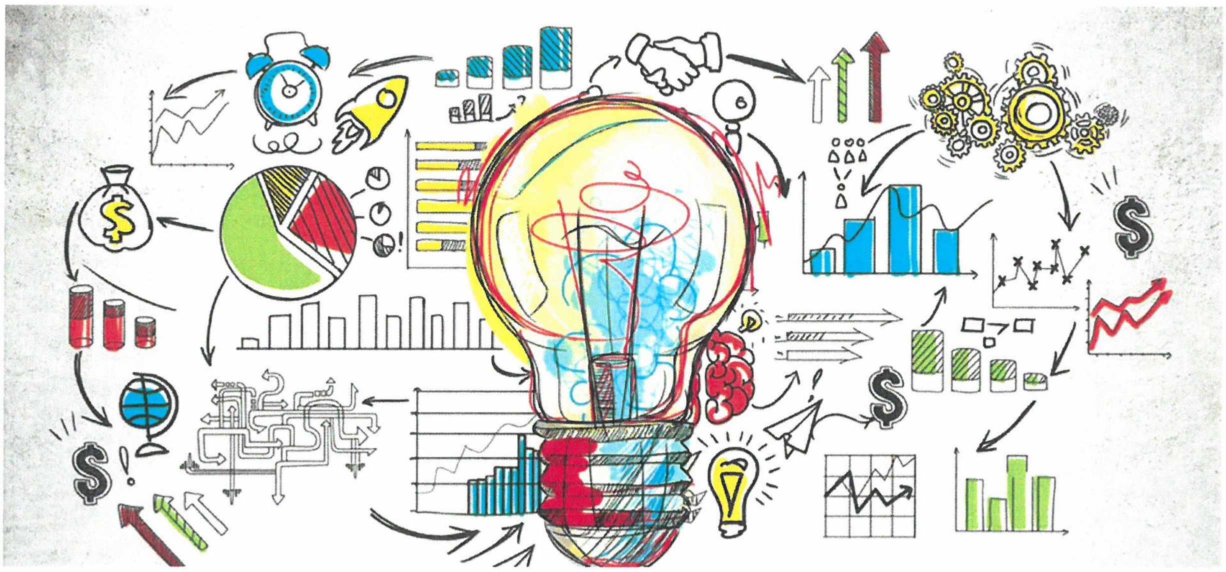
# The Economics Challenge

**All the key words you need to know…**



# Glossary

**Allocation of resources** How scarce resources are distributed among producers, and how scarce goods and services are allocated among consumers.

**Asset** Something that is expected to provide a benefit to the owner in the future.

**Average cost (*AC*)** The cost of producing a unit (unit cost of production).

**Average revenue (*AR*)** The revenue per unit sold.

**Balance of payments** The record of all financial transactions between one country and the rest of the world.

**Balance of payments on the current account** The total of net trade in goods and services, income flows and transfers between one country and the rest of the world.

**Balanced current account** Where the sum of exports plus the inflow of income and transfers is equal to the sum of imports plus the outflow of income and transfers.

**Balanced government budget** When tax revenue is equal to government spending.

**Bank rate** Rate set by the Bank of England that influences all other rates of interest in the country.

**Boom** A period of high economic activity and high levels of employment.

**Budget deficit** When government spending is greater than tax revenue.

**Budget surplus** When tax revenue is greater than government spending.

**Building society** A mutual financial institution that is owned by its members. Its primary objectives are to receive deposits from its members and to lend money for members to purchase property.

**Capital** The factor of production that relates to the human-made aids to production.

**Claimant Count** The method of measuring unemployment according to the number of people who are claiming unemployment-related benefits.

**Collective bargaining** Negotiations between a recognised trade union and employer/s.

**Competition** Where different firms are trying to sell to a consumer a similar product.

**Competition policy** A government policy to promote competition.

**Complement** Good or service that goes together with another, such as cars and fuel.

**Consumer** A person or organisation that directly uses a good or service.

**Consumer price index (CPI)** Method used to calculate the rate of inflation.

**Consumer sovereignty** Through their purchase of goods and services consumers are able to influence to influence what producers supply and thus how resources are allocated.

**Contraction of supply** The movement inwards along the supply curve, leading to a decrease in both price and quantity.

**Cost of living** The price level of goods and services bought (by the average family).

**Currency** The system of money used in a country or group of countries.

**Current account** The record of trade in goods and services, income flows and transfers between one country and the rest of the world.

**Current account deficit** Where the sum of exports plus the inflow of income and transfers is less than the sum of imports plus the outflow of income and transfers.

**Current account surplus** Where the sum of exports plus the inflow of income and transfers is greater than the sum of imports plus the outflow of income and transfers.

**Cyclical unemployment** Unemployment caused by a lack of demand in the economy.

**Demand** The willingness and ability to purchase a good or service at the given price in a given time period.

**Derived demand** Occurs when a product or factor of production is not demanded for itself, but is dependent on the demand for the product it helps to produce.

**Determination of price** The interaction of the free market forces of demand and supply to establish the general level of price for a good or service.

**Developed country** A country with high GDP per capita and developed industry and service sectors.

**Development** The process of increasing people's standard of living and wellbeing over time.

**Direct tax** A tax on income or wealth.

**Diseconomies of scale** When the average cost of production begin to increase as a firm grows in size.

**Disequilibrium** Where the quantity demanded does not equal the quantity supplied.

**Disposable income** Income available after the effect of direct taxes and benefits, often called net income.

**Distribution of income** How incomes are shared out between individuals and households.

**Distribution of wealth** How wealth is shared out between individuals and households.

**Division of labour** Where workers specialise in, or concentrate on, one area of the production process.

**Economic choice** An option for the use of selected scarce resources.

**Economic growth** Growth in GDP (value of output) over time.

**Economic problem** How to best use limited resources to satisfy the unlimited wants of people.

**Economic sustainability** The best use of resources in order to create responsible development or growth, now and for the future.

**Economies of scale** The cost advantages a firm can gain by increasing the scale of production, leading to a fall in average costs.

**Effective demand** The quantity of a good or service that an individual is both willing and able to buy at a range of prices in a given time period.

**Efficiency** Concerned with the optimal production and distribution of scarce resources.

**Elastic demand** When the percentage change in quantity demanded is greater than the percentage change in price.

**Elastic supply** When the percentage change in quantity supplied is greater than the percentage change in price.

**Employment** The use of labour in the economy to produce goods and services.

**Enterprise** The factor of production that takes a risk in organising the other three factors of production. The individual who takes this risk is known as an entrepreneur.

**Environmental sustainability** The impact of development or growth where the effect on the environment is small and possible to manage, currently and into the future.

**Equilibrium price and quantity** Where the quantity supplied exactly matches the quantity demanded.

**European Union (EU)** An economic and political group of countries in Europe that have free trade with each other.

**Excess demand** Where, at the current price, the amount demanded is greater than the amount sellers are willing to supply.

**Excess supply** Where, at the current price, the amount supplied is greater than the amount buyers are prepared to purchase.

**Exchange** The giving up of something that the individual or firm has, in return for something they wish to have but do not possess.

**Exchange rate** The price of one currency in terms of another currency.

**Exports** Goods and services sold abroad.

**Expansion of supply** The movement outwards along the supply curve, leading to an increase in both price and quantity.

**External benefit** See positive externality.

**External cost** See negative externality.

**External economies of scale** The cost advantages a firm can gain by increasing the scale of production, leading to a fall in average costs.

**Externality** An effect of an economic activity on a third party.

**Factor market** Market in which the services of the factors of production are bought and sold.

**Factors of production** The resources in an economy that can be used to make goods and services, e.g. land, labour, capital and enterprise.

**Financial sector** Consists of financial organisations and their products, and involves the flow of capital.

**Fiscal policy** A policy that uses government spending and taxation to affect the economy as a whole.

**Fixed cost (*FC*)** All the costs of the firm that have to be paid even if production is zero. The costs do not vary with output.

**Free trade agreement** Free movement of goods and services between countries, without any restrictions.

**Frictional unemployment** Unemployment caused by time lags when workers move between jobs.

**GDP per capita** GDP divided by the population.

**Globalisation** The expansion of world trade in goods and services, together with capital flows, leading to greater international interdependence.

**Good** A tangible product, i.e. that can be seen or touched.

**Government** A political authority that decides how a country is run and manages its operation.

**Government revenue** The source of finance for government spending.

**Gross domestic product (GDP)** The total value added of goods and services produced in the country in a year.

**Gross income** Income received before any taxes are taken or benefits given.

**Gross pay** The amount of money that an employee earns before any deductions are made.

**Imports** Goods and services bought from abroad.

**Income** The reward for the service provided by a factor of production, including labour.

**Income and wealth redistribution** Government action, using mainly taxation and benefits, to reduce inequalities of income and wealth.

**Income tax** A tax levied directly on personal income, i.e. a tax on a person's wages.

**Indirect tax** A tax on spending, often defined as a tax on goods and services.

**Individual demand** The demand for a good or service by an individual consumer.

**Individual supply** The supply of a good or service by an individual producer.

**Inelastic demand** When the percentage change in quantity demanded is less than the percentage change in price.

**Inelastic supply** When the percentage change in quantity supplied is less than the percentage change in price.

**Inflation** A sustained rise in the general price level over time.

**Insurance company** Financial institution that guarantees compensation for specified loss, damage, illness or death in return for an agreed premium.

**Interest rate** The price of borrowing money, and the reward for saving money.

**Internal economies of scale** A result of the growth of the firm itself, leading to a fall in average costs.

**International trade** The exchange of goods and services between countries.

**Investment** The purchase of capital goods that are used to produce future goods and services. It is also an asset purchased to provide an income in the future and/or to be sold at a profit.

**Invisible hand** Unobservable market forces assist demand and supply of goods and services in a free market to move automatically to an equilibrium position.

**Labour** The factor of production that is concerned with the workforce of an economy in terms of both the physical and mental effort involved in production.

**Labour force (or workforce)** The number of people who work in the country.

**Labour market** Where workers sell their labour and employers buy the labour: it consists of households' supply of labour and firms' demand for labour.

**Land** The factor of production that is concerned with the natural resources of an economy, such as farmland and mineral deposits.

**Law of demand** For most products the quantity demanded varies inversely with its price.

**Law of supply** For most products the quantity supplied varies directly with its price.

**Less developed country** A country with a developing economy that has lower GDP per capita, lower levels of industrialisation and weaker indicators of wellbeing.

**Level of unemployment** The amount of people in the working population who are unemployed.

**Loss** When a firm's revenue is less than its costs, i.e. TR < TC.

**Market** A way of bringing together buyers and sellers to buy and sell goods and services.

**Market demand** The total demand for a good or service, found by adding together all individual demands.

**Market economy** An economy in which scarce resources are allocated by the market forces of supply and demand.

**Market failure** When the market (through demand and supply) fails to allocate resources in the best interests of society as a whole.

**Market force** Factors that determine price levels and the availability of goods and services in an economy without government intervention.

**Market supply** The total supply of a good or service as a result of adding together all individual producers' supplies.

**Medium of exchange** Anything that sets the standard of value of goods and services acceptable to all parties involved in a transaction.

**Merit goods** See demerit goods.

**Monetary policy** A policy which aims to control the total supply of money in the economy to try to achieve the government's economic objectives, particularly price stability.

**Money** Anything that is generally accepted as a means of payment for goods and services.

**Monopoly** A sole producer or seller of a good or service.

**Monopoly power** Where a firm has more than 25% of the market share.

**Mortgage** An agreement with a financial institution to borrow money to purchase a property.

**Movement along the demand curve** When the price changes, leading to a movement up or down the existing demand curve.

**Movement along the supply curve** When the price changes leading to a movement up (expansion) or down (contraction) on the existing supply curve.

**Multinational corporation (MNC)** A firm that has its head office in one country, but has operations in a number of other countries.

**National insurance** A contribution paid by workers, and their employers, towards the cost of state benefits.

**National living wage (NLW)** Higher than the NMW for workers over 25. It is a legal requirement for employers.

**National minimum wage (NMW)** The minimum pay per hour to which workers are entitled.

**Need** Something a consumer has to have to survive.

**Negative externality** Harmful effect of an economic activity on third parties, also known as external cost.

**Net income** Income available after the effect of direct taxes and benefits, often called disposable income.

**Net pay** The amount of money that an employee is left with after deductions are made from the gross income.

**Nominal income** Income in terms of its money value.

**Oligopoly** Where a small number of firms control the large majority of market share.

**Opportunity cost** The next best alternative given up when making a choice.

**Positive externality** Beneficial effect of an economic activity on third parties, also known as external benefits.

**Price** The sum of money you have to pay for a good or service. It is determined by the interaction of supply and demand.

**Price elasticity of demand (*PED*)** The responsiveness of quantity demanded to a change in the price of the product.

**Price elasticity of supply (*PES*)** The responsiveness of quantity supplied to a change in the price of the product.

**Price stability** When the general level of prices stays constant over time, or grows at an acceptably low rate.

**Primary sector** The direct use of natural resources, such as the extraction of basic materials and goods from land and sea.

**Private enterprise** See private sector.

**Private sector** Part of the economy that is run by individuals, firms and organisations and not by the government. Private sector organisations are called private enterprises.

**Privatisation** The transfer of assets such as businesses from the public sector to the private sector.

**Producer** A person, company or country that makes, grows or supplies goods or services.

**Production** The total output of goods and services produced by a firm or industry in a time period.

**Productivity** One measure of the degree of efficiency in the use of factors of production in the production process. It is measured in terms of output per unit of input.

**Product market** Market in which final goods or services are offered to consumers, businesses and the public sector.

**Profit** The amount of money a producer has left after all the costs have been paid, i.e. when total revenue is greater than total cost.

**Profit maximisation** Where the difference between total revenue and total cost is greatest. It is one possible objective of a firm.

**Purchasing power** The amount of goods and services that a given amount of money will buy.

**Rate of inflation** The percentage rise in the general price level over time.

**Rate of interest/interest rate** The cost of borrowing money, i.e. that which is paid to the lender. It is also the reward for saving.

**Rate of unemployment** The percentage of the country's workforce that is unemployed.

**Real income** Income taking the effects of inflation into account, so it is the purchasing power of the money income.

**Real wage rate** The level of wages adjusted for inflation, i.e. the purchasing power of the money wage.

**Recession** A period when the country's GDP falls for two (or more) consecutive quarters.

**Salary** A yearly wage divided equally into 12 (monthly) parts.

**Savings** The part of a person's (disposable) income which is not spent on consumption. Savings are done by savers.

**Scarce resources** When there is an insufficient amount of something to satisfy all wants.

**Seasonal unemployment** Unemployment caused by a fall in demand during a particular season.

**Secondary sector** All of the activities in an economy that are concerned with either manufacturing or construction.

**Service** An intangible product, i.e. that cannot be seen or touched.

**Shift of the demand curve** A complete movement of the existing demand curve either outward (to the right) or inward (to the left).

**Shift of the supply curve** The complete movement of the existing supply curve either outward (to the right) or inward (to the left).

**Social sustainability** The impact of development or growth that promotes an improvement in quality of life for all, currently and into the future.

**Specialisation** The process by which individuals, firms, regions and whole economies concentrate on producing those products that they are best at producing.

**Standard of living** The social and economic wellbeing of residents in a country.

**Structural unemployment** Unemployment caused by a permanent decline of an industry or industries.

**Subsidy** An amount of money the government gives directly to firms to encourage production and consumption.

**Substitute** Good or service that can be used in place of another good or service.

**Supply** The ability and willingness of firms to provide goods and services at each price in a given time period.

**Supply of labour** The total number of people who are willing and eligible to supply their labour, including the unemployed.

**Supply-side policy** Policy that increases the productive potential, which is the ability of the economy to supply more goods and services.

**Tax** A compulsory payment to the government.

**Tertiary sector** All activities in the economy that involve the idea of a service.

**Total cost (*TC*)** All the costs of the firm added together.

**Total revenue (*TR*)** The total income of a firm from the sale of its goods or services.

**Trade union** An organisation of workers that is active on behalf of its members: for example, increasing wages and salaries and improving working conditions.

**Unemployment** Occurs when workers able and willing to work at the current wage rates are unable to find employment.

**Unitary demand** When the percentage change in quantity is the same as the percentage change in price.

**Unitary supply** When the percentage change in quantity is the same as the percentage change in price.

**Unlimited wants** The infinite desire for something.

**Variable cost (*VC*)** All the costs of production that change as output changes.

**Wage rate** The amount of money paid to a worker per unit of time, hourly, daily, weekly, or per unit of output (piecework).

**Want** Something a consumer would like to have, but which is not essential for survival.

**Wealth** The market value of all the assets owned by a person, group or country at a specific point in time. Wealth is a stock of assets, e.g. money, houses and land, whereas income is a flow over time.