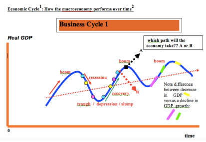
Term +Explanation **Diagram + Example**

Economics Dictionary

Terms: 45

Submariner Dictionary: Introduction

Term	Definition:	Diagram:	Example:
actual + potential output	Actual output is thecurrent level of production in an economy. Potential output is a representation of the possible output based on the quantity and quality of factors of production	PPF-see webnote 004	
business cycle	business cycle is a term to describe the performance of a macroeconomy over time relating GDP rises and falls over time.		
capital	Capital has 2 key applications in this course. In microeconomics it is essentially a 'man made' machine used for productive purposes. In macroeconomics it has a wider interpretation including infrastructure (49) and spending on public capital projects such as road + rail links designed to improve the performance of the economy.		bakery and oven. The oven is capital
central planning	central planning explain how government is involved in the allocation of resources in terms of what to produce? How to produce? And For whom to produce? Term is often associated with the command economy.		command economy in North Korea, former Soviet Union etc
Circular flow of income	Circular flow of income is a model to shoe how resources are allocated in an economy. The model includes flows for G+S (goods and services), FOP (factors of production) and money flows for payments between the 3 main agents in the microeconomy - (Firm Household and Governement)	See webnote 003	

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command /planned economy	oommand economy is a government controlled economy whereby government makes the key allocative decisions about what to produce? How to produce? For whom to produce? The economic system is most closely associated with the communist political system. See also Central planning item no 6 above		
commodity	Commodity is a raw material good that is later processed into an intermediary good (goods that firms buy) or directly into a final good purchased by the household.		wood, oil or zinc
cost and benefit analysis	Cost versus benefits analysis is a term used to describe how a society considers the poitive and negative outcomes of some resource allocation in terms of the impact on the whole society		Decision to build an airport affects many stakeholders in society
economic depression	deoression in economics is a proglonged decline in economic growth where spending and output in the economy are below capacity for s sustained period of time and such an econmic crisis can last for a number of years. A notable feature of an economic depression are high unelployment rates and delfation where the price level (this is the average level of prices in an economy) in the economy is falling over time leading to firms reducing investment because they see little evidence of spending by households		Wallstreet 1929 signalled the onset of a major economic depression in the USA which spread worldwide. Unemployment rates in some of the major industrial states such as Germany and the USA reached level of 20 to 25 %. see webnote 0012 for the "business cycle" to see the impact of a recession
economic development	Key term for the course and is well explained as an investigation of how governments, households and firms interact to reduce poverty in an LEDC (Less economically developed country). Development has 3 major components that include the level of health of the population, the level of education and the income (gdp per capita) available for distribution in a nation.		

	Term +Explanation		Diagram + Example
economic goods + services	economic goods (and services) are central to resource allocation. In order to be classified as an economic good or service 3 characteristics must apply: 1) G+S must provide utility 2) G+S must command a price 3) G+S must be transferrable	See Webnote 005	
economic growth	economic growth is where an economy produces more goods and services in a given time period (usually 1 year but often you will see quarterly statistics in the media)	PPF-see webnote 004	
economic recession	recession is a key macroeconomic term to explain a worsening economic performance. If an economy has 2 successive quarters of declining economic growth then it is termed as a recession.f		see webnote 0012 for the "business cycle" to see the impact of a recession
economics	Economics is a social science dedicated to studying how scarce resources (F.o. P.) are allocated.		
economies in transition	economies in transition can be understood in terms of the stages whereby an economy operates: the main stages are 1) traditional/agricultural 2) manufacturing/industrial 3) tertiary/service based economy		LEDC economies tend to operate economic systems focused on category jwith low priced output 1. The Developed economies tend to focus on tertiary and high priced manufactured goods
empirical testing	Economics uses empirical or evidence bases research to test a hypothesis.In scientific method the word "empirical" refers to the use of working hypothesis that can be tested using observation and experiment.	See Philips Curve in Webnotes 237 + 238	
external benefit/cost	External refers to the market in that some markets cause a third party (someone not involved in the market) to incur a cost or a benefit as a result of the externality. See section 1.4	See Webnote 143 which has a summary of the 4 main types of externality	Airport is contstructed. External costs must be incurred by local residents
factor incomes	Factor incomes relates to the different incomes of the 4 factors of production	Circular Flow of income: See webnote 003	see Item 36

Term +Explanation			Diagram + Example
Factors of Production	Economic resources are grouped into 4 main types: Land, capital, labour, wage and enterprise		Land-all natural resources. Labour is the workforce in the economy. Capital is the machine used to improve labour productivity. See item 5 above. Enterprise is the key factor in the market economy as the risktaker or business owner is the one who organizes the other factors into a firm to carry out economic activity i.e. tp produce G + S. See Webnote 007 for further details
Free Goods	Free goods are goods that do not meet the requirements of an economic good or service as described in item 13 below.		e.g. sand on a beach would be classified as a free good. (But transport it to a city and you might be able to sell it to a Kindergarten as it will then meet the 3 characteristics of an economic good.
glut	Glut is a situation in a market where Supply is greater than demand and as a result of too many goods/services in the market there is downward pressure on price		Glut often occurrs as a result of government intervention in the form of price control. See section 1.3 Webnote 131 for further details
income	income relates to the payment to the 4 factors of production and relates to the money received over a period of time-usually one year. See wealth below as this relates to the total value of all assets/items of value of a household.		1) labour receives income as wages 2) capital receives income as interest 3) land receives income as rent 4) enterprise receives income as profit
infrastructure	infrastructure relates to the investment in capital projects that forms a platform on which the economy operates and allows the fast and effective transfer of goods and services		Examples include: 1) motorways and road network 2) railroad system 3) telecommunications including broadband Internet

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investment	investment is a key term that essentially involves the spending of money on capita. In microeconomics this is the spending by firms on capital. In macroeconomics this is the spending by government on infrastructure projects that help to make the economy more efficient e.g. abilty to move goods from the factory to the maket more quickly or workers can access work more quickly without traffic delays. This reduces costs for firms.		Firm: investment decision to buy a new machine Government: the government spends money on providing a fast speed railnetwork with free broadband internet
macro-economics	macroeconomics is a study of how to manage an economy in order to achieve the key economic objectives of governement. These include growth, stable prices (inflation), employment and development (better to understand development as policies to bring about poverty reduction)	See Syllabus section 2.1 Webnote 211	
market	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		
Merit goods	merit goods are goods such as education and health care that are underprovided by the market and therefore government provides funding to allow for more of these key development goods and services to be provided. Merit goods can be provided by markets but only at very high proces and the underprovision of merit goods is classified as market failure. (Sylllabus 1.4)		Hospital or school are good examples of merit goods. The govenent considers that they are important for development and provide more quantity than the market will provide
micro-economics	microeconomics is a study of how the key agents in an economy interact and how they are interdependent.	See Webnote 003.	4 Key agents are: government firm household society/community

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mixed market	Mixed market refers to a rationing system built on the price mechanism in order to allocate resources in an economy. The mixed market organises the production and distribution of goods and services. However, government plays a key role in the mixed market by making decisions about what to produce. In most cases however the government uses the market to deliver these goods and services. Government also interferes with the market price mechanism in terms of applying indirect taxes (taxes on goods and services) and subsidies (payments to firms to influence price/output in the market.	Circular Flow of income: See webnote 003	
normative and positive economics	Normative economics is based on what 'should be' in terms of outcomes such as a statement that government should reduce increase taxes in order to reduce poverty. Students may well make nromative statements in terms of the views expressed in the evaluation of an essay title. This is different from positive statements in economics which are statements of fact.		
opportunity cost	Opportunity cost puts a focus on choice making in economics and highlights the issue of scarce resources. All agents in the microeconomy have limited resources and therefore choices have to be made. These choices affect resource allocation and how factors of production are used in the economy and the output of different goods and services in an economy. Opportunity cost can be used to highlight the choices of an individual consumer, the individual firm or also the choices faced by governement in making allocative decisions e.g. what to produce is a key decision of the firm	See PPF Webnote 004	

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PPF and choice	Choice is key to a study of economics as the agents in the mircroeconomy (household,firm and government) have to choose how to use their limited income and therefore have to make choices that affect resource allocation. Opportunity cost is a useful concept used to highlight the need to make choices. The PPF model allows us to view how an individual, firm or government can allocate its resources according to its wants and needs	PPF-see webnote 004	Government has a limited income (e.g. taxes) and needs to make decisions how to best use that income to provide merit and public goods or other choices, e.g. defence
price mechanism	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		
private sector	Private sector is a term that relates to privately owned sectors of the economy and these firms make key decisions about what to produce? and how to produce?		Vodafone is a private sector firm owned by many different shareholders and quoted on the stock exchange
public goods	public goods are goods that the market is not able to provide. 2 key characteristics exist for a public good: non rivalrous and non excludable. Non Rivalrous means that if one consumer uses the good it does not reduce the amount available for another user. Non excludabe means that if the good is provided it is not possible to prevent others from benefitting from it This is a key failure of markets.		A lighthouse or street lighting is a good example of a public good.
public sector	Public sector relates to publicy owned sectors of the economy and these are often government controlled firms that provide key services in an economy. It also includes all employees of government in the various services (merit and public) that are offered by government		

rationing	rationing is a key idea to explain how scarce resources are distributed in a market or economy. The rationing is most often carried out by the price mechanism of supply and demand whereby the consumer gets the goods if he/she pays the price. Governments may in fact reject the system in favour of alternatives such as transfer payments		
resource allocation	Resource allocation (system) is the process of distributing wealth (goods and services) in an economic system. The key resource allocation decisions that must be made in an economic system are: 1) What to produce 2) How to produce 3) For whom to produce (who/how does one ges the goods and services	Use any of the following: PPF Supply and Demand or Circular Flow of Income. See Introduction Webnotes for diagrams.	
scarcity	scarcity is a key economic concept and essentially the term recognises the gap between unlimited wants and limited scarce resources	See PPF Webnote 004	
social science	economics is a social science and examines human behaviour in the context of the economic system. Key point to note is that economics is a social science that focuses on determining, explaining and sometimes predicting human behaviour. The field of prediction is of course very difficulty and economics as a science has a poor reputation in terms of predicting macroeconomic crises such as Wallstreet in 1929.		

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stakeholders	Stakeholders is a key term in economics as it highlights the different interested parties involved in or affected by an economic activity. The main stakeholders are: 1) consumer 2) firm 3) government 4) society		See webnote 992 and '4 Ways to Evaluate'. And part 'D Evaluate' in webnote 995 to help you with this key assessment term.
sustainability	sustainability refers to the effective use of a society's resources so that resources are not over procduced or over cossumed to the extent that furure generations will be disadvantaged. Key concept in Syllabus sedtion 1.4.		
transfer payments	transfer payments are payments from government to the household. Thiese payments are made without the recipient providing a factor of production. These payments are often referred to as welfare.	See Webnote 003.	e.g. unemployment assistance e.g. child allowance
utility	utility is a term to explain the level of satisfaction a consumer enjoys and in theoretical economics it is measured in utils.	Circular Flow of income: See webnote 003	The terms is used to explain why the demand curve slopes negatively downwards as consumers pay less for higher quantities because less utility is received as we consume more of a good or service
wealth	wealth is a term to explain the total value of the household in terms of the amount or value of the goods and services that the household can afford. It includes all types of goods and services and property is a key component in many countries		Wealth relates to all assets (items of value) owned by the household and this weatth is accumulated over a number of years e.g. value of house and property etc