

Economic definitions

Section 1: Microeconomics

Unit 1.1

Word/ phrase	Definition
Demand	Quantities of a product that consumers are willing and able to buy at various prices in a given time period, ceteris paribus.
Market demand	Sum of the amount demanded at each possible price by all the individual buyers. Derived by the horizontal summation of the individual demand curves of all consumers in the market.
Supply	Quantities of a product that suppliers are willing and able to sell at various prices per period of time, ceteris paribus.
Indirect taxation	A levy imposed by the government on the production of a good or service. Paid partly by consumers but paid to government by producers. Can be specific or ad valorem.
Equilibrium	A state of balance between different forces, such that there is no tendency to change.
Complements	Goods that are used jointly together to satisfy some particular want.
Substitutes	Alternative products that satisfy the same wants or needs.
Competitive supply	Goods that are produced with the same resources such that the resources used in one good cannot be used to produce the other.
Consumer surplus	Difference between what the consumers are willing and able to pay for a unit of good and what they actually pay for the good.
Producer surplus	Difference between the revenue the producers receive from the sale of a unit of good and the price at which the producers are willing to make that unit of good available for sale.

Unit 1.2: Elasticities

Word/ phrase	Definition
Price Elasticity of Demand	The measure of the responsiveness of the quantity demanded of a commodity to change its price, ceteris paribus.
Cross Elasticity of Demand	The measure of the responsiveness of the demand for one good to changes in the price of another good.
Income Elasticity of Demand	The measure of the responsiveness of demand for a good to changes in income, ceteris paribus.
Price Elasticity of Supply	The measure of the responsiveness of quantity supplied of a good to a change in its own price ceteris paribus.
Primary products	Raw materials obtained from the land and include agricultural commodities, minerals, forestry and fishing products.

Unit 1.3: Government Intervention

Word/ Phrase	Definition
Price controls	The setting of minimum or maximum prices by the government so that prices are unable to adjust to their equilibrium level determined by market demand and supply.
Price ceiling	The legal maximum price that a producer can charge for a good.
Price floor	The legal minimum price that a producer can charge for a good or service.
Subsidy	Payment made by the government to producers to encourage production of certain goods.

Unit 1.4: Market Failure

Word/ phrase	Definition
Market failure	The failure of the market to achieve efficiency in the allocation of society's resources, resulting in an over-allocation of resources or an under-allocation of resources in the absence of government intervention.
Economic efficiency	A situation where each good is produced at the minimum average cost and where individual people and firms get the maximum benefit from their resources.
Productive efficiency	A situation where firms are producing the maximum output for a given amount of inputs or producing a given output at the least cost.
Allocative efficiency	Occurs when firms produce the particular combination and quantities of goods and services that consumers most desire.
Social efficiency	Achieved where the marginal benefit to society is equal to the marginal cost to society.
Externalities	Third-party/ spill over effects of production or consumption experienced by third parties other than the producer or consumer.
Positive externalities	Benefits from production or consumption experienced by people other than the producer or consumer.
Negative externalities	Costs borne by third parties who are not involved in the consumption or production activity, for which there is no compensation.
Marginal social benefit	True benefits to society of an extra unit of good consumed.
Marginal social cost	True costs to society of an extra unit of good produced.
Merit goods	Goods or services that have been deemed socially desirable by the government and tends to be underconsumed.
Demerit goods	Goods or services that have been deemed socially undesirable by the government and tends to be overconsumed.
Public goods	Goods that are of benefit to society but will not be provided at all in a free market.
Non-excludability	Impossible or extremely costly to exclude any individual from the benefit of the good.
Non-rivalry	Consumption of the product by one additional person does not diminish another person's ability to consume the product.
Common access resources	Typical natural resources such as fishing grounds, forests and pastures for which anyone has free access and maybe rivalrous in consumption.
Sustainability	The condition where the consumption needs of the present generation are met without reducing the ability to meet the needs of future generations.

Asymmetric information	One party in an economic transaction has access to more information or better information than the other party.
Adverse selection	When producers of different qualities are sold at a single price because buyers or sellers are not sufficiently informed to determine the true quality at the time of purchase.

Unit 1.5: Theory of the firm

Word/ phrase	Definition
Production	Transformation of inputs into outputs by firms in order to earn profit.
Production function	Expresses the technical relationship between the amount of factor inputs and the output generated per period of time.
Fixed factor	An input that cannot be increased/varied within a given time period.
Variable factor	An input that can be increased/varied within the time period considered.
Short-run	Time period so short that the firm is unable to vary all of its factors of production. Time period during which at least one factor of production is fixed.
Long-run	Time period long enough to allow the firm to vary all its factor inputs.
Law of diminishing marginal returns	As more and more units of variable inputs are added to a given amount of a fixed input, there will come a point of time where each additional unit of the variable input will add less to total output than the previous unit of input.
Explicit costs	Payments made by a firm to outsiders to acquire resources for used in production.
Implicit costs	The sacrificed income arising from the use of self-owned resources by a firm.
Economic costs	Total opportunity costs incurred by a firm for its use of resources, whether purchased or self-owned.
Variable costs	Costs that vary with output.
Fixed costs	Costs that do not vary with output.
Total costs	Sum of total fixed costs and total variable costs.
Marginal cost	Addition to total cost as a result of producing an additional unit of output.
Increasing returns to scale	Proportionate increase in inputs will lead to a more than proportionate increase in output.

Constant returns to scale	Proportionate increase in inputs will lead to a proportionate increase in output.
Economies of scale	Reduction in average cost enjoyed from the growth in the production scale of the firm.
Perfect competition	<ul style="list-style-type: none"> • Infinite number of buyers and sellers • Homogeneous product • Free entry and exit of firms • Perfect knowledge of market conditions amongst sellers and buyers • Perfect mobility of all factors of production.
Monopoly	<ul style="list-style-type: none"> • One seller but many buyers • Unique product • Formidable barriers to entry (man made or natural)
Price discrimination	Producer sells the same commodity at different prices for reasons not associated with differences in cost of production.
Nationalisation	When the government takes over the monopoly completely and runs it in the public interest.
Privatisation	Sale of state-owned assets to the private sector.
Monopolistic competition	<ul style="list-style-type: none"> • Large number of firms • Slightly differentiated products with close substitutes • Engages in non-price competition • Free entry and exit
Oligopoly	<ul style="list-style-type: none"> • A few dominant firms that contain a large share of the industry • Standardised or differentiated products • Substantial barriers to entry • Mutual interdependence between firms • Price rigidity
Cartel	A formal collusive agreement. All firms will coordinate their activities to maximise industry, behaving as a monopoly.

Unit 2: Macroeconomics

Unit 2.1: Level of overall economic activity

Word/ Phrase	Definition
National income	A measure of the value of the output of the goods and services produced by an economy in a given time periods, usually a year.
Investment	The expenditure by firms on plants and machinery as well as inventory stock of raw materials, goods in the process of production and unsold goods.
Government expenditure	Government spends money on goods and services produced by firms
Export expenditure	Exports are goods and services produced domestically and purchased by foreigners.
Net export expenditure	The difference between the revenue received by the domestic economy from the sale of their goods and services and the spending made by domestic residents on foreign made goods and services.
Gross domestic product	The market value of all final goods and services produced over some period of time, usually a year, by productive factors that are located within the geographical boundaries of the country.
Green GDP	GDP that has been adjusted for environmental damage.
Gross National product	The market value of all final goods and services produced over some period of time, usually a year, by productive factors owned by residents of the country, irrespective of whether these factors are located within the geographical boundary of the country or abroad.
GDP deflator	An index of the average prices of all the components of GDP. It measures the current year level of prices relative to the level of prices in the base year.
Purchasing-power parity (PPP)	The rates of currency conversion that equalise the purchasing power of different currencies by eliminating the differences in domestic price levels between currencies.
Human development index	A summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and having a decent standard of living.
Business cycle	The periodic but irregular up-and-down movements in economic activity, measured by fluctuations in real GDP and other macroeconomic variables.
Recession	Two consecutive quarters of negative growth in real GDP.

Unit 2.2: Aggregate Demand & Aggregate Supply & Production Possibilities curve

Word/Phrase	Definition
Aggregate Demand	Total expenditure on domestically produced final goods and services in an economy over a period of time. $AD = C + I + G + (X - M)$
Consumption	The portion of disposable income that households spent on consumer goods and services to satisfy their current wants and needs.
Consumer confidence	A measure of how optimistic consumers are about their future income and the future of the economy.
Interest rate	The cost of borrowing or rate of returns to savings.
Disposable income	Income that people have available for spending or saving.
Indebtedness	How much people owe from taking out loans in the past.
Aggregate Supply	Total amount of goods and services produced in an economy at different price levels over a particular time period.
Short run	The time period when prices of factors of production do NOT change in response to price changes.
Long run	The period of time when prices of all resources, including labour are flexible so as to reflect fully any change in the price levels.
Full employment/ Potential output	Level of output at which unemployment is equal to the natural rate of unemployment.
Equilibrium national income	When there is no tendency towards a contraction or expansion of national income.
Inflationary gap	Actual output exceeds the full employment national income.
Deflationary gap	Actual equilibrium national income is below the full employment national income.
Keynesian multiplier	The impact on real GDP due to a change in any of the components of AD. $k = \frac{1}{1 - MPC}$
Production possibilities curve	Shows all the combinations of the maximum amount of two goods that an economy can produce within a certain period, with a certain level of technology and when all available resources are fully and efficiently employed.

Unit 2.3: Macroeconomic Objectives

Unemployment

Word/Phrase	Definition
Unemployment	People of working age who are without work and actively seeking employment or waiting to take up an appointment.
Labour force/ Economically active group	The number of people who are employed plus the number of people who are unemployed.
Economically inactive group	Those who are able but not willing to work and those who are unable to work.
Claimant unemployment	A measure of all those in receipt of unemployment benefits.
Standardised unemployment	People of working age who are without work, available to start work within two weeks and actively seeking employment or waiting to take up an appointment.
Underground economy	Portion of the economy that is unregistered, legally unregulated and not reported to tax authorities.
Full employment of labour	When there is equilibrium in the aggregate labour market.
Natural rate of unemployment	The unemployment that exists at when the economy is producing at full employment level of output.
Frictional unemployment/ Search unemployment	The unemployment that occurs when workers are between jobs or waiting to begin a new job.
Seasonal unemployment	Unemployment that arises because the demand for certain types of labour fluctuates with on a seasonal basis because of variations in need.
Structural unemployment	Unemployment that arises because of structural changes in the economy that results in some workers becoming unemployed for very long periods of time because they cannot find jobs that use their particular skills.
Cyclical unemployment	Unemployment that increases during the downturns of the business cycle.

Unit 2.3: Macroeconomic objectives

Low and stable inflation

Word/Phrase	Definition
Inflation	A period of a sustained increase in the general price level of an economy over a period of time.
Deflation	A sustained decrease in the general price level in an economy over the time period considered.
Consumer Price Index	Measures the changes in the prices of a basket of goods and services consumed by the average household.
Demand pull inflation	When aggregate demand persistently exceeds aggregate supply, when the economy is near or at full employment, causing upward pressure of prices.
Cost push inflation	When prices are forced upwards by sustained increases in costs of production which are not caused by excess demand.

Unit 2.3: Macroeconomic objectives

Economic growth

Word/Phrase	Definition
Economic growth	An increase in real GDP experienced by an economy over a period of time.
Actual growth	The percentage increase in actual output produced during the given time period considered, usually a year.
Potential growth	The percentage increase in the economy's capacity to produce, represented by increase in potential output.
Infrastructure	Large scale public systems, such as power supply, telecommunications, and transportation networks, etc. which are usually supplied by the government and are necessary for economic activity.

Unit 2.3: Macroeconomic objectives

Equity in the distribution of income and distribution of goods and services

Word/Phrase	Definition
Equity	The distribution of income is fair and just.
Income Equality	Equal income distribution across the population.
Lorenz curve	A graphical representation of the proportion of national income earned by any given percentage of the population (measured from the poorest upwards) in an economy.
Gini coefficient	A summary measure of the ratio of the area between Lorenz curve and the 45° line to the whole area below the 45° line.
Absolute poverty	Occurs when people live below a certain level of income that is necessary to meet basic needs.
Relative poverty	Where people live below the prevailing standards of living that are typical in a society.
Tax	A tax is a compulsory contribution imposed by the government on individuals or firms.
Direct tax	A levy that is imposed directly on the individual, household or corporation. Burden/ incidence of the tax cannot be shifted. It is paid directly by the taxpayer to authorities.
Progressive tax	A levy for which high income tax payers pay a larger fraction of their income than do low income tax payers.
Proportional tax	A levy where high income tax payers and low income tax payers pay the same fraction of their income as tax.
Regressive tax	A levy for which low income tax payers pay a larger fraction of their income than do high income tax payers.
Transfer payments	Payments of income which are not a return for the provision of current factor services.

Unit 2.4: Fiscal policy

Word/Phrase	Definition
Fiscal policy	A policy where the government manipulates the level of government spending and/or revenue so as to affect the level of aggregate demand.
Expansionary/ loose fiscal policy	Raising government expenditure and/or reducing (direct) taxes.
Contractionary/ tight fiscal policy	Cutting government expenditure and/or revenue.
Government budget	An estimate of government revenue and expenditure for the coming year.
Balanced budget	Estimated revenue just covers the estimated expenditure.
Deficient budget	Estimated revenue falls short of the estimated expenditure.
Surplus budget	Estimated revenue exceeds the estimated government expenditure.
Automatic stabiliser	In-built stabilizers and left to respond automatically without action by government authorities, to reduce short term fluctuations of the business cycle.

Unit 2.5: Monetary policy

Word/Phrase	Definition
Monetary policy	Conscious attempts by the central bank to influence the level of economic activity by changing the money supply or interest rate.
Expansionary/ loose monetary policy	Involves raising money supply or reducing interest rates to increase AD.
Contractionary/ tight monetary policy	Involves cutting money supply or raising interest rates to decrease AD.

Unit 2.6: Supply side policy

Word/Phrase	Definition
Interventionist supply-side policies	Policies that relies on government intervention and de-emphasises the role of market forces to achieve growth in potential output.
Market-based supply-side policies	Policies that minimises government intervention through encourage private enterprise, or provide incentives and reward initiative.

Unit 3: International economics

Unit 3.1: International trade

Word/Phrase	Definition
Free trade	International trade that takes place without any trade barriers.
Absolute advantage	A country has AA if it can produce more of a good with the same amount of resources, or if it can produce one unit of it with less resources compared to another country.
Comparative advantage	A country can produce a particular good at a lower opportunity cost than another country.
World Trade Organisation	<ul style="list-style-type: none">• Reduce trade barriers• Settle trade disputes• Administer and monitor application of rules for trade• Monitor and review the trade policies
Tariff	A tax imposed on imports. Can be specific or ad-valorem.
Quotas	Restrictions on the maximum quantity of imports.
Subsidy	A grant provided by the government to firms aiming at lowering production costs and increasing output.
Infant industry	New domestic industry that has not had time to establish itself and achieve efficiencies in production and therefore may be unable to compete with other competitor firms from abroad.
Dumping	The practice of selling a good in international markets at a price that is below the cost of producing it.
Economic Diversification	Increasing the variety of goods and services produced.

Unit 3.2: Exchange Rates

Word/Phrase	Definition
Exchange rate	The price of a currency in terms of another currency. The rate at which two currencies are exchanged for one another. Measures the external value of a currency.
Freely floating exchange rates	Exchange rate that is freely determined by market demand and supply of a currency.
Appreciation	A rise in the exchange rate. For the same given dollar, it can buy more units of foreign currency.
Depreciation	A fall in the exchange rate.
Fixed exchange rates	The government fixes the exchange rate by degree, and commits to a particular exchange rate.
Devaluation	An officially announced lowering in the value of the domestic currency relative to foreign currencies.
Revaluation	An officially announced raising of the value of the domestic currency in relation to foreign currencies.
Managed-float exchange rates	Exchange rate that is determined by demand and supply but the central bank intervenes periodically to prevent excessive fluctuations.

Unit 3.3: The Balance of Payments

Word/Phrase	Definition
Balance of payments	A summary statement of the monetary value of all economic transactions that have taken place over a period of time between the residents of a country and the residents of all other countries. Consists of: current account, capital account and financial accounts.
Credit item	Earns foreign currencies
Debit item	Requires foreign exchange payments
Current account	Sum of the balance of trade in goods and services, net income inflows and net current transfers.
Income flows	All inflows into a country of wages, rents, interests and profits from abroad minus all outflows of wages, rents, interests and profits.
Current transfers	Inflows into a country due to transfers from abroad minus outflows of such transfers to other countries.
Capital account	Inflows minus outflows of funds for capital transfers and transactions in non-produced, non-financial assets.
Capital transfers	Inflows minus outflows for items (debt forgiveness, non-life insurance claims and investment grants).
Financial account	Composed of inflows minus outflows of funds for capital transfers and transactions in financial assets.
Direct investments	Measures inflows minus outflows of investments in physical capital undertaken by MNCs.
Portfolio investments	All inflows of funds minus outflows arising from financial investments on stocks, bonds and other financial options or instruments as well as government lending and borrowing.
Reserve assets	Foreign currency reserves that the central bank of a country can buy or sell to influence the value of the country's currency.
Marshall-Lerner condition	Devaluation/ depreciation of a currency will improve the current account balance only if the sum of price elasticities of demand for imports and exports is greater than 1.

Unit 3.4: Economic Integration

Word/Phrase	Definition
Economic integration	Economic co-operation between countries and coordination of their economic policies, leading to increased economic links between them.
Preferential Trade Agreement (PTA)	An agreement that gives preferential access to certain products from certain countries by reducing or eliminating tariffs or by other agreements relating to trade.
Trading bloc	A group of countries that join together in some form of agreement to increase trade between them and/or to gain economic benefits from cooperation on some level.
Free trade area (FTA)	A group of countries that agree to gradually eliminate trade barriers between themselves. Each member country retains the right to pursue its own trade policy towards other non-member countries.
Customs union	A group of countries that remove trade barriers between themselves and adopt common external tariffs and quotas with non-member countries. They act as a group in all trade negotiations and agreements with non-members.
Common market	Countries that have formed a customs union proceed further to eliminate any remaining barriers to trade between them. Have a common external policy. Agree to eliminate all restrictions on movements on any factor of production within the common market.
Trade diversion	Entry of a country into a customs union leads to the production of a good or service transferring from a low-cost producer to a high-cost producer within a union.
Monetary union	A common market with a common currency and a common central bank.

Unit 3.5: Terms of trade

Word/Phrase	Definition
Terms of Trade	Purchasing power of a country's exports (per unit exports, how much imports it can purchase).

Unit 4: Development Economics

Unit 4.1: Economic development

Word/ Phrase	Definition
Economic development	Sustainable improvement in living standards that implies increased per capita income, reduced income inequalities, better education, health and employment opportunities as well as environmental protection.
Characteristics for less economically developed countries	<ul style="list-style-type: none">• Low levels of per capita GDP• Low standard of living• Poverty• High rates of population growth• Large urban informal sector• Low levels of productivity• High unemployment and underemployment• Dependence on agricultural economy• Poor financial systems• Poor infrastructure•
Millennium Development Goals	<p>C: Reduce child mortality, Universal primary education, Combat diseases</p> <p>M: Improve maternal health, Empower women + gender equality.</p> <p>E: Environmental sustainability, Eradicate extreme poverty & hunger</p> <p>P: Global partnership for development</p>

Unit 4.2: Measuring Development

Word/ Phrase	Definition
Human poverty index	Deprivations and the lack of opportunities and choices that allow individuals to lead a long healthy and creative life with a decent standard of living, freedom and dignity.
Gender-Empowerment Measure	Measures gender inequalities in political and economic participation and decision making and power over economic resources.

Unit 4.3: Role of Domestic Factors

Word/ Phrase	Definition
Microcredit	Use of very small loans to those in poverty designed to spur entrepreneurship.
Sustainability	The balance between economic growth and environmental preservation.
Sustainable development	An increase in production and consumption to meet the needs of the present generation without compromising the needs of future generations.

Unit 4.4: Role of International Trade

Word/ Phrase	Definition
Import substitution	The deliberate effort by a government to replace major imports by promoting the domestic industries through the use of protectionist measures.
Export-led growth	Outward-orientation growth strategy that relies on increased reliance increasing exports through reliance on international trade.
Trade liberalisation	Removal or reduction of trade barriers that block the free trade of goods and services between countries. Aims to increase world trade.
World Trade Organisation	An institution that attempts to promote trade liberalization to encourage free trade.

Unit 4.5: The role of Foreign Direct Investments

Word/ Phrase	Definition
Foreign Direct Investment	Long term fixed capital investment by multinational corporations or locally based enterprises in countries overseas. Usually done by remitting funds to create new buildings, mining operations, factories and machinery or buying existing foreign enterprises.
Multinational Corporation	A firm that undertakes foreign direct investment and operates in more than one country.

Unit 4.6: The roles of foreign aid and multilateral development assistance

Word/ Phrase	Definition
Foreign aid	The help a country (usually LDCs) receives from the government of a donor country (official development assistance) or by non-governmental organisations (NGOs).
Humanitarian aid	The granting of <i>emergency supplies, medical services</i> and the provision of <i>food</i> or money to buy food.
Development aid	Long-term assistance to alleviate poverty and improve the welfare of people.
Non-governmental organisation	An organisation that is not part of a government and was not founded by states. Their goals are non-commercial and usually non-profit organisations.
International monetary fund	Acts as a go-between for deeply indebted developing countries and creditors in developed countries. <ul style="list-style-type: none">• Promotes international monetary cooperation• Facilitates expansion and balanced growth of world trade• Stability of exchange rates• Assists establishment of a multilateral system of payments• Makes resources available to members experiencing BOP

	difficulties.
World bank group	Collection of 5 individual organisations. Aims to promote economic development, provide aid and advice to developing countries, reduce poverty levels and encourage + safeguard international investment.

Unit 4.7: The role of foreign debt

Word/ Phrase	Definition
Foreign debt	Level of external debt incurred by borrowing from foreign creditors.
Odious debts	Debts borrowed by dictators and corrupt regimens on behalf of the government for personal interest.
Debt rescheduling	Involves new loans by commercial banks to developing country debtors but on better terms.
Debt-for-equity swaps	Highly indebted country exchanges a portion of its debt for equity, taken by foreign corporations.