

Final Exam Review

Terms to know: Be able to define the following terms and explain how they can be applied in business decision making. You will be presented several of these terms in true/false, multiple choice, or short answer questions. (30 points)

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| 1. Opportunity costs | 8. Unavoidable fixed costs | 16. Cost allocation |
| 2. Accounting costs | 9. Marginal cost | 17. Prime costs |
| 3. Relevant costs | 10. Marginal revenue | 18. Direct and indirect costs |
| 4. Relevant revenues | 11. Drivers | 19. Absorption costing |
| 5. Sunk costs | 12. Substitutes | 20. Variable costing |
| 6. Variable costs | 13. Complements | 21. Transfer pricing |
| 7. Avoidable fixed costs | 14. Demand | 22. Monte Carlo analysis |
| | 15. Elasticity of demand | |

Applying the concepts: You will be presented a handful of problems inviting you to apply key concepts listed above. Generally speaking these problems will resemble examples from the Marburger and Peterson book or exercises we have done in class. You may need to do simple calculations, but you likely will not need a calculator. (Five problems at 8 points each; 40 points total.)

The problems will involve problems with simple cost-plus pricing, cost allocation and variable costing, avoiding a death spiral, the relationship between average variable cost and marginal cost, and effects of complements and substitutes on pricing decisions.

Explaining the economic approach: You will be asked to answer your choice of three from among six questions about the economic approach to business decision making and related ideas discussed in class. The questions will ask about the following topics/concepts. (Three answers at 10 points each; 30 points total.)

1. Decisions are always forward looking
2. Advantages and disadvantages of variable costing
3. Explaining the relevant costs/relevant revenue framework
4. Three main purposes of accounting costs
5. Use of Monte Carlo analysis in business decisions
6. Externalities and congestion pricing in London's central business district

Additional guidance: Most of the above topics are discussed in the Marburger and Peterson book. A few are addressed in other readings. Some problems will be similar to those presented in in-class activities—these activities have been posted online for your reference. See the class website for a link.

You may bring in one page of notes. Paper only—no electronic devices. Maximum page size is a standard 8.5" x 11" sheet. Feel free to employ both the front and back. Put your name on your page of notes and be prepared to turn it in with your final exam.