Term +Explanation **Diagram + Example**

ECONOMICS DICTIONARY

Terms: 18

Syllaubus 1.3

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 tax is an indirect tax (tax on goods and services) that changes as the price increases (ad valorem or added value). It is often referred to as a % tax. See indirect tax below	Refer to Supply function but note that in this case the shift in supply will not result in a parallel line but a diverging line. See	In Germany the main indirect tax or Mehrwertsteuer is 19 %. Some essential goods such as food items and chlid clothing may have a lower rate of tax to make it easier for poor people to affords these 'essential' goods.
direct tax	a direct tax is a tax on an individual and is paid by all of the 4 factors of production on any income received. Most useful for our analysis in macroeconomics.	Indirect tax: see supply function in webnote102 Direct tax see section 2 webnotes.	Direct taxes are placed on all 4 factors of production: land = rent labour = wage capital= interest enterprise = profit
disequilibrium	disequilibrium is a key word to show the impact of price control as it hightlights that as price is fixed above (supply>demand) or below the equilibrium(demand>supply) then the market will not be able to clear at the equilibrium price		See webnote 131
flat rate tax	flat rate tax is an indirect tax the amount of which remains the same regardless of the price of the good	Supply will shift but the lines will be parallel. See webtnoe 102	This tax is often used at airports when for example wine is taxed at a fixed rate of 2$ per bottle
glut	glut is over supply whereby the market is oversupplying at a given price and S>D.		Miniun price typically leads to a glut in the market as firms are encouraged to increase supply as price is fixed above equilibrium
incidence of a tax	incidence of a tax looks at who carries the burden of the tax i.e. does the consumer or the producer carry the cost or how is the cost shared.		See webnote 132

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indirect tax	indirect tax is a tax on goods and services Be sure to show that the amount of an indirect tax is always the vertical distance between the 2 supply lines.		see ad valorem or flat rate as these are the 2 alternative types of indirect tax
price ceiling	price ceiling is price control where government fixes price below the equilibrium. It is also named maximum price. Leads to scarcity where D>S.		See webnote 131
price control	price control is where governent fixes a price above or below equilibrium		
price floor	price floor is where government fixes price above equilibrium. Leads to glut where S>D		see webnote 131
subsidy	subsidy is a payment by government to firms to promote increased output and put downward pressure on prices		see webnote 132 and 102
rent control	rent control is an example of government intervention to control rent prices so that poorer citizens can afford housing		Often used in large cities such as New York.
black/parallel informal market	black market is an untaxed market		see webnote 137
minimum wage	minimum wage is an example of price (wage) control to raise wages for lower paid workers.		
Note:	Note carefully that indirect taxes have a key welfare impact because markets get smaller as a result of indirect taxation. There is a welfare loss due to indirect taxation.		See welfare loss / deadweight loss in webnote 138
Note:	governments have often used price support for agriculture in an effort to support farmer incomes		see guaranteed price scheme in webnote 131

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Note:	price control is only effective in the short run and this is important for evaluation purposes. Remember that price control effectively kills the incentive and signalling functions of the market and is therefore mostly used used for short term purposes or in emergency situations. Mimimum wage laws and rent control are notable exceptions		
Note:	A key failure of floor / m inimum price control is the glut effect whereby excess output is produced and this is often wasted if markets become flooded with goods leading to poor allocation of resources as the output is not sold in the market. S>D.		