Economics Definitions

Chapter 1 Basic Economic Problem

- Economic Problem: There are finite resources and infinite wants. Problem of scarcity arises. Thus a choice needs to be made while allocating resources which leads to opportunity cost.
- Land: factor of production which comprises all naturally occurring resources whose supply is inherently fixed.
- Labour: The aggregate of all human physical and mental effort used in creation of goods and services.
- Capital: man made resources such as machinery, tools and buildings used to produce goods and services
- Enterprise: business know how or the ability to take risks and run a production process to make profits.
- Opportunity Cost: cost of the next best alternative foregone.
- Public Goods: Non-rivalrous and non-excludable good that is beneficial for everyone.
- Merit Goods: goods that the government feels will be under consumed but has positive externalities and boosts social welfare.
- PPC: graphical representation of the alternative combinations of goods and services an economy can produce at maximum efficiency with existing resources and technology. It shows the combined maximum possible output of an economy.
- Conflict of Interest: Choosing between alternative uses of scarce resources leads to conflict of interest.

Chapter 2 The Allocation of Resources

- Market Economy: Laws of supply and demand dictate the production of goods and services. Resource allocation is controlled by the private sector with little to no government intervention.
- Planned Economy: Government and public sector, rather than the free market, determine the allocation of resources in an economy.
- Mixed Economy: economic system consisting of a mixture of characteristics of free market and planned economic systems to determine resource allocation.
- Primary Sector: comprises of human activity that extracts natural resources.
- Secondary Sector: transforms raw materials into goods
- Tertiary Sector: offers intangible goods; makes use of manufactured goods but additional component of providing services to customers.
- Equilibrium Price: quantity supplied equals quantity demanded.
- Effective Demand: willingness and ability of a consumer to buy a good or service at a given price in a given time period
- Supply: willingness and ability of a producer to supply a good or service onto the market at a given price in a given time period
- Price elasticity of Demand: responsiveness of quantity demanded to changes in the price of a good or service

- Price Elasticity of Supply: Responsiveness of quantity supplies to changes in the price of good or services
- Market Failure: when the price mechanism fails to allocate scarce resources efficiently or when the operation of market forces lead to a net social welfare loss
- Inferior Goods: Goods whose demand falls as incomes rise
- Private Cost: A producer's cost of producing goods/services such as wages, rent
- Social Cost: sum of private costs and external cost
- Private Benefit: **benefit** derived by an individual or firm directly involved in a transaction as either buyer or seller.
- Social Benefit: private benefit + external benefit
- Substitutes: alternative goods that could be used for the same purpose/ satisfy the same demand; have positive cross elasticity of demand
- Complements: products which are used together; have joint demand; have negative cross elasticity of demand
- Positive externality: social benefit > private benefit
- Negative externality: social cost > private cost
- Diminishing Marginal utility: consumption of additional units of a product provide less utility (satisfaction) each time.
- External Cost: producing or consuming a good or service imposes a cost upon a third party.
- External Benefit: producing or consuming a good causes a benefit to a third party.

Chapter 3 The Individual as a Producer, Consumer and Borrower

- Money: anything that serves as a medium of exchange and is generally acceptable.
- Bank: financial intermediary because it brings together customers who want to save money and those who want to borrow it; provides financial services
- Interest Rate: cost of borrowing money
- Stock Exchange: An organization that brings together buyers and sellers of company shares and government bonds.
- Stock Market: The global market for new and second- hand stocks (shares and bonds).
- Non wage factors: factors other than wages that contribute to the attractiveness of a job
- Net Advantages: wage + non wage factors
- Trade Union: an association representing employees in a particular workplace or industry with the aim of improving their pay and working conditions through negotiations with employers.
- Specialization: The concentration on one task/product that they are best at
- Labour mobility: the ease with which workers can move between different occupations and different areas of a country

- Collective bargaining: The process of negotiating pay and working conditions between trade union representatives and employers.
- Industrial Action: Disruptive activities, such as a strike or work to rule, that workers carry out to strengthen their bargaining position regarding demands for improved wage and working conditions, or to address other grievances.
- Disposable Income: Personal income remaining to spend or save after direct income taxes have been deducted from it.
- Utility: The satisfaction a person gains from consuming a good or service.

Chapter 4 The Private Firm as a Producer and Employer

- Sole Trader: business organization owned and usually controlled by one person.
- Partnership: A legal agreement between two or more people, usually no more than 20, to jointly own, finance and run a business, and to share any profits.
- Private Limited Company: A business organization able to raise permanent capital from the issue and sale of shares to private individuals. Shares cannot be transferred without the consent of other shareholders, and cannot be offered to the general public.
- Public Limited Company: A business organization able to raise permanent capital from the sale of shares to the general public through a stock exchange.
- Multinational: A business organization with plant and operations in more than one country.
- Cooperative: Firm owned, controlled, and operated by a group of users for their own benefit
- Public cooperation: A business organization created to perform a public sector function or to operate under government control, such as a municipal water company, public hospital or central bank.
- Nationalisation: Bringing a private sector industry under government ownership and control.
- Privatisation: The transfer of public sector activities to private sector firms who, because they have a profit motive, may be able to provide them more efficiently than public sector organizations.
- Labour intensive: A production process that uses a higher proportion of labour compared to proportion of other factors of production used.
- Capital Intensive: A production process that employs a significant amount of capital equipment relative to labour.
- Productivity: measure of efficiency; output per unit input
- Fixed Cost: A cost of production that does not vary with the level of output in a firm.
- Variable Cost: A cost of production that varies directly with the level of output in a firm.
- Total Cost: fixed cost + variable cost
- Average Cost: total cost divided by number of units produced

- Total Revenue: total flow of income to a firm from selling a given quantity of output at a given price, minus tax going to the government. Price of product x quantity sold
- Average Revenue: Total revenue/quantity sold
- Perfect Competition: A theoretical market structure in which there are a large number of firms supplying a homogenous products to an equally large number of consumers. All firms are price takers and there is free entry and exit into the market.
- Monopoly: A market structure characterized by a single seller, selling a unique product in the market. Firm is price maker and barriers to entry and exit exist.
- Economies of Scale: Internal or external factors that result in falling unit costs of production as the scale of production in a firm or entire industry is increased.
- Diseconomies of Scale: Problems that cause unit costs to rise as a firm expands beyond its optimum size.
- External Economies of Scale: Cost advantages enjoyed by a firm and all other firms in the same industry as a result of the scale of the industry being large.
- Internal Economies of Scale: Reductions in unit costs of production enjoyed by a firm as it grows in scale.
- Horizontal Integration: This occurs when two or more firms producing similar goods or services at the same stage of production combine to form a larger enterprise
- Vertical Integration: A merger between two or more rms at different stages of production of the same product, such as between a farm and a food processing company.
- Merger: The combining of two or more business enterprises into a single enterprise.
- Takeover/Acquisition: The transfer of control of one company to another through the purchase of its shares.
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Chapter 5 Role of Governemnt in an Economy

- Full employment: **economic** situation in which all available labour resources are being used in the most efficient way possible. Everyone willing to work at the existing wage rate is employed.
- Price Stability: The situation whereby the prices of goods and services offered in the marketplace either change very slowly or do not change at all.
- Economic growth: Increase in economy's productive capacity. Increase in GDP per unit time
- Fiscal Policy: changing the levels of taxation and government spending to influence aggregate demand in an economy
- Monetary policy: adjusting interest rate and money supply in an economy to influence aggregate demand
- Supply side policy: policies aimed at increasing aggregate supply. Increase the productive capacity of an economy.
- Direct tax: tax levied on person/firm on the source of earning (their income/wealth). Incidence and impact of tax fall on the same entity

- Indirect tax: tax levied on goods and services. It is levied on the person on subsequent expenditure of their income.
- Progressive tax: Proportion of income paid in tax rises as income rises
- Regressive tax: Proportion of income paid in tax falls as income rises
- Proportional tax: proportion of income paid in tax remains same as income rises
- Subsidy: form of financial assistance given to a firm by the government to offset production costs and increase supply.
- Regulation: imposition of rules by government, backed by the use of penalties that are intended specifically to modify the **economic** behaviour of individuals and firms in the private sector.

Chapter 6 Economic Indicators

- Inflation: general rise in the price level of an economy over a period of time
- Deflation: sustained fall in the price level of an economy over a period of time
- Unemployment: number of people in the working age of 15-65 who are not employed but are actively seeking a job at the existing wage rate.
- Cyclical Unemployment: workers losing their jobs due to business cycle fluctuations in output. Falling consumer demand for goods and services.
- Structural Unemployment: Unemployment arising from changes in industrial structure of an economy.
- Frictional Unemployment: short lived unemployment that occurs because of people moving or changing occupations.
- Seasonal Unemployment: when people are unemployed at particular times of the year when consumer demand for goods and services changes with the seasons
- Nominal GDP: total monetary value of final goods and services produced in a period of time (usually quarterly or yearly) in an economy
- Real GDP: measure of GDP adjusted for price changes.
- Recession: sustained fall in GDP for six months or longer.

Chapter 7 Developed and Developing economies

- Absolute Poverty: condition where household income is below a necessary level to afford basic necessities (food, shelter, housing).
- Relative Poverty: condition where household income is a certain percentage below median incomes.
- Birth Rate: A measure of the number of live births per period per 1,000 people in a population.
- Death Rate: A measure of the number of people who die per period per 1000 people in a population.
- Fertility Rate: number of live births per 1000 women (between the age 15-44 years) in a given year.
- Net Migration: immigration-emigration
- Natural Rate of Increase= birth rate – death rate
- Dependent Population: That part of a population that is economically

inactive (not in paid employment) and therefore relies on others to produce the goods and services it consumes.

- Dependency ratio = dependent population/working population
- Labour Force/Working Population: number of people aged 15-65, who are in work or actively seeking a job

Chapter 8 International Aspects

- Absolute Advantage: ability of a region to produce a good or service at a lower average cost per unit than another region
- Comparative Advantage: ability of a region to produce a good/service at a lower opportunity cost than another region
- Current account deficit: imports > exports
- Current account surplus: exports > imports
- Exchange rate: price of one currency in terms of another currency.
- Fixed exchange rate: value of fixed exchange rate is set by the government using purchases and sales of foreign currency/changes in interest rates
- Floating exchange rate: value of floating exchange rate is determined by market forces- changes in demand and supply of national currency
- Free trade: countries can import and export goods without any barriers to trade.
- Protectionism: trade barriers imposed to control amount of imports and exports of a country