

PRC Glossary of Postal Terms

The Postal Regulatory Commission (PRC) glossary is a list of economic, statistical, and technical terms frequently used in this website. This glossary draws on a number of sources for its substance such as: Commission opinions, material filed in Commission proceedings, pertinent statutory authority, published sources and public documents.

The glossary definitions are not "official" or "authoritative" interpretations of the Commission. Each definition represents at least one interpretation of the meaning of the term.

Comments and suggestions for further improvement are welcomed; contact the Rates and Classification Specialist (James Callow at james.callow@prc.gov).

PRC Glossary of Terms Used In Postal Ratemaking (I-L)

INCOMING MAIL – Mail received by a postal facility, most commonly for distribution and delivery within the delivery area of the receiving facility. Source: Glossary of Postal Terms, USPS Publication 32, May 1997.

INCREMENTAL COST – The incremental cost of a product (or service) is the savings that would result from discontinuing the production of that product. More specifically, the incremental cost of a product is the total dollar amount of cost that could be saved if the entire current volume of that product were to be withdrawn from production; that is, if the production level of that particular product were to decline from its current level to zero, all other factors remaining unchanged. Alternatively, the incremental cost of a product is the increase in cost that would be experienced if the production level of that product were to increase from zero to its current output level. In the postal context, the concept of incremental cost takes on particular importance as a test for cross subsidization among postal products. In general, if a product's price exceeds its incremental cost per unit, then there is no cross-subsidization.

INDICIA – An imprinted marking on the mailpiece that denotes postage payment. For example, a permit imprint on a First-Class piece as a substitute for a postage stamp or a meter stamp.

INSTITUTIONAL COSTS – Institutional costs are those costs that remain after the determination of attributable costs, i.e., total accrued costs minus attributable costs. In the postal context, institutional costs are synonymous with fixed (or overhead) costs that are not product specific. Postal revenues must cover both attributable and institutional costs.

INTEGRATED RETAIL TERMINAL (IRT) – A microcomputer used at retail windows to weigh items, calculate postage and fees, and perform postal accounting functions. Source: Glossary of Postal Terms, USPS Publication 32, May 1997. The IRT has served to automate postal retail transactions and provide greater information to customers during transactions.

INVERSE ELASTICITY RULE – The inverse elasticity rule is a method of setting prices for products and services when setting pricing at marginal cost would result in a deficit. The rule is applicable under certain assumptions to a regulated public enterprise subject to a budget constraint, such as the Postal Service. The degree to which prices are set greater than marginal cost is inversely proportional to the elasticity of demand of the products and services in question. Thus, a product or service with a relatively inelastic demand receives a higher markup over marginal cost than a product or service with relatively elastic demand. The theory underlying the rule recognizes that if the price is raised more for a product with relatively inelastic demand, the reduction in volume will be relatively smaller than if the price is raised for a product or service with a relatively elastic demand. And, the smaller the change from the volumes that would result from setting prices at marginal cost means that consumers lose a correspondingly smaller amount of the value they receive from using the product or service. The prices of postal products and services are not set according to the inverse elasticity rule because the Postal Reorganization Act specifies other factors the Commission must consider in addition to the elasticity of demand. The inverse elasticity rule is a special case of Ramsey Pricing. See **RAMSEY PRICING**

IRREGULAR PARCELS AND PIECES (IPP) – Standard Mail items that are nonmachinable by parcel sorting machinery. Source: Glossary of Postal Terms, USPS Publication 32, May 1997. Examples include rolls, tubes, small cubes or fragile parcels.

JOINT COSTS – Costs that arise where the same facility or process produces two or more products in fixed proportions. For example, increasing the production of cotton fiber would result in an increase in the supply of cottonseed. Using this analogy, joint costs are those costs associated with producing more cotton fiber and more seed in fixed proportions. In general, the fixed proportionality of the outputs produced under conditions of joint production precludes any meaningful assignment of the associated costs among the various outputs. Joint costs are a type of common cost and the two are frequently discussed together.

KEYING – The process of using a keypad to physically enter numbers that instruct mechanized mail processing equipment to direct a mailpiece in a sortation scheme.

KNOWN OFFICE OF PUBLICATION – The principle public business office of a newspaper or magazine that is within the jurisdiction of the post office (i.e., the “office of original entry”) where the mailing of such Periodicals publications is authorized.

LABOR PRODUCTIVITY – In general, the concept of labor productivity is intended to determine the amount of real output produced for each hour worked. Labor productivity is a ratio of a physical measure of output (like pieces of mail or tons of steel) divided by a physical measure of labor input (like work-hours). For many years, the Postal Service relied on labor productivity to measure its productive efficiency, using pieces of mail and work-hours. However, for purposes of measuring efficiency of production, and for comparison purposes, this measure was too simple to be useful. Pieces of mail are a poor measure of output and work-hours are a poor measure of labor input. Using pieces of mail as the measure of output requires counting one parcel as the same amount of output as one letter and counting one ordinary letter as the same amount of output as one presorted letter. Similarly, not all work-hours are the same. Another limiting characteristic of labor productivity measures is that firms can increase output by using more capital or materials. Using weighted indices of output and labor can reduce these difficulties.

LETTER-SIZE MAIL – A mailpiece that does not exceed any of the following dimensions: 11.50 inches long, 6.125 inches high, and 0.25 inch thick.

LOAD FACTOR – Generally, the percent of some total capacity utilized. An example might be the estimated proportion of the total space or capacity utilized in a truck trailer for the carrying of parcels.

LONG-RUN COSTS – Costs that result from a change in output, and are incurred over a period of time sufficiently long to permit changes in the plant and other productive capacity required to produce the additional output. The long run is not a calendar length of time or a specific period. Rather, it is the period in which all options are available to a firm, thereby permitting management greater freedom in making decisions and deploying resources.

LONGER-RUN COSTS – In the postal context, longer-run costs are those costs that vary beyond the test year in response to a change in volume within the test year, e.g., building occupancy costs.