Year One Basic Definitions

Glossary: By Depth of Knowledge

This is a list of key economic terms and their definitions that may not be explicitly defined in lecture notes or concepts that you may want to quickly define

Basic elements

agent: any person involved in economic decision making

behavioural economics: a field of economics which replaces simple assumed motives with more complex motives and behaviours, often drawn from psychology e.g. debunking the assumption that consumers make rational decisions

capital: one of the factors of production. Capital can include tangible assets (e.g factories and machinery) or intangible assets (e.g. software and knowledge)

demand: the amount of a good or service that an individual or group would be willing to buy at a specified price

development economics: the study of poorer/less developed economies with the aim of identifying the reasons why they have so far failed to catch up with developed economies

fiscal: relating to government revenue (e.g. taxation); relating to public money

interest rate: the proportion of the amount borrowed which must be paid after each period as interest on a loan

investment: producing or purchasing goods that are not for immediate consumption with the aim of making a return on them in the future

game theory: the study of strategic choices, applicable when the outcome for one person depends on the behaviour of others

globalization: the increased worldwide interdependence of most economies e.g. integrated financial markets

goods: tangible products, such as cars or shoes labour force: the total of the employed, self-employed and the involuntarily unemployed

marginal: having a little more or a little less of something on a fringe/boundary/periphery. This makes more sense in context (e.g. marginal cost or marginal benefit) but this definition may be helpful to refer back to when visualizing what is meant when a decision is marginal

market: a geographical or virtual space where buyers and sellers negotiate the exchange of a specified product

monetary: of or relating to the currency of a country

policy: government strategy for setting levels of taxation, government budgets, the money supply and interest rates as well as the labour market, national ownership, and many other areas of government interventions into the economy

private sector: the portion of an economy in which production is owned and operated by private (non-government) bodies

public sector: the portion of an economy in which production is owned and operated by the government or by bodies created and controlled by it, such as nationalized industries

supply: the amount of a good or service that an individual or group would be willing to sell at a specified price

trade: buying and selling of goods and services

value: measure of the benefit provided by a good or service to an economic agent. It is generally measured in units of currency and therefore can be described as the maximum amount of money a specific agent is willing and able to pay for the good or service

Basic concepts

aggregate demand (AD): the total amount of demand for all finished goods and services produced in an economy

aggregate supply (AS): the total amount that will be produced and offered for sale at each aggregate price level

asymmetric information: a situation in which some economic agents have more information than others and this affects the outcome of a transaction between them barriers to entry: anything that prevents new firms from entering an industry

black market: a market in which goods are sold in violation of some legally imposed pricing or trading restriction

bond: a tradable debt contract carrying a legal obligation to pay interest and repay the principal at some stated future time

central bank: a bank that acts as a banker to the commercial banking system and often to the government as well. It is usually a government-owned institution that is the sole money-issuing authority and has a key role in setting and implementing monetary policy

centrally planned economy: an economy in which the decisions of the government as opposed to the decisions of households and firms exert the major influence over the allocation of resources and the distribution of income

free trade: the absence of any government intervention with the free flow of international trade

gross domestic product (GDP): the value of total output actually produced in the whole economy over some period (usually a year but can be monthly). It is a measure of aggregate demand

market failure: when supply does not equal demand i.e. sub-optimal market performance

scarce: a resource is scarce if using more of it for one purpose necessitates using less of it for another purpose

specialization: regarding the labour within an economy, it means specializing in particular tasks as opposed to each person producing a wide range of products

utility: the total satisfaction derived from consuming a quantity of a good or service

More in depth concepts

comparative advantage: the ability of one country/economy/area to produce a good or service at a lower opportunity cost than another (in terms of products forgone)

complementary goods: two goods for which the quantity demanded for one is negatively related to the price of the other due to them typically being consumed together (e.g. ink cartridges and fountain pens must be consumed together)

consumer price index (CPI): an index of the general price level of a country based on the typical consumption of consumers consumer surplus: the difference between what a consumer is willing to pay and what they actually paid for a given quantity of a good

demand shock: a change in the demand for a good or service that is caused by something other than a change in the price of the product

economies of scale: when the cost per unit of produce decreases as output increases, hence enabling larger firms to produce at lower unit costs than small firms

elasticity: when the percentage change in the quantity demanded or supplied of a good is greater than the percentage change in the factor that caused the change (elasticity greater than 1 in absolute value)

equities (shares): part ownership of a company

exchange rate: the price at which two national currencies can be exchanged for each other. In other words, the amount of one currency needed to buy one unit of another currency

externality: a cost or benefit of a transaction that falls on agents not involved in the transaction (third parties)

inelasticity: when the percentage change in the quantity demanded or supplied of a good is less than the percentage change in the factor that caused the change (elasticity less than 1 in absolute value)

inferior good: a good with a negative income elasticity, implying that demand for it diminishes when income increases

long run: a period of time over which all inputs used by a firm can vary

monopoly: a market structure in which one firm completely dominates an industry and is the sole producer

normal good: a good or service for which demand increases when income increases

normal profit: the minimum level of profit necessary to maintain a firm’s place in an industry. This level of profit enables the firm to pay a reasonable salary to its workers and managers

oligopoly: an industry that contains only a few firms that interact strategically due to the fact that they are affected by the actions of the others

opportunity cost: measurement of the cost of one choice in terms of the value of the alternative forgone perfect competition: In a market with a large number of firms, no barriers to entry, and all goods identical. As such, the extreme level of competition leads to firms bidding eachother down until they must all sell at a price equal to their marginal costs, hence making no (supernormal) profit.

progressive tax: a tax which charges richer people a higher proportion of their incomes

quantitative easing: when the interest rate can no longer be lowered to stimulate aggregate demand, a central bank may purchase government and corporate bonds in order to increase money supply in the economy

short run: the period of time over at least one input to production is fixed

stock exchange: the market in which investors can buy or sell shares

substitutes: two goods are substitutes if the quantity demanded of one is positively related to the price of the other, often because they are alternatives of each other e.g. an agent purchasing a train ticket instead of petrol to drive

sunk costs: costs accumulated by a project which cannot be recovered even if the project is now abandoned - it must still be paid

supernormal profit: the excess profit above normal profit

supply shock: a change in the supply of a good or service that is caused by something other than a change in the price of the product

trade union: a union covering workers with certain set of skills, regardless of where they work