Term +Explanation **Diagram + Example**

ECONOMICS DICTIONARY

Terms: 19

Syllaubus 1.2

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

Term Term	Definition note the use of key terms to explain the term Definition:	Diagram. Probably better to add by hand! Diagram to use:	Example. Add examples as appropriate. Example:
ad valorem tax	ad valorem (which means added value) tax is a % tax whereby the amount of the tax increases with the price of the good		VAT of sales tax in Germany (Mvst) is 19% so the higher the price of the car the more tax that needs to be paid by the consumer.
complement goods	complementary goods are goods that are used in simultaneously elg. Tennis ball and tennis racket		see demand function and webnote 103
elastic	elastic applies to all 4 elasticities and means that Q responds proportrionally greater than price i.e. a 1% change in price results in a >1 change in Q.		Formula: % change in Q/% / % change in price If price changes from 10 to 12 and as a result quantity changes from 200 to 100 then the formula will give a result of 50%/20% = PED of - 2.5
flat rate tax	flat rate tax is a specific tax where the same amount of tax applies at all prices		1$ on every bottle of wine sold is paid to government
incidence of a tax	incidence of a tax is the issue of who shares the burden of the tax. The tax is measured by the vertical distance between 2 supply lines. This creates a parallellogram and therefore a total revenue box. All of this is paid to government. The incidence of a tax looks at how this burden is shared between the consumer and the producer		see worksheet webnote 133 in section 1.3 of the website.
inelastic	inelastic applies to all 4 elasticities and means that Q responds proportrionally less than price i.e. a 1% change in price results in a < 1 change in Q.		

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manufacturing sector	manufacturing sector refers to industry that allows firms to increase supply at short notice by employing more factor inputs e.g. land, labour and capital		cars, boats and planes could fit into this sector as these are luxury goods and the high prices can attract ample resources
ped	price elasticity of demand measures the % change in Q / the % change in P		the key focus in ped is total revenue. All price changes result in a change in Q (unless ped = 0) and therefore total revenue changes (TR). TR changes even if ped = 0. See webnote 121 for questions and answers for PED.
pes	price elasticity of supply measures % change in Qs / the % change in price		pes is primarily concerned with how flexible the output of a firm can be in relation to changes in price. Some firms cannot be flexible because the good is a primary good (e.g.food) and supply cannot be increased in the short run. Manufactured goods suppluy however can be increased in the short run as new machines and labour (factor inputs)can be added to increase output.

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primary good / commodities	primary goods refers to those goods that are produced directly from nature and are effectively goods that are later processed for sale in a final goods market		examples of primary goods are commodities such as wheat, rice, coal, wood etc. These goods have a special significance in elasticity theory because in the short run the supply of these goods is fixed. They are also important in yed because some of them e.g. food tend to be income inelastic and price inelastic as is the case with food. Note that some of these primary goods/ commmodities however may be price and income elastic e.g. cotton. Cotton has significant substitues that are produced from oil and therefore it may be price elastic because of these substitute goods. Cotton could also be income elastic because as income rises the demand for cotton could increase proportionally higher as
substitute goods	substitute goods are alternative goods the consumer can decide to purchase if the price of X is too high		see demand function and webnote 103
tertiary sector	tertiary sector relates to (often higher priced) services that are provided as an economy reaches higher levels of income and development		typical examples would be the markets for foreign holidays or special wellness private health care services. Tertiary sector of the economy would tend to be price elastic + income elastic

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Time- long run	long run in economics is a period usually in excess of 1 year but the exact time span depends on the industry. Generally 1-3 years is acceptable as long run for an industry.		time is a key factor in markets and the long run is a key factor as PED and PES are likely to be more elastic in the long run as buyers can seek alternative prices and products so that they are not under pressure to buy in the short term. Consider a house or a car. How much time do people take to make such decisions. The higher the % of income involved in the purchase the more likely it is that PED will be elastic
Time- short run	short run in economics is a period when at least one of the factors of production (usually land or capital) is fixed in supply. Usually relates to a time period from 0-12 months.		time is a key factor in markets and the PES is an example as supply will become more elastic as time increases. Time is also a factor determining the PED as time will likely make the consumer more elastic as he/she has the opportunity to seek alternative products at alternative prices. The Internet has been a key player here as it allows the consumer to be fully informed about prices in the short run and all prices in the market can be determined in a short space of time e.g go shopping for a camera on Amazon. This makes consumer more price elastic in the short run.
unitary elasticity	unitary elasticity is when the % change in Q = % change in price or income		unitary elasticiy =1 therfore % change in Qdx / % change in P =1 i.e. unitary elastic.

	xed	cross elasticity of demand measures the % change in the Qd of X / % change in the price of Y		coca cola and pepsi the xed is positive xed for tennis ball and tennis racket is negative. See webnote 123.
	yed	income elasticity of demand measures the % change in Qd of x / % change in income (Y).		see webnote 123
31	tax-indirect	indirect tax is a tax on goods and services. It is avoidable only when the buyer refrains from buying the good.		different rates of indirect tax apply. In Germany the main rate of indirect tax is 19% but lower rates apply for certain goods such as some foot items and childrens clothing. This beneifts lower income earners and the rate can be significantly lower such as 7.5%.
32	tax - direct	direct taxes are taxes on the people who earn inomes from any of the factors of production		labour: wage tax capital: interest tax land: rent tax enterprise: profit tax