

**ECONOMICS DICTIONARY**

**Terms: 26**

**Syllabus 1.4**

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

<b>Term</b>	<b>Definition</b> note the use of key terms to explain the term	<b>Diagram.</b> Probably better to add by hand!	<b>Example.</b> Add examples as appropriate.
<b>Term</b>	<b>Definition:</b>	<b>Diagram to use:</b>	<b>Example:</b>
market failure	market failure is where markets fail to allocate resources efficiently from a society point of view and therefore the market is over or under producing /consuming. MSB is not equal to MSC.	MSB and MSC. See webnote 143 for overview of 4 externalities	5 main categories: 1) externalities 2) public + merit goods 3) asymmetric information 4) immobility of FOP 5) monopoly
welfare loss	welfare loss is a situation where socitey is worse off due to market outcomes whereby MSB is not equal to MSC	MSB and MSC.	Direct taxes are placed on all 4 factors of production: land = rent labour = wage capital= interest enterprise = profit
EU Emission Trading Scheme EUETS	The EU ETS is a eurozone scheme designed to regulate the emission of carbons and therefore regulates the buying and selling of pollution permits whereby polluting firms pay higher costs of production if they need to buy permits to emit certain levels of carbon		Take a look here: <a href="http://ec.europa.eu/clima/policies/ets_en">http://ec.europa.eu/clima/policies/ets_en</a>
extending property rights	extending property rights is the intervention of government to give ownership to previously publicly used resources such as land or sea resources. The objective to to increase protection for these resources by applying penalties to users who abuse the resources.		example of extending property rights is the taking ownership of sea areas and setting up exclusion zones in order to restrict or ban fishing in these areas to prevent overfishing and depletion of fish stocks
external benefit	external benefit is the benefit to a third party from some market based activity		firm provides a sports centre for its employees but make it available to the wider community
external cost	external cost is the cost to a third party as a result of some market based activity		firm causes pollution damage to a local water system and health is affected in the local community. The cost of the health care is paid for by government.

**Term +Explanation****Diagram + Example**

marginal private cost (MPC)	marginal private cost/benefit represents the stakeholder firm and shows the marginal (=change in total cost) cost of producing one additional unit of output		
marginal social costs (MSC)	marginal social cost represents the stakeholder society and shows the cost/benefit to society of the production of one additional unit of output		
merit goods	merit goods are goods that are undersupplied in a market such as education and healthcare. These goods are considered good for society and therefore government intervenes to increase the supply of these goods and services		
nationalization	nationalization is a policy that government uses to set up new state owned enterprises (firm) or take control of a state owned enterprise.		common examples would be the government owning and operating the supply of the energy sector such as the provision of electricity. Recently nationalisation was used in the UK when the government took control of the RBS during the 'Great Recession' of 2008-10
negative externality of consumption	market is overconsuming. Most commonly used for demerit good analysis.. Consumption must cause a 'loss of benefit' to society (or third party).		consumption of cigarettes or alcohol causing damage to a third party driving a car causes pollution hence the concept of 'carbon footprint'.
negative externality of production	market is over producing. Production causes an external cost to a third party.		fossil fuel pollution is a common example
positive externality of consumption	market is underconsuming.		education would be a good example here and governments are interested in subsidizing education as it is critical for economic growth

**Term +Explanation****Diagram + Example**

positive externality of production	market is under producing		a firm trains its employees and when these employees leave the firm their level of training can benefit the new employer
privitazation	opposite to nationalization it is when government sells state owned enterprises to the market i.e. shares can be bought and sold on the stock markets		Deutsche Telekom was a state owned enterprise in the 1990's but is now a private enterprise
public goods	public goods are goods that the market is very poor at providing as they have 2 key features. Public goods are non rivalrous(consumers do not need to compete in order to consume) and non excludable ( users are not prevented from accessing/using the good.		e.g. national defence spending by government e.g. a lighthouse on the coast warns ships of coastal danger e.g. a motorway can be described as a public good but it could be provided by the market so it is described as a 'quasi public good'.
tradeable permits	see ' EU ETS above. A tradeable permit gives a firm a permission to pollute (omit carbon) but the permits are tradeable and firms are required to pay for the permits therefore they become a cost of production and therefore firms are motivated to use less permits as it will reduce costs of production. As a result the scheme is intended to promote cleaner technology and lower carbon omissions		cap and trade is another term used here to promote a cleaner environment: Take a look here: <a href="https://www.edf.org/climate/how-cap-and-trade-works">https://www.edf.org/climate/how-cap-and-trade-works</a>
regulator	regulator is the legal controller to ensure that certain standards are met		Europen Commissioner for Competition is a Brussels/EU person responsible to maintain competition in markets. Take a look here: <a href="http://ec.europa.eu/competition/">http://ec.europa.eu/competition/</a>
common access resources	resources that are not privately owned and accessible by the community		forests and beaches including coastal waters and rivers would be good examples

