

ECONOMICS DICTIONARY

Terms: 28

Syllabus 1.1

Submariner Dictionary: Unit 1 (1.1, 1.2, 1.3 + 3.2)

| Term | Definition note the use of key terms to explain the term | Diagram. Probably better to add by hand! | Example. Add examples as appropriate. |
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| Term | Definition: | Diagram to use: | Example: |
| allocative efficiency | allocative efficiency is a situation where resource use is optimised (best) so that society cannot be better off | | e.g. ppf where output is on the frontier (curve) e.g. marginal cost = marginal benefit. See dictionary items in 1.4 for more exact definitions |
| ceteris paribus | ceteris paribus translates from Latin as 'leave unchanged'. This concept is used in supply and demand to trace the effect of a change in one variable in a function. | use for non price determinants of demand and supply | Example: If a consumer experiences a rise in income the full effect can only be seen if all other variables are frozen. In reality the shift in demand that results will cause a rise in market price so the full effect of the income rise will be less than is shown with the ceteris paribus effect. |
| clearing price/ equilibrium | clearing price represents the market at optimal functionality whereby all goods and services are sold/cleared at the market price. If goods are not cleared then firms may well consider reducing price in order to clear their stocks of unsold goods. | | Use worksheet 115 to understand/revise how markets work. In particular the price mechanism can be seen to adjust in order to improve the allocation of goods and services. |
| community/ society surplus | community surplus is the gain for society in terms of the increased output and size of the market as a result of market growth. This surplus is effective to show the key benefits of the market system. It is the addition of consumer and producer surplus | | see webnote 105 |
| complements | demand function complementary goods are goods that are used together by the consumer | | e.g. tennis ball and tennis racket |

Term + Explanation**Diagram + Example**

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| consumer surplus | consumer surplus is the amount of the price of a good that the consumer gains as a result of purchasing a good for a price less than the consumer was willing and able to pay | | see webnote 104 + 105 |
| Demand: consumer (individual) demand | consumer demand represents the ability and willingness (effective demand) of a consumer to purchase a good or service. The demand schedule (table with list of prices and quantities records the relationship between price and quantity. | | Use worksheet 107 and webnote 103 to understand the demand function. |
| Demand: demand function | the demand function records the key variables that affect demand in a market. The best way to understand the effect of each variable is to use ceteris paribus (freeze all other variables in the function) and show the full effect of the variable change on the market. However it is only when you insert supply that the full effect of the variable change can be observed. | | $Q_d \text{ of } x = f \text{ of } P_x, P_s, P_c, Y, \text{Taste, Population, Advertising, etc}$ |
| Demand: market demand | market demand is simply the addition of the quantities demanded by all individual consumers in the market in order to determine the volume of the market and represents the market/industry demand for that good or service . | | |
| Demand: movement in demand | movement in demand refers to a change in demand caused ONLY by a movement along the demand curve i.e. a change in price | | If P rises then D_d falls and if P falls then Q_d will rise. |
| Demand: shift in demand | shift in demand is understood via the non price determinants. Demand curve is usually negatively sloped + shifts either left or right outward or inward from the origin, zero. | | e.g. rise/fall in income, advertising or prices of substitutes/ complements see webnote 103 for all non price determinants |
| Demand: law of demand | the law of demand states that as price rises Q_d falls and as price falls D_d rises. | | |

Term +Explanation**Diagram + Example**

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| inferior goods | inferior goods respond to changes in income ('I' of income and 'I' of inferior. As income rises then Qd of certain goods falls as consumers chose to purchase better quality substitutes | | e.g. flat pack furniture (Ikea) could be an inferior good as consumers decide to buy better quality substitutes as income rises. YeD (income elasticity of demand and inferior goods in 1.2) |
| market (also listed in Intro item 41) | market can be defined as the interaction between a buyer and seller to determine price. The interaction can be carried out in person or long distance. The Internet is a good example of how exchange of goods and services are carried out | Supply and demand. Note the diagrams can be used to represent good or service. | Use worksheets 106,107 and 115 to understand how markets work. |
| normal goods | normal goods are goods that follow the Law of Demand whereby as price falls Qd rises and visa versa | | e.g. clothing, furniture etc |
| price (signal and incentive function) | price is determined in the market where supply and demand interact. This is often referred to as the 'clearing price' where what is produced / supplied to the market is sold at the market price | | See webnote 110 for a review of how important price is in terms of sending signals to consumers and producers. Take a look at the exam question on signal and incentive in this webnote. |
| price control | price control is government intervention to control price. The price control can be either above or below the equilibrium price and is a controlled price regulated by government | Diagram should show price minimum and/or price maximum. Key focus should be on disequilibrium price i.e. $P < \text{or} > Q$ | Price control is often introduced to protect consumers using a lower than equilibrium price (e.g. essential goods like bread or rice in poor countries) or price is raised above equilibrium to protect farmers. . See dictionary 1.3 items 8,9 +10 |
| price mechanism (also listed in Intro item 41) | price mechanism is the supply and demand model that interact to determine an equilibrium price in a market. Movements and shifts interact to allocate goods/resources and determine prices | | Use worksheets 106,107 and 115 to understand/revise how markets work. |

Term + Explanation**Diagram + Example**

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| producer surplus | producer surplus is the extra revenue that the firm receives above the price / revenue that the firm was willing to supply the product/service to the market | | see webnote 104 + 105 |
| productive efficiency | productive efficiency is understood in economics in several ways. Production on the PPF represents economic efficiency. In micro economics it is essentially when firms are using resources most cost efficiently whereby output per worker/machine per hour is maximised | use PPF or Average Cost (See 1.5) | |
| subsidy | subsidy is a payment from government to the firm. The subsidy is primarily intended to increase the quantity supplied and make the market bigger bringing benefits to consumers in lower prices | See webnote 102 and section 1.3 for full effects of a subsidy | e.g. supply shifts downward to the right when government introduces a subsidy |
| substitute goods | demand function substitute goods are goods that the consumer is willing to purchase as alternatives because of some price or non price adjustment. Supply function substitutes are alternative goods that the producer can produce with the available factors of production | | demand: pepsi and coca cola supply: milk or meat for a farmer |
| supply function | the supply function records the key variables that affect supply in a market. The best way to understand the effect of each variable is to use ceteris paribus (freeze all other variables in the function) and show the full effect of the variable change on the market. However it is only when you insert demand that the full effect of the variable change can be observed. | | $Q_s \text{ of } X = f \text{ of } P_x, P_s, P_f, G, \text{ Technology, Weather, etc}$ |

Term + Explanation**Diagram + Example**

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| Supply: firm supply | firm supply represents the relationship between price and quantity supplied for the firm. It is sometimes referred as a resource usage curve as it requires more factors of production to produce the higher quantities that firms want to supply as prices increase. The supply schedule (table with list of prices and quantities records the relationship between price and quantity. | | Use worksheet 106 and webnote 102 to understand the demand function. |
| Supply: law of supply | the law of supply states that as price rises Q_s rises and as price falls Q_s falls | | |
| Supply: market supply | market supply is the addition of all quantities supplied by all individual firms and represents the market or industry supply for that good or service. | | |
| Supply: movement in supply | movement in supply refers to a change in supply caused ONLY by a movement along the demand curve i.e. a change in price | | |
| Supply: shift in supply | shift in supply is understood via the non price determinants. Supply curve is normally positively sloped + shifts either left or right. | | e.g. indirect taxation/ subsidies, technology or weather see webnote 102 for all non price determinants |
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