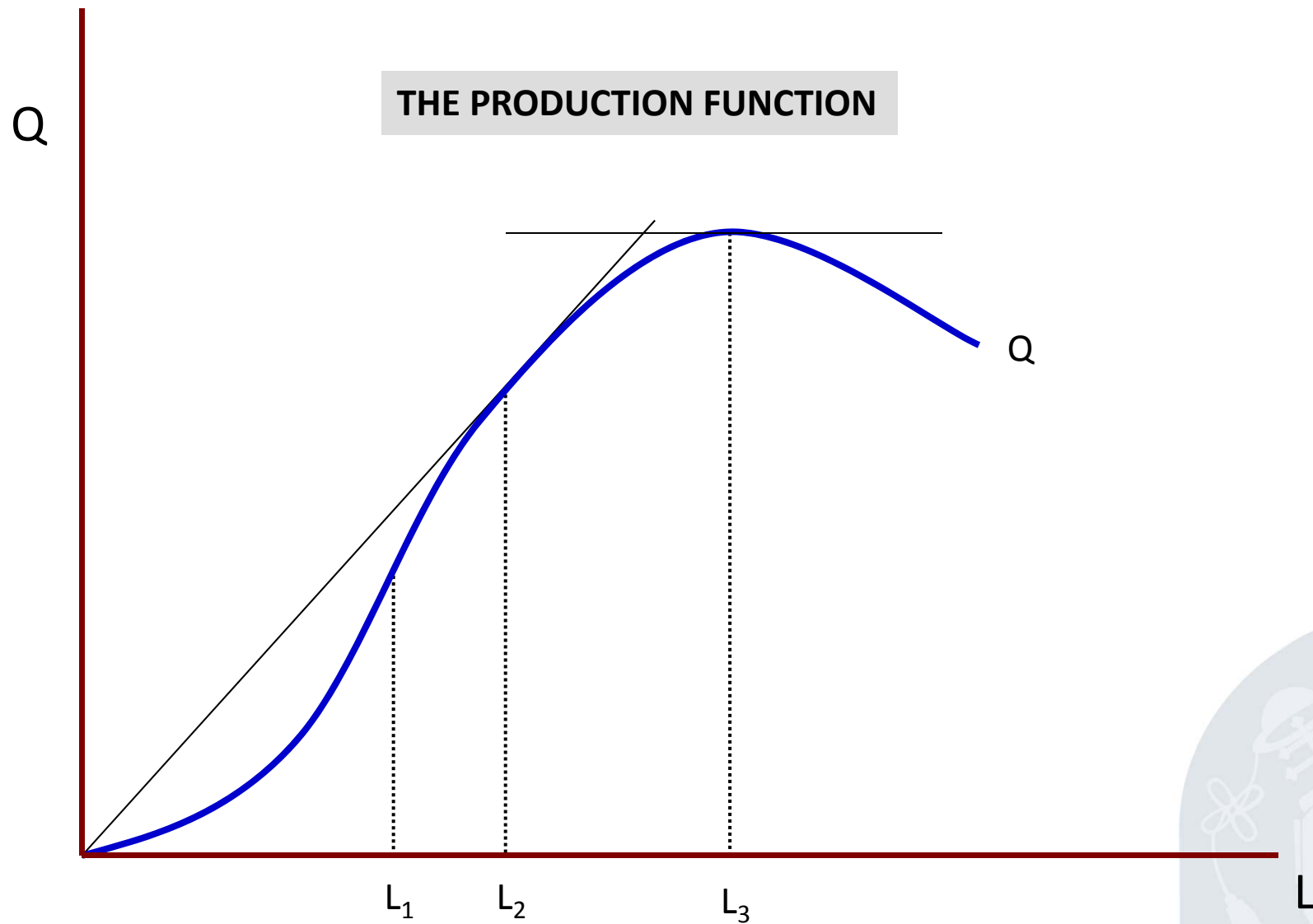
School of Business Administration
Course: Financial Statement Analysis and Management Control
Bachelor's Degree in Economics

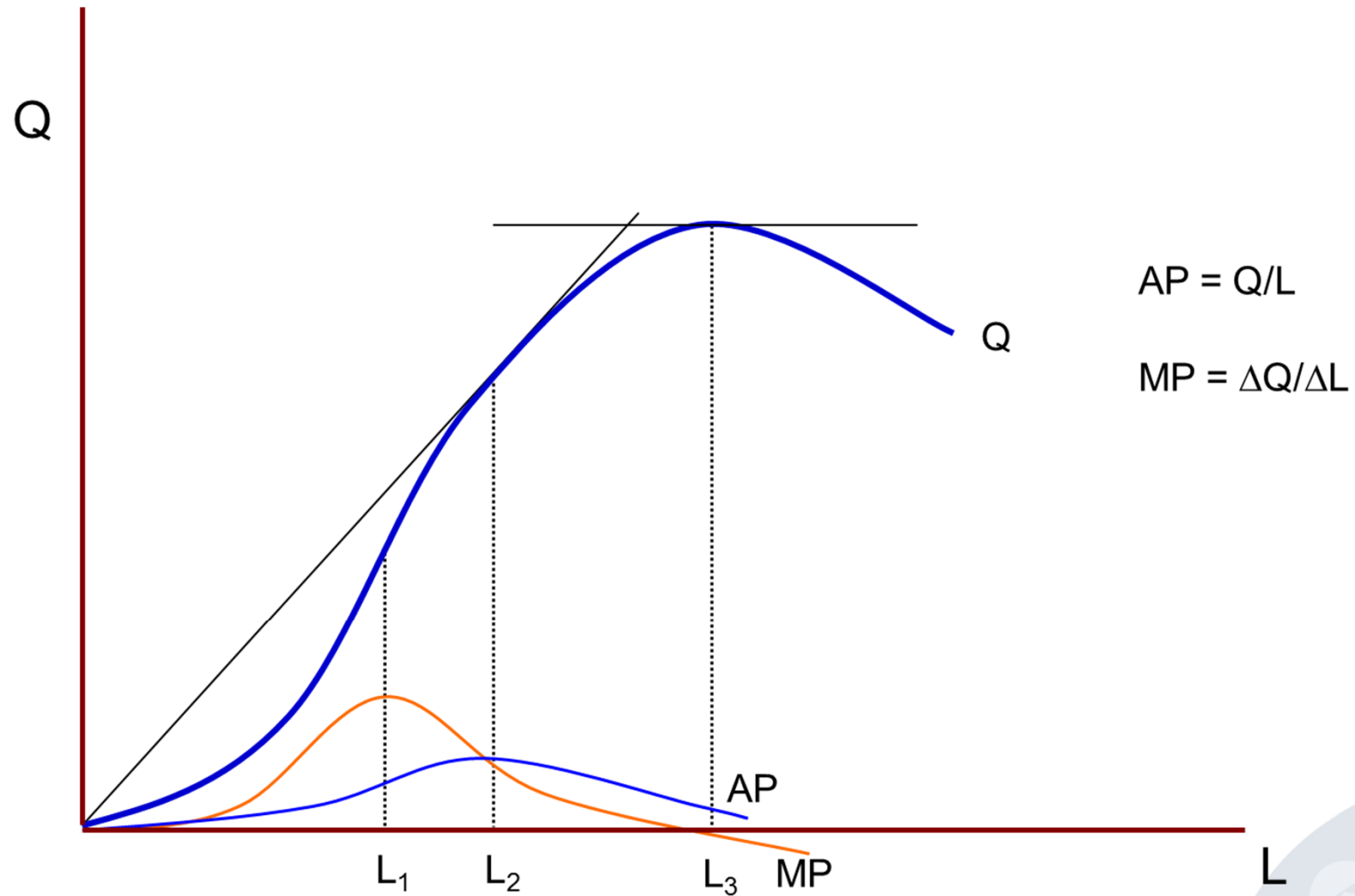


- 2.1. Basic concepts of the theories of production and costs: a practical approach.
- 2.2. Necessary information to achieve scale, technical and allocative efficiency.
- 2.3. Determining the costs of products and services.

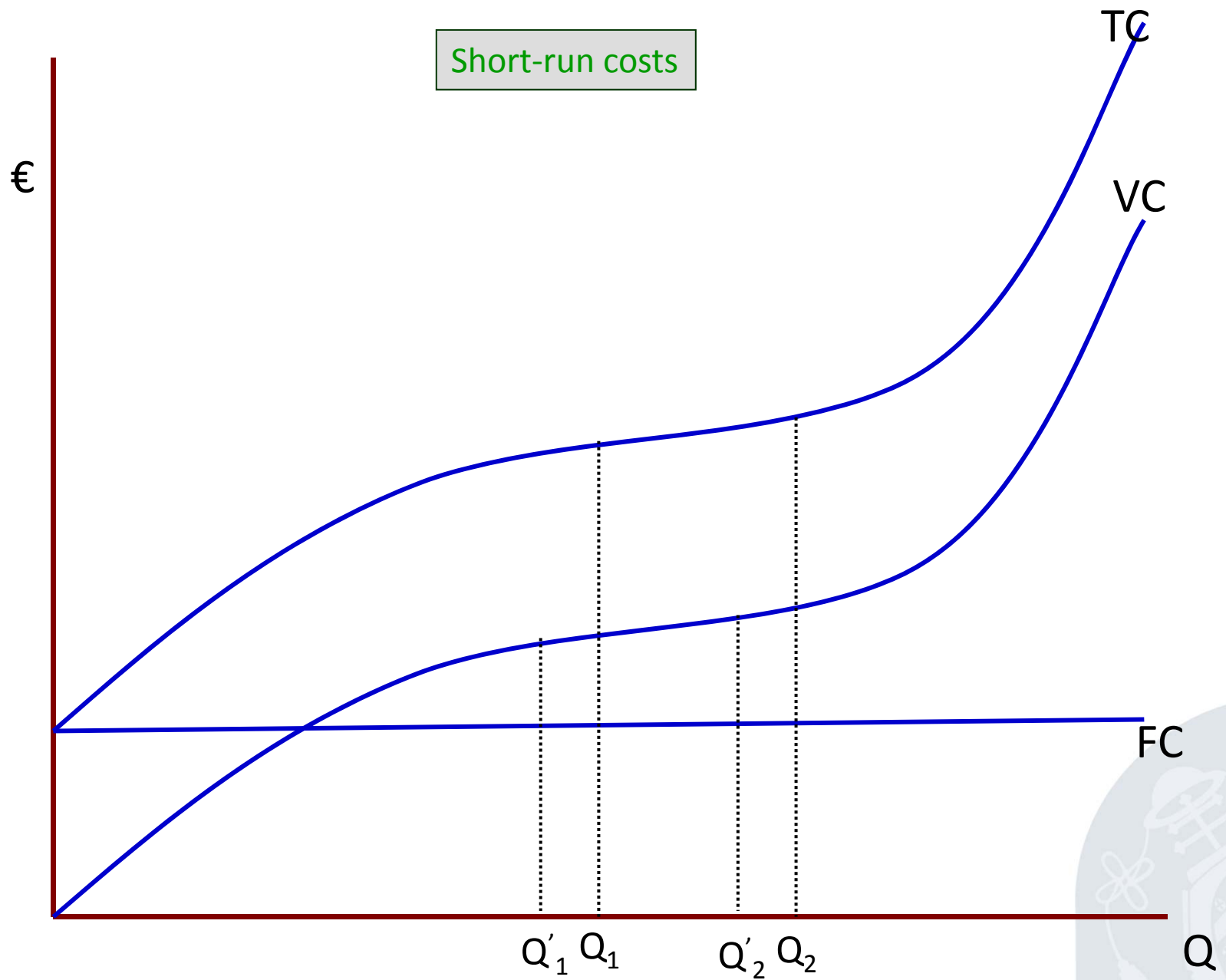


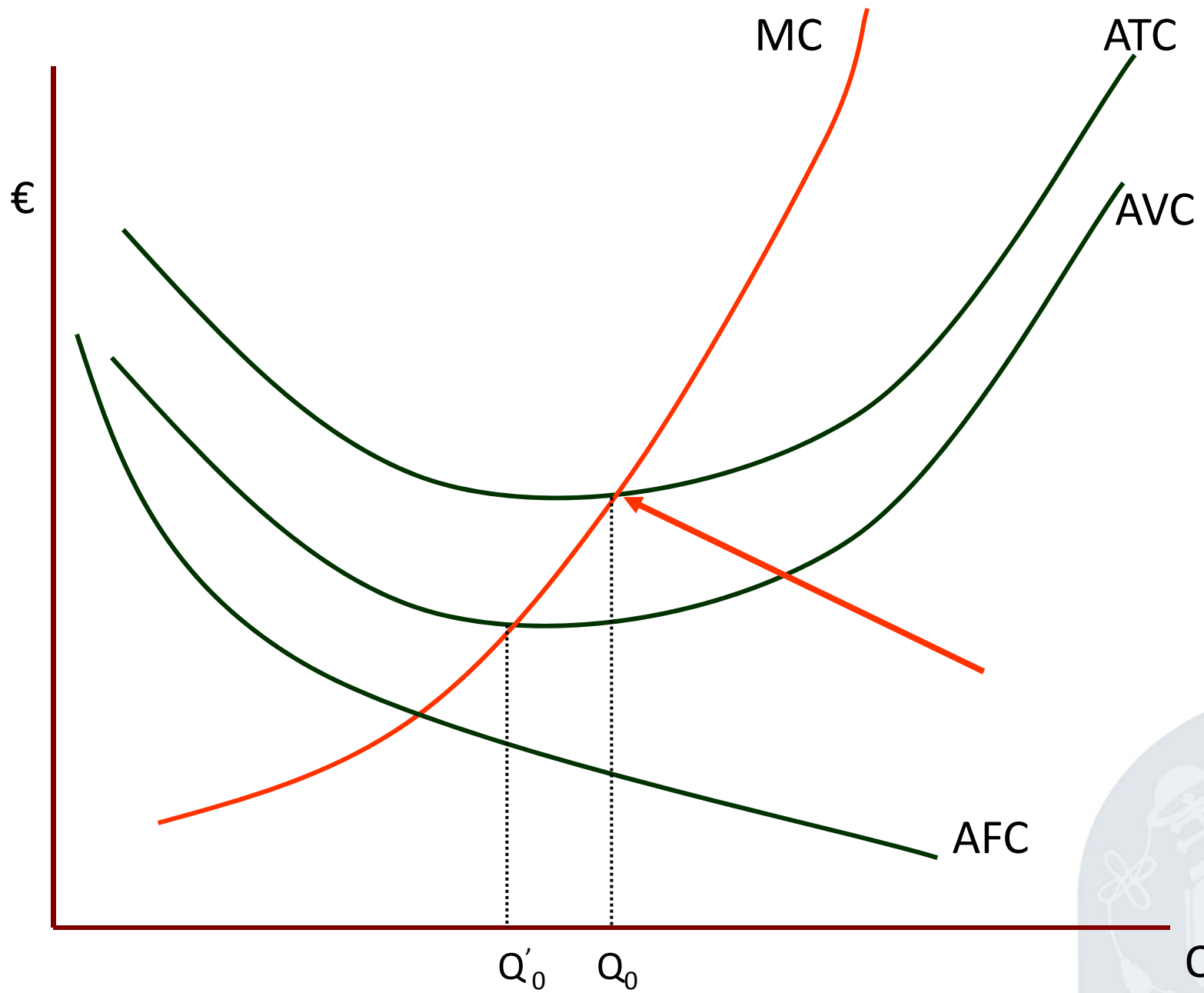
2.1: BASIC CONCEPTS OF THE THEORIES OF PRODUCTION AND COSTS: A PRACTICAL APPROACH.

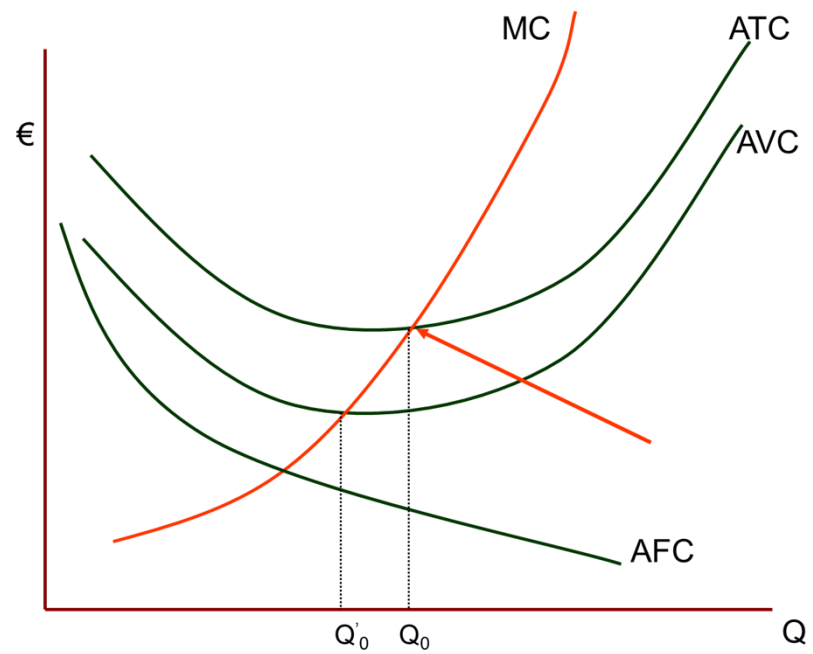
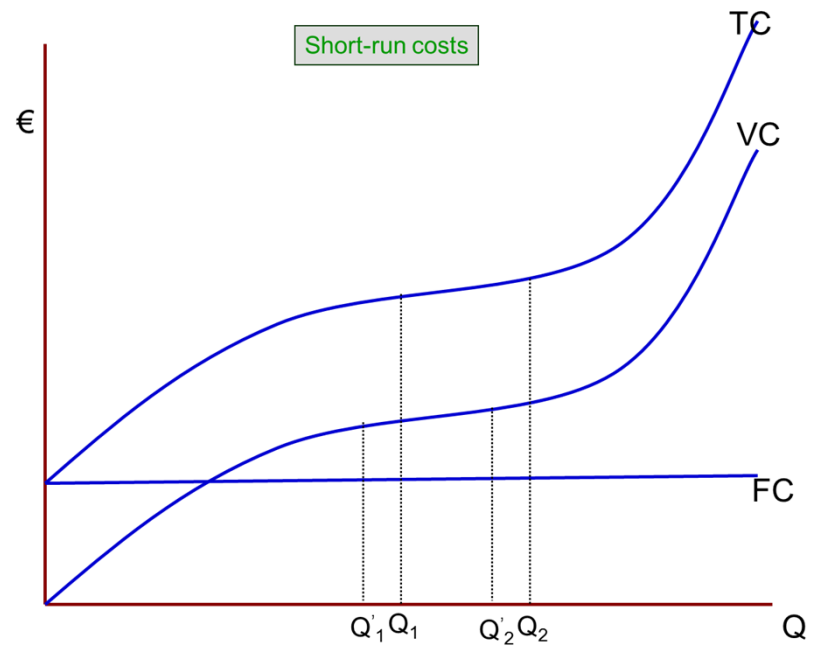


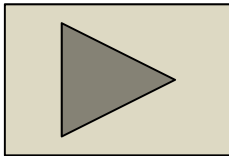


The law of diminishing returns states that as the use of an input increases (with other inputs fixed), point will eventually be reached at which the resulting additions to outputs decrease.



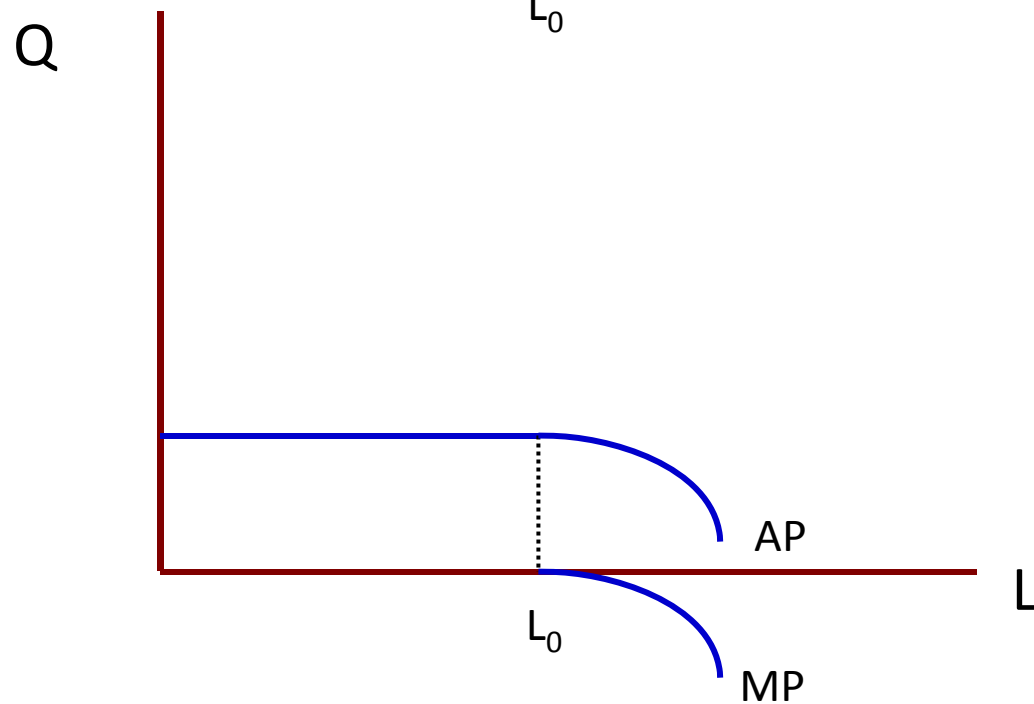
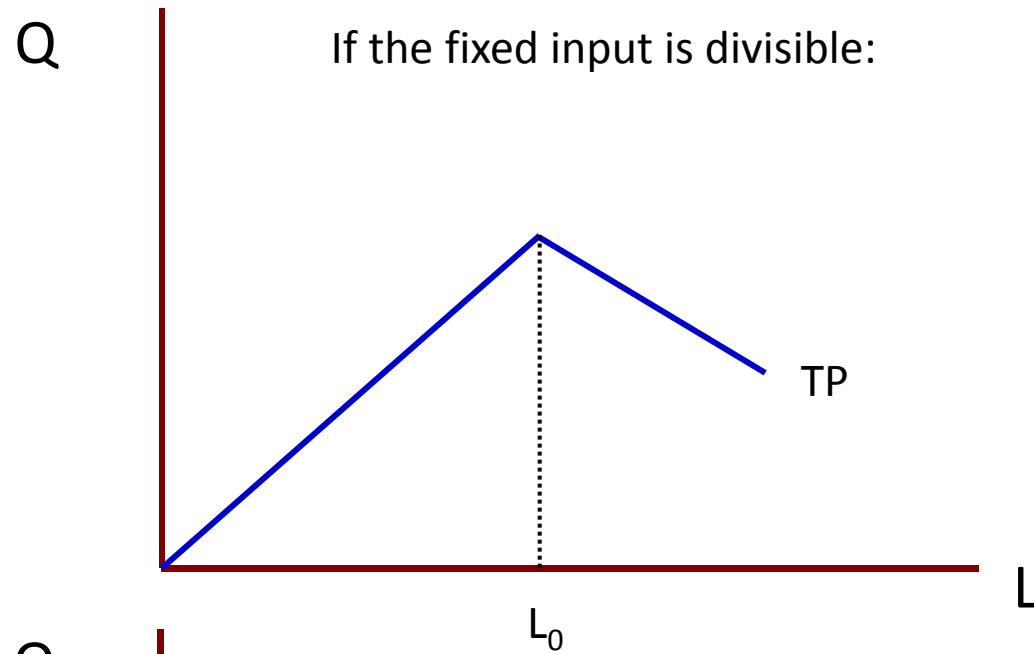


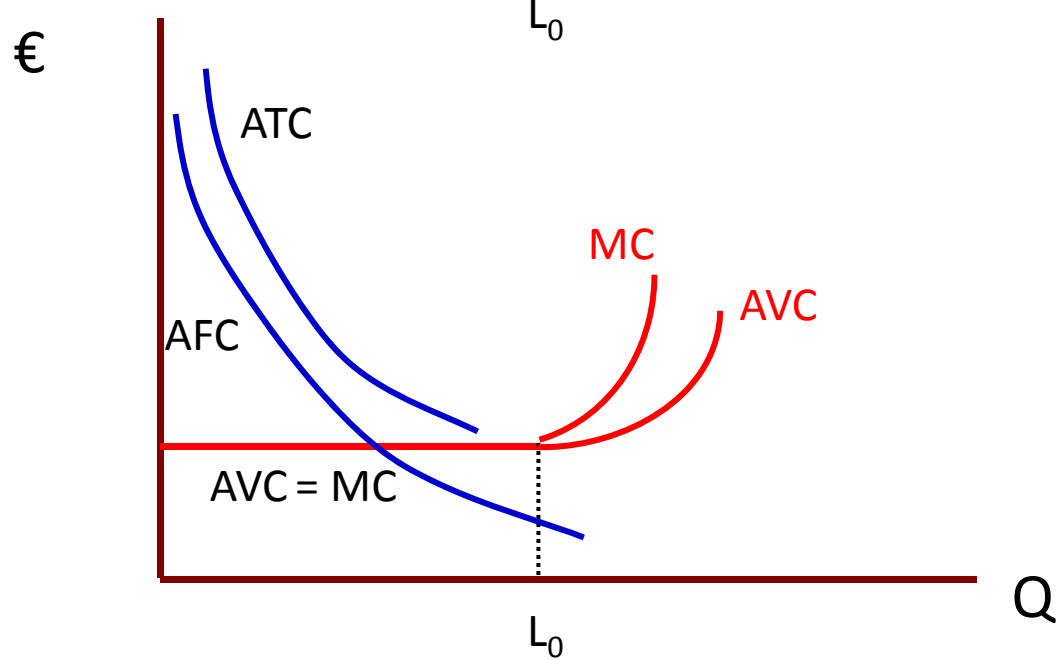
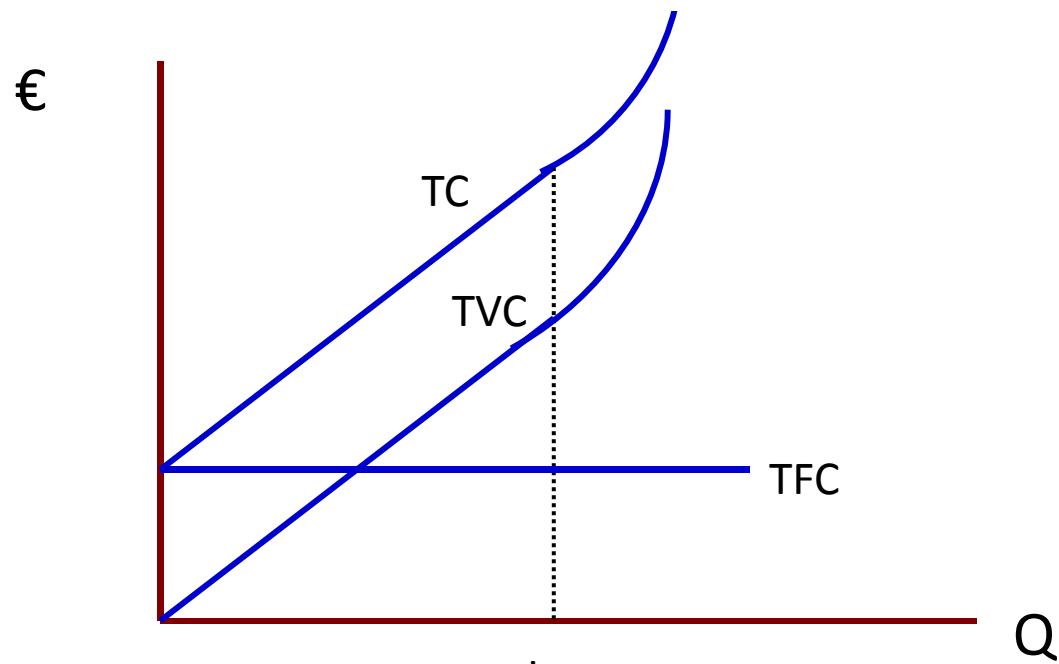




Task: try to solve problem 2.1.







2.2: NECESSARY INFORMATION TO ACHIEVE SCALE, TECHNICAL AND ALLOCATIVE EFFICIENCY.

Scale efficiency means that firms are of the appropriate size. Profit is at a maximum where marginal revenue equals marginal cost. If the firm is operating under perfect competition, that is achieved if the firm is operating at the minimum of its long-run average cost curve.

Technical efficiency: A technically efficient position is achieved when the maximum possible improvement in outcome is obtained from a set of resource inputs. An intervention is technically inefficient if the same (or greater) outcome could be produced with less of one type of input.

Allocative efficiency describes the use of inputs in the proportion that minimizes the cost of production, given input prices.

Economic efficiency comprises both technical efficiency and allocative efficiency.



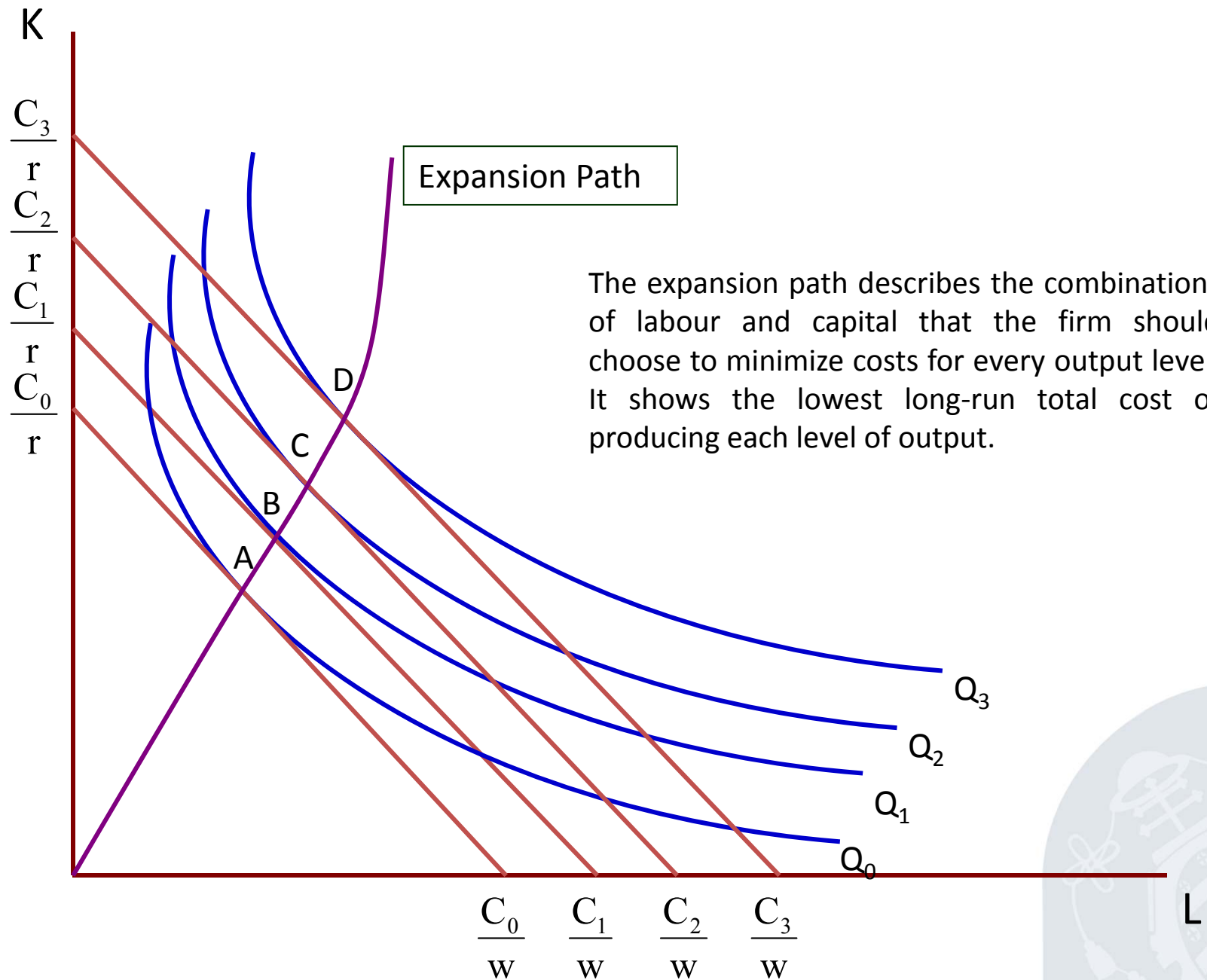
Scale efficiency implies that the firm is operating at the most productive scale size.

Technical efficiency is represented by isoquants.

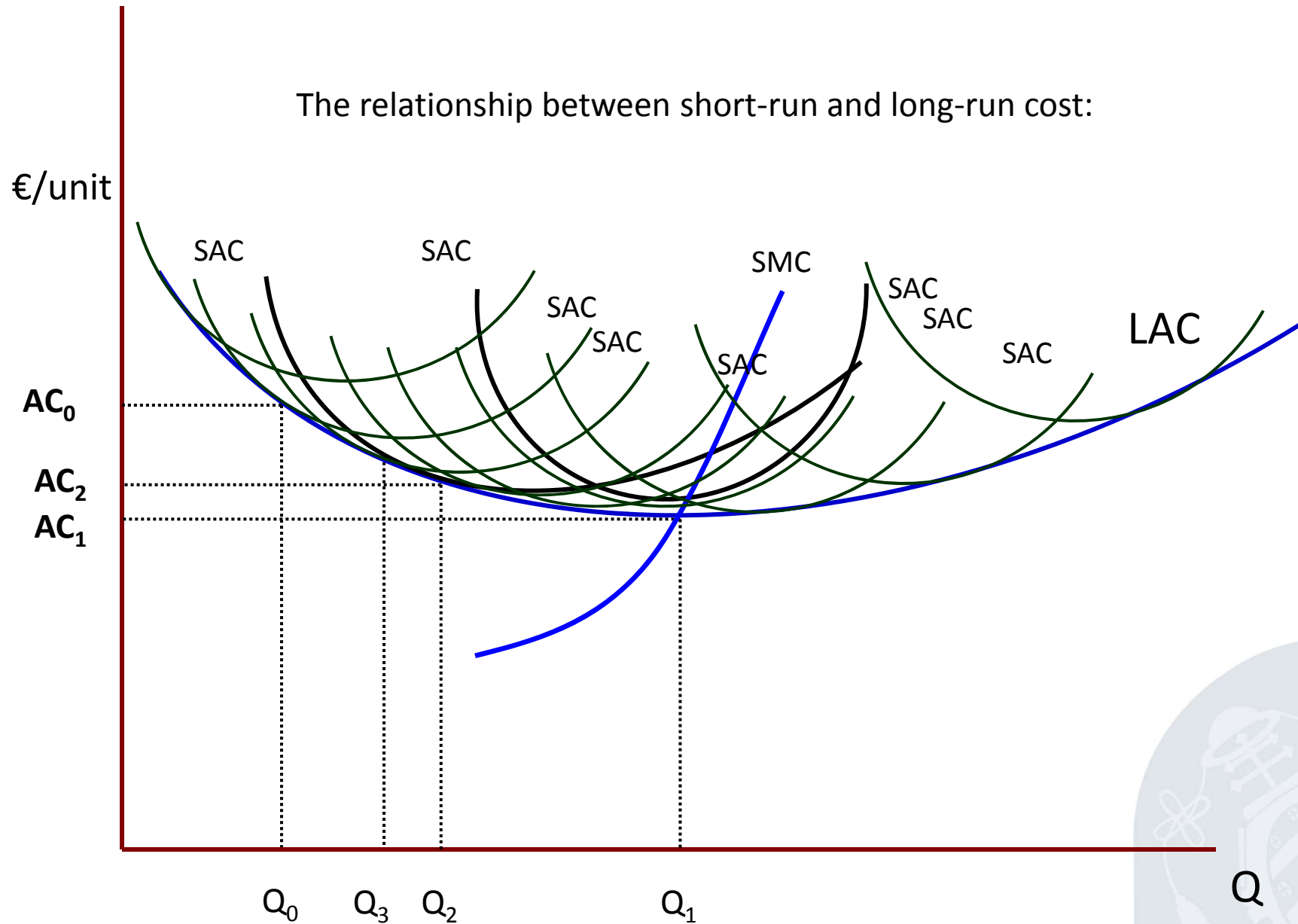
Allocative efficiency is represented by the expansion path.

To put it briefly, a company is efficient when marginal revenue equals marginal cost , and when the adequate plant size and combination of inputs have been chosen in order to minimize costs.

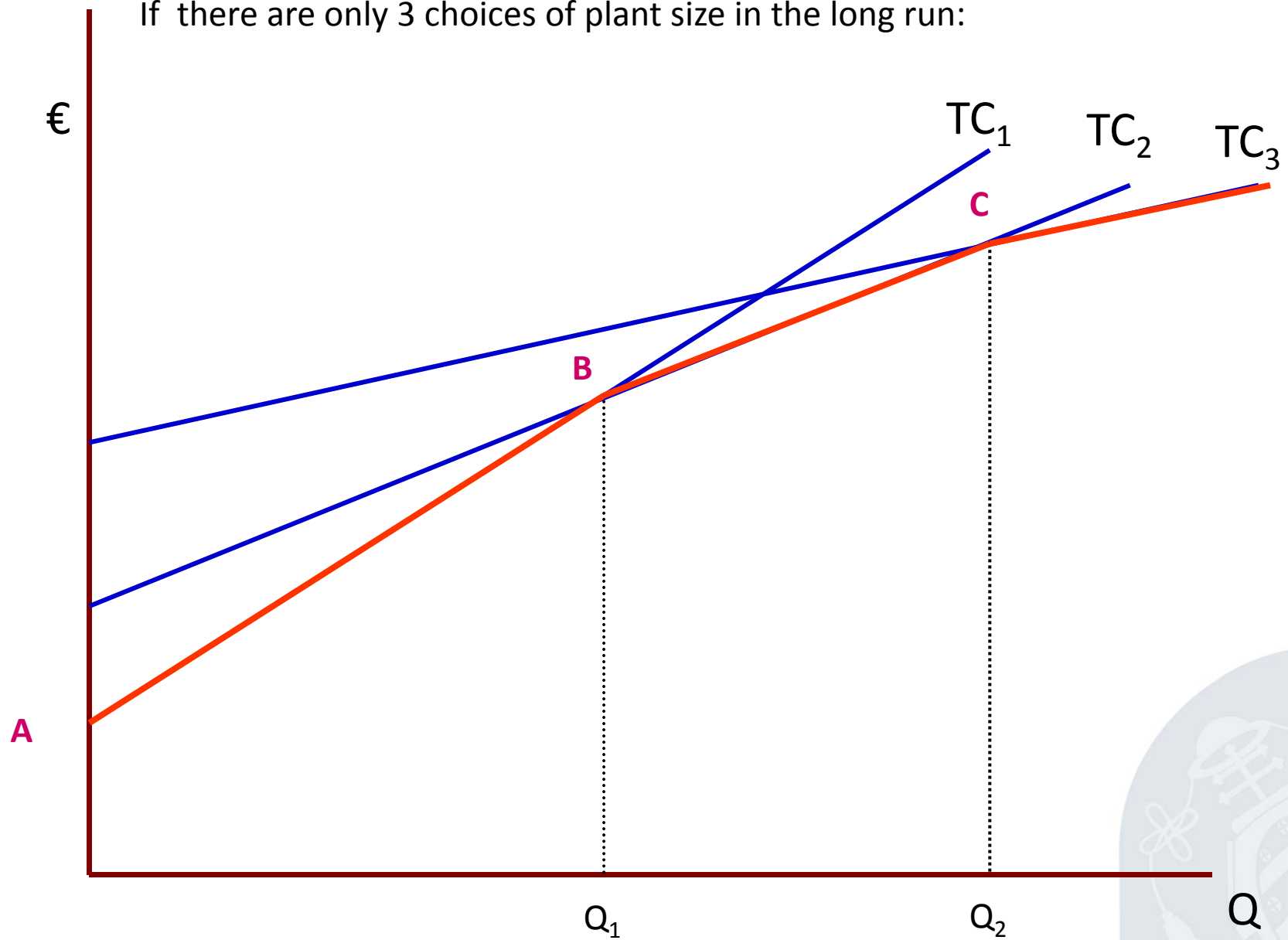


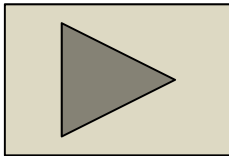


The relationship between short-run and long-run cost:



If there are only 3 choices of plant size in the long run:





Task: try to solve problem 2.2.



2.3: DETERMINING THE COSTS OF PRODUCTS AND SERVICES.

How can cost information be of assistance in providing answers to questions about the consequences of following particular courses of action:

- 1) Make or buy decisions: relevant costs should be taken into account (those expected future costs that differ among alternative courses of action).
- 2) Determining the long-run optimum production plan: the difference between revenues and variable costs should be maximized taking into account technical and market restrictions.
- 3) How many units must be sold to break-even? Costs should be separated into their fixed and variable elements in order to calculate break-even point.
- 4) Pricing decisions: should a company sell a product at a price below total cost?