IB Economics Vocabulary (SL & HL)

NOTE: Everything in black is complete.
Anything in this color is not complete. (This is a work in progress)

A

absolute advantage - The ability of a party to produce a good or service more efficiently than its competitors.

Accelerator Theory - theory that the level of planned investment is related to past D Y. (I=f(D Y))

Adam Smith - A towering figure in the history of economic thought. Known primarily for a single work—An Inquiry into the Nature and Causes of the Wealth of Nations (1776), the first comprehensive system of political economy. He is known as the 'father' of economics.

Adaptive Expectations - where decisions are based upon past information.

administrative barriers - They are trade barriers as **bureaucratic procedures** (red tape) that a trading firm has to get through when shipping the product from one country to the other. ... They are not an iceberg type, for they are not proportional to the value of the product. Nor are they per unit costs.

adverse selection - Also called **antiselection**, term used to describe a market process in which buyers or sellers of a product or service are able to use their private knowledge of the risk factors involved in the transaction to maximize their outcomes, at the expense of the other parties to the transaction. Adverse selection is most likely to occur in transactions in which there is an asymmetry of information—where one party has more or better information than the other party. Although information asymmetry tends to favour the buyer in markets such as the insurance industry (does not declare existing health issues), the seller usually has better information than the buyer in markets such as used cars, stocks, and real estate.

aggregate demand - In macroeconomics, aggregate demand or domestic final demand is the total demand for final goods and services in an economy at a given time.

aggregate supply - The total supply of goods and services available to a particular market from producers.

allocative efficiency - A **property of an efficient market whereby all goods and services are optimally distributed among buyers in an economy**. It occurs when parties are able to use the accurate and readily available data reflected in the market to make decisions about how to utilize their resources.

YOUR EDUCATION PLUS

anchoring bias - occurs **when people rely too much on pre-existing information** or the first information they find when making decisions. We are given the value of something and then use this as a reference point to influence future choices or decisions.

appreciation - Currency appreciation refers to **the increase in value of one currency relative to another in the forex markets**. ... It is always measured relative to the currency being measured against it. Countries use currency appreciation as a strategic tool to boost their economic prospects.

asymmetric information - This is **a situation where there is imperfect knowledge**. In particular, it occurs where one party has different information to another. ... Asymmetric information can lead to adverse selection, incomplete markets and is a type of market failure. There are two main types of asymmetric information: **adverse selection** and **moral hazard**.

autarky - An economically independent and self-sufficient country.

availability bias - happens when **we overestimating the likelihood of something happening** because a similar event has either happened recently or because we feel very emotional about a previous similar event.

average product (AP) - The output that is produced, on average, by each unit of the variable factors. AP = TP/V, where TP is the total output produced and V is the number of units of the variable factor employed.

YOUR EDUCATION PLUS

B

'bad drives out good' - Worthless things will drive valuable things out of circulation. (This principle is also known as Gresham's Law). Bad carpenters overcharging will create a bad impression of excellent carpenters and thus force them out of the field.

balance of payments (BOP) - Summarises the economic transactions of an economy with the rest of the world. These transactions include exports and imports of goods, services and financial assets, along with transfer payments (like foreign aid).

balance of trade (BOT) - **The difference in value over a period of time between a country's imports and exports of goods and services**, usually expressed in the unit of currency of a particular country or economic union (e.g., dollars for the United States, pounds sterling for the United Kingdom, or euros for the European Union ...

bandwagon effect - a phenomenon in which people do something primarily because other people are doing it. More specifically, it is a cognitive bias by which public opinion or behaviours can alter due to particular actions and beliefs rallying amongst the public.

behavioral economics - Behavioral economics studies the effects of psychological, cognitive, emotional, cultural and social factors on the decisions of individuals and institutions and how those decisions vary from those implied by classical economic theory.

bounded rationality - Is used to explain the notion that the rationality of consumers is limited by the information that they have, and the fact that they do not have the time nor the cognitive abilities to weigh up all of the options.

bounded self-control - Is used to illustrate that humans have a natural tendency to give in to temptation sometimes.

bounded selfishness - Is used to explain that humans do not always act in their own self-interest as assumed by the neo-classic model

YOUR EDUCATION PLUS

C

cap and trade - Is a common term for **a government regulatory program designed to limit, or cap, the total level of emissions of certain chemicals, particularly carbon dioxide**, as a result of industrial activity. Proponents of cap and trade argue that it is a palatable alternative to a carbon tax.

capital account (KA)- Records financial transactions involving short term and long term capital movements into and out of the country.

capital expenditures - Capital expenditures (CapEx) are funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment.

capital gains tax - The capital gains tax is **a federal fee you pay on the profit made from selling certain types of assets**. These include stock investments or real estate property. A capital gain is calculated as the total sale price minus the original cost of an asset.

carbon tax - **Is levied on the carbon content of fossil fuels**. The term can also refer to taxing other types of greenhouse gas emissions, such as methane. A carbon tax puts a price on those emissions to encourage consumers, businesses, and governments to produce less of them.

central bank - A central bank is a financial institution given privileged control over the production and distribution of money and credit for a nation or a group of nations. In modern economies, the central bank is usually responsible for the formulation of monetary policy and the regulation of member banks.

ceteris paribus - A Latin phrase meaning "other things equal"; English translations of the phrase include "all other things being equal" or "other things held constant" or "all else unchanged".

change - Economic change is a shift in the structure of an economic system. This results in changes to societies, cultures and everyday life on a global or national basis. **One of the Key Concepts of Economics**

change in demand - Describes a shift in consumer desire to purchase a particular good or service, irrespective of a variation in its price. The change could be triggered by a shift in income levels, consumer tastes, or a different price being charged for a related product. This is a result of the curve shifting due to non-price factors

YOUR EDUCATION PLUS

change in the quantity demanded - This phrase refers to a change in quantity demanded of a product that buyers are willing and able to buy due to a change in price, not other determinants of demand. This entails a price change and thus movement along the existing demand curve.

choice - Choice refers to the ability of a consumer or producer to decide which good, service or resource to purchase or provide from a range of possible options. **One of the Key Concepts of Economics**

choice architecture - The theory that the decisions that we make are heavily influence by the ways in which the choices are presented to us.

circular economy - The circular economy is **a model of production and consumption**, which involves sharing, leasing, reusing, repairing, refurbishing and recycling existing materials and products as long as possible. ... When a product reaches the end of its life, its materials are kept within the economy wherever possible.

circular flow of income model - The circular flow of income or circular flow is a model of the economy in which the major exchanges are represented as flows of money, goods and services, etc. between economic agents. The flows of money and goods exchanged in a closed circuit correspond in value, but run in the opposite direction.

classical economics - Classical economics is known as classical political economics. Classical economics refers to the school of thought of economics that originated in the late 18th and early 19th centuries, especially in Britain. It focused on economic growth and economic freedom, advocating laissez-faire ideas and belief in free competition.

cognitive bias - A limitation in objective thinking where individuals diverge from rational choice and are influenced by non-economic factors, such as emotion and invested opinions. For example, an economist who supports tax cuts is more likely to concentrate on economic data which supports their claim about how taxes lead to increased revenue.

see: availability bias
anchoring bias
framing bias
social conformity / herd behavior
bandwagon effect
status quo / inertia bias
loss aversion bias
hyperbolic discounting

YOUR EDUCATION PLUS

command-and-control. approach - The principle is to command people or firms not to do something by enacting a law that makes it illegal and by delegating authorities to enforce such law through the imposition of fines or penalty to violators.

commercial bank - A financial institution which accepts deposits from the public and gives loans for the purposes of consumption and investment to make profit.

common markets - A group of countries between which there is free trade in products and factors of production, and which imposes a common external tariff on imported goods from outside the market.

common pool resources - Resources that are not owned by anyone but are available for anyone to use without payment. In economics terms, they are considered *negative production externalities*. Example include: wildlife, forests and groundwater.

-*non-excludable* since nobody can be excluded from using them,

-*rivalrous* since if one person uses the resources, it reduces the value of the resource for others.

comparative advantage - When a country is able to produce a good **more cheaply relative to other goods produced** domestically than another country. In other words, the said country has the least opportunity cost per good produced.

competitive supply - Alternative products a firm could make with its resources.

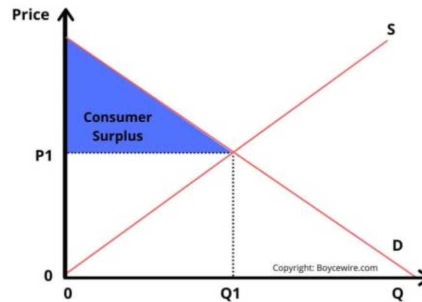
complement goods - products that are often purchased together such as printers and ink cartridges

consumer expenditure - Consumer spending is the total money spent on final goods and services by individuals and households for personal use and enjoyment in an economy. Contemporary measures of consumer spending include **all private purchases of durable goods, nondurable goods, and services**. Common examples are **clothing, food, and gasoline**. Nondurable goods constitute about 25-30 percent of consumption expenditures. Services: These are intangible activities that provide direct satisfaction to consumers at the time of purchase. Common examples include health care, entertainment, and education.

consumer sovereignty - when resources are allocated according to the wishes of consumers (i.e.: in a perfectly free market)

YOUR EDUCATION PLUS

consumer surplus - Consumer surplus is **an economic measurement of consumer benefits**. A consumer surplus happens when the price that consumers pay for a product or service is less than the price they're willing to pay.



consumption inefficiency -

contractionary (tight) monetary policy - Tight, or contractionary monetary policy is a course of action undertaken by a central bank such as the Federal Reserve to slow down overheated economic growth, to constrict spending in an economy that is seen to be accelerating too quickly, or to curb inflation when it is rising too fast.

corporate taxes - **A tax on the profits of a corporation**. The taxes are paid on a company's taxable income, which includes revenue minus cost of goods sold (COGS), general and administrative (G&A) expenses, selling and marketing, research and development, depreciation, and other operating costs.

cost of production - Refers to **all the costs that are involved when a company offers a service or manufactures a product**. Production costs are comprised of various expenses, including the cost of materials, employee wages, factory maintenance, shipping costs and more.

credit item - A**ny item where money enters the country**. It is important to think of a credit as the money entering the country. For example, one of the principal credit items is exports. In the case of exports, the goods leave the country to be sold overseas, but the money enters the country.

credit rating - Is **a quantified assessment of the creditworthiness of a borrower in general terms or with respect to a financial obligation**. ... A credit rating or score is assigned to any entity that wants to borrow money—an individual, a corporation, a state or provincial authority, or a sovereign government.

credit rating agency - (CRA, also called a ratings service) is **a company that assigns credit ratings**, which rate a debtor's ability to pay back debt by making timely principal and interest payments and the likelihood of default. ... A credit rating facilitates the trading of securities on a secondary market.

YOUR EDUCATION PLUS

currency speculation - Is **when investors feel the exchange rate is wrongly valued and so buy/sell currency in the hope of making a profit**. ... They could increase interest rates and/or buy sterling with foreign currency reserves.

current account (CA)- **Records the payments for goods and services, plus investment income and transfers**, between an economy and the rest of the world.

current account deficit - This indicates that the country is **a net borrower to the rest of the world** as it usually implies that the current account is small and therefore the country mainly imports products. Overall it means that less income is flowing into the country than outwards.

current account surplus - This indicates that **the country is a net leader to the rest of the world** as it usually implies that the current account is large and therefore the country is a major exporter. Overall it means that more income is flowing into the country than outwards.

Current Balance - difference between total exports and total imports.

current expenditures - Current expenditure is **expenditure on goods and services consumed within the current year**, which needs to be made recurrently to sustain the production of educational services.

current transfers - **Cover transactions in which goods, services or financial items are transferred between units without something of economic value being received in return**. The transfers may occur either domestically or across borders.

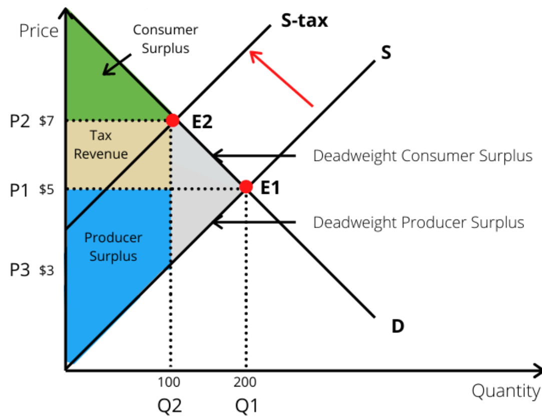
customs unions – **An agreement between two or more countries to remove trade barriers and lower or eliminate tariffs**. Members of a customs union generally apply a common external tariff on imports from non-member countries. ... The European Union is an economic union as well as a customs union.

YOUR EDUCATION PLUS

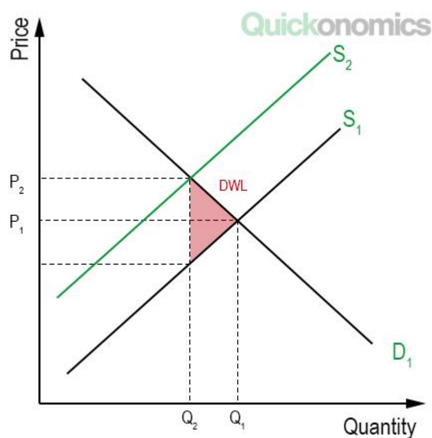
D

deadweight consumer loss - The loss in consumer surplus when the market is not working at maximum efficiency.

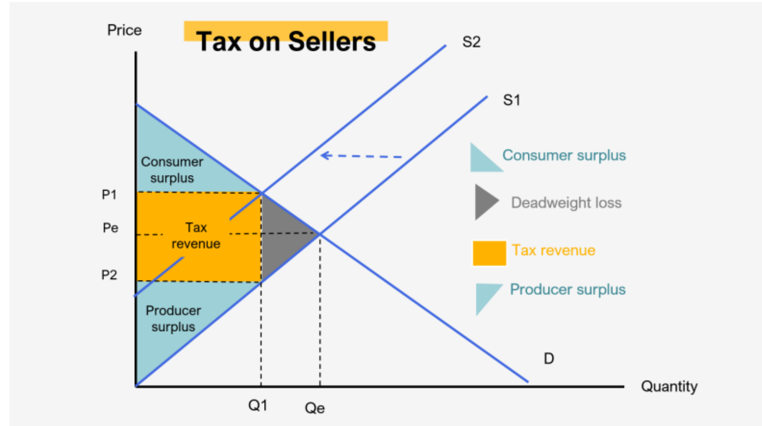
deadweight producer loss - The loss in producer surplus when the market is not working at maximum efficiency.

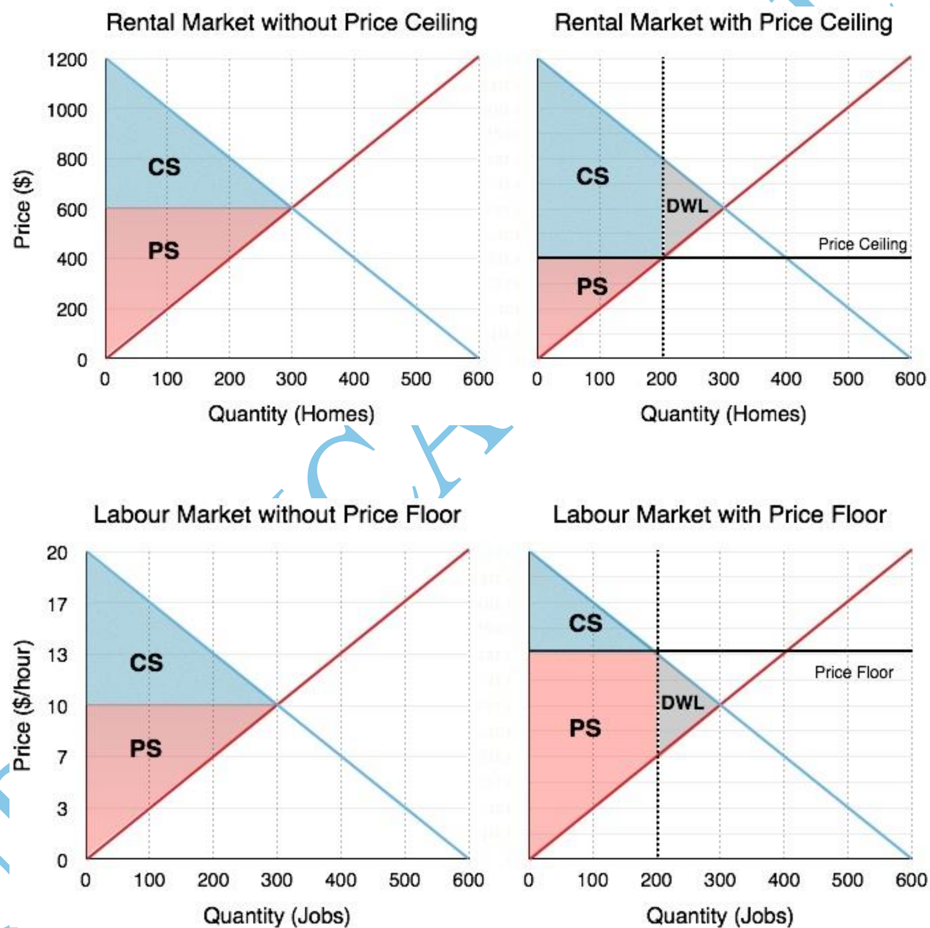


deadweight loss - A cost to society created by market inefficiency, which occurs when supply and demand are out of equilibrium. ... Price ceilings, such as price controls and rent controls; price floors, such as minimum wage and living wage laws; and taxation can all potentially create deadweight losses.



YOUR EDUCATIONAL PLUS





debit item - On the balance of payments is **any financial flow that leads to money leaving the country**. Credit items will include any item where money enters the country. ... In the case of exports, the goods leave the country to be sold overseas, but the money enters the country. Exports are therefore a credit item.

deductible - **The amount of money you will pay on an insurance claim before the coverage kicks in and pays the rest**.

default choice - or default option is **the option that a consumer "selects" if he or she does nothing**. ... Therefore, if the default option or setting is changed, then consumer behaviour will change.

deflationary fiscal policies - **Policies that reduce domestic demand** (commonly called deflationary policies) would cause unemployment. Some hold that, if there is an external deficit, deflationary policies should be pursued to whatever extent may be needed to eliminate the deficit. Others hold that such a policy is socially unacceptable.

deflationary monetary policies - Tight monetary policy implies the Central Bank (or authority in charge of Monetary Policy) **is seeking to reduce the demand for money and limit the pace of economic expansion**. Usually, this involves increasing interest rates. ... Tight monetary policy can also be termed – deflationary monetary policy.

demand - Demand is the quantity of a good or service that consumers are willing and able to purchase at different prices in a given time period.

demand curve - This is basically a graphic representation of the relationship between the demand for a product with respect to its various prices.

Price ($)
Demand (D)
0
Quantity (Q)

demand management - A **process within an organization which enables that organization to tailor its capacity to meet variations in demand** or to manage the level of demand using marketing or supply chain management strategies.

demand-side policies - Demand Side Policies are **attempts to increase or decrease aggregate demand to affect output, employment, and inflation**. Demand Side Policies can be classified into fiscal policy and monetary policy.

demand schedule - A table that shows the quantity demanded of a good or service at different price levels, typically used by accountants.

demand-side theory - The demand-side theory is **built on the idea that economic growth is stimulated through demand**. Therefore, practitioners of the theory seek to empower buyers. This can be done through government spending on education, unemployment benefits, and other areas that increase the spending power of individual buyers.

demerit goods - A good which can have a negative impact on the consumer – but these damaging effects may be unknown or ignored by the consumer.

depreciation - Currency depreciation is **a fall in the value of a currency in terms of its exchange rate versus other currencies**. Currency depreciation can occur due to factors such as economic fundamentals, interest rate differentials, political instability, or risk aversion among investors.

deregulation - Deregulation is the process of removing or reducing state regulations, typically in the economic sphere. It is the repeal of governmental regulation of the economy.

devaluation - **The deliberate downward adjustment in the official exchange rate, reduces the currency's value**

direct investment - **Provides capital funding in exchange for an equity interest without the purchase of regular shares** of a company's stock. Direct investment may involve a company in one country opening its own business operations in another country.

direct provision - Direct provision occurs **when the government engages in the provision of a good directly**. For example, the Singapore government provides face masks directly in times of severe haze. Direct provision is a measure used to correct market failures caused by public goods such as national defense and street lighting.

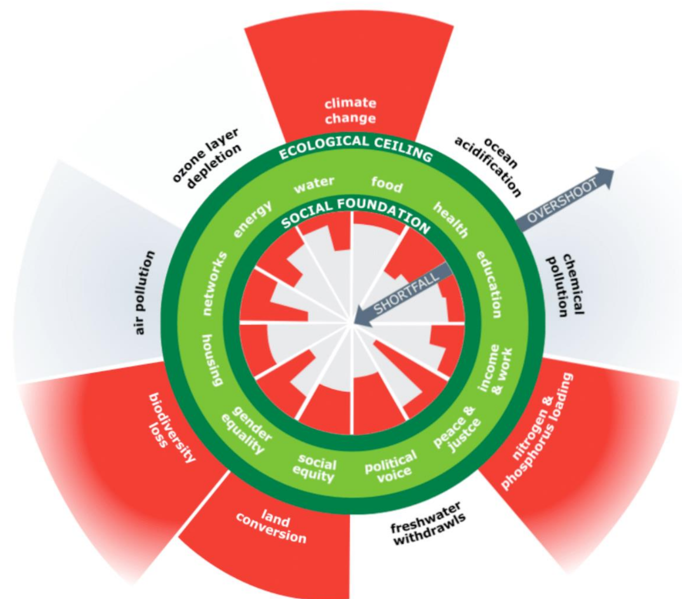
discount rate - The discount rate is the interest rate charged to commercial banks and other financial institutions for short-term loans they take from the Central Bank.

disequilibrium exchange rates (misalignment) - Is defined as a. **position where the Real Exchange Rate and equilibrium exchange rate are in**. **different positions**. Over-valuation happens when the Effective Real Exchange Rate is above the exchange rate value.

Domestic Income - excludes the values of incomes generated by assets owned overseas and domestic assets owned by foreigners.

YOUR EDUCATION PLUS

doughnut economy - The **Doughnut**, or **Doughnut economics**, is a visual framework for sustainable development – shaped like a doughnut or lifebelt – combining the concept of planetary boundaries with the complementary concept of social boundaries. The name derives from the shape of the diagram, i.e. a disc with a hole in the middle. The center hole of the model depicts the proportion of people that lack access to life's essentials (healthcare, education, equity and so on) while the crust represents the ecological ceilings (planetary boundaries) that life depends on and must not be overshot.



dual system model - The idea that humans have two systems of thinking:
The **Automatic System** involves fast decisions that are essentially subconscious; an instinctive, unconscious, highly efficient mental process that we have no control over or awareness of. It helps us automate our thought patterns and behavior. It is more accurate in areas where we have acquired significant information already.
The **Reflective System** involves slow decisions that are much more controlled, analytical and problem-solving oriented.

dumping - Dumping is **when foreign firms dump products at artificially low prices into the market of another country**. This could be because countries unfairly subsidise products or companies have overproduced and are now selling the products at reduced prices in other markets.

E

earned income tax credit (EITC) - A refundable federal tax credit for low-income working people designed to reduce poverty and encourage labor force participation.

Economic Development –

Economic Good - goods which are scarce because their use has an opportunity cost.

Economic Growth –

Economic growth and development –

economic integration - When countries progressively decrease or eliminate trade and other barriers to the free movement of goods, services, capital and labor.

economic union - **An agreement between two or more nations to allow goods, services, money and workers to move over borders freely**. The countries may also coordinate social and financial policies to support this common market. The European Union (EU) is an example of an economic union.

economic well-being - **It** is defined as **having present and future financial security**. ... It also includes the ability to make economic choices and feel a sense of security, satisfaction, and personal fulfillment with one's personal finances and employment pursuits. **One of the Key Concepts of Economics**

Economies of Scale - a fall in the long run average costs of production as output rises.
Internal: resulting b/c of growth in the scale of production within a firm.
External: resulting from a growth in the size of the industry in which a firm operates.
Types:
- Technical: automation, specialized equipment, increased dimensions.
- Financial: easier credit, lower rate of interest.
- Managerial: specialized departments.
- Marketing: advertising (brand name, sponsorship, …), packaging.
- Risk-bearing: diversify.

ecosystem - An ecosystem consists of all the organisms and the physical environment with which they interact.

effective demand - Refers to the willingness and ability of consumers to purchase goods at different prices.

effective supply - Refers to the willingness and ability of producers to supply goods at different prices.

YOUR EDUCATION PLUS

efficiency - This is a quantifiable concept that is essentially a ratio comparing the useful output to total input. One of the Key Concepts of Economics

elastic demand - $1<PED<\infty$ When a change in the price of a product results in a disproportionately large change in the demand for the same product.

elastic supply - $1<PES<\infty$ When a change in the price of a product results in a disproportionately large change in the supply for the same product.

elasticity of demand - A measure of how much the quantity demanded of a product changes when there is a change in the price of the product.

$$PED = \frac{\%\text{ change in quantity demanded of a product}}{\%\text{ change in the price of the product}}$$

embedded economy - An embedded economy is defined as **a society where. economic values are not necessarily the preeminent values**, and the public interest is. determined by social and political processes.

Engel curve - It is a curve that shows the relationship between income and the demand for a product over time. As income rises over time, the demand for a product increases, then levels off, and then begins to fall as people begin to buy superior products instead.

equity - The concept or idea of fairness in economics, particularly in regard to taxation or welfare economics. One of the Key Concepts of Economics

excess demand - Occurs **when the Price of a good is lower than the Equilibrium Price**, meaning more consumers will want to buy the good than suppliers are willing to sell. The difference between the Quantity Demanded (QD) and the Quantity Supplied (QS) is the Excess Demand.

excess supply - **A situation in which the market supply of a commodity is greater than the market demand for it**, thus causing its market price to fall.

exchange rate - The price of a currency expressed in terms of another currency.

expansionary (loose) monetary policy - Also known as loose monetary policy, expansionary policy increases the supply of money and credit to generate economic growth. A central bank may deploy an expansionist monetary policy to reduce unemployment and boost growth during hard economic times.

expenditure-reducing policies - These are policies **designed to lower real incomes and aggregate demand (AD) and thereby cut the demand for imports**. E.g. higher direct taxes, cuts in government spending or an increase in monetary policy interest rates.

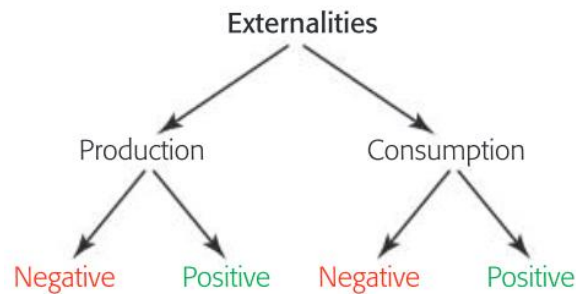
YOUR EDUCATION PLUS

expenditure switching policies - A macroeconomic policy that affects the composition of a country's expenditure on foreign and domestic goods. More specifically it is **a policy to balance a country's current account by altering the composition of expenditures on foreign and domestic goods.**

exports - Exports are goods and services that are produced in one country and sold to buyers in another.

External equilibrium –

externalities - They are spill-over effects from production and consumption for which no appropriate compensation is paid.
In simple words, an externality occurs when the production or consumption of a good or service has an effect upon a third party. (see additional diagram)
Negative: if net social cost is (harmful) greater than net private cost.
Positive: if net social benefit is (good) greater than net private benefit.
Internalizing: eliminating the externality by bringing it back into the framework of the market mechanism. (i.e.: extending property rights)



YOUR EDUCATION PLUS

F

Factor Cost –

Factors of Production -

Land: all natural resources
Labor: workforce
Capital: manufactured stock of tools, machines, factories, offices, roads and other resources used in the production of goods and services.
Entrepreneurship: those who organize production, and take risks.

financial account (FA)- Is **a component of a country's balance of payments that covers claims on or liabilities to nonresidents concerning financial assets**. Financial account components include direct investment, portfolio investment, and reserve assets broken down by sector.

financial sector - The financial sector is **a section of the economy made up of firms and institutions that provide financial services to commercial and retail customers**. This sector comprises a broad range of industries including banks, investment companies, insurance companies, and real estate firms.

fiscal policy - Fiscal policy refers to the use of government spending and tax policies to influence economic conditions, especially macroeconomic conditions, including aggregate demand for goods and services, employment, inflation, and economic growth.

fixed exchange rate - A fixed exchange rate is **a regime applied by a government or central bank that ties the country's official currency exchange rate to another country's currency or the price of gold**. The purpose of a fixed exchange rate system is to keep a currency's value within a narrow band.

floating exchange rate - A regime where the currency price of a nation is set by the forex market based on supply and demand relative to other countries. This is in contrast to a fixed exchange rate, in which the government entirely or predominantly determines the rate.

foreign direct investment (FDI) - Is defined as **an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy**.

foreign sector - That part of the ECONOMY concerned with transactions with overseas countries. The foreign sector includes IMPORTS and EXPORTS of goods and services as well as CAPITAL MOVEMENTS in connection with investment and banking transactions.

YOUR EDUCATION PLUS

forex - Foreign exchange market (forex, or FX, market), **institution for the exchange of one country's currency with that of another country**. Foreign exchange markets are actually made up of many different markets, because the trade between individual currencies—say, the euro and the U.S. dollar—each constitutes a market.

framing bias - The framing effect is a cognitive bias where people decide on options based on whether the options are presented with positive or negative connotations; One example of the framing effect is the packaging of meat. Studies have shown that 75% lean meat is usually preferred over 25% fat meat, even though they are the same, just framed differently. Part of the reason is purely the fact that it's a higher number, so is therefore superior.

Free Good - goods which are unlimited in supply and which therefore have no opportunity cost.

free market - The free market is **an economic system based on supply and demand with little or no government control**. ... Free markets are characterized by a spontaneous and decentralized order of arrangements through which individuals make economic decisions.

Free Trade Agreement or Areas (FTA) - FTAs are **treaties between two or more countries designed to reduce or eliminate certain barriers to trade and investment**, and to facilitate stronger trade and commercial ties between participating countries. ... Australia has 15 FTAs with 26 countries.

Full employment

future price expectation - The expectations that sellers have concerning the future price of a good, which is assumed constant when a **supply** curve is constructed. If sellers expect a higher price, then supply decreases. If sellers expect a lower price, then supply increases.

YOUR EDUCATION PLUS

G

Giffen Good - special type of inferior good where demand increases when price increases

GDP - measure of national income before property income from abroad and depreciation have been accounted for.

GDP (factor cost) - GDP (market prices) - Taxes (indirect) + Subsidies

GNP - a measure of national income including net property income from abroad but before depreciation.

government revenue - Government revenue or National revenue is **money received by a government from taxes and non-tax sources to enable it to undertake government expenditures**. The three main sources of federal tax revenue are **individual income taxes, payroll taxes, and corporate income taxes**.

government sector - Government sector includes all institutional units consisting of the central government, state governments, and local governments. ... The government and its institutions act as regulators. They **issue various regulations and policies to influence economic activity**.

government spending - Government purchases are **expenditures on goods and services by federal, state, and local governments**. The combined total of this spending, excluding transfer payments and interest on the debt, is a key factor in determining a nation's gross domestic product (GDP).

Gross:

YOUR EDUCATION PLUS

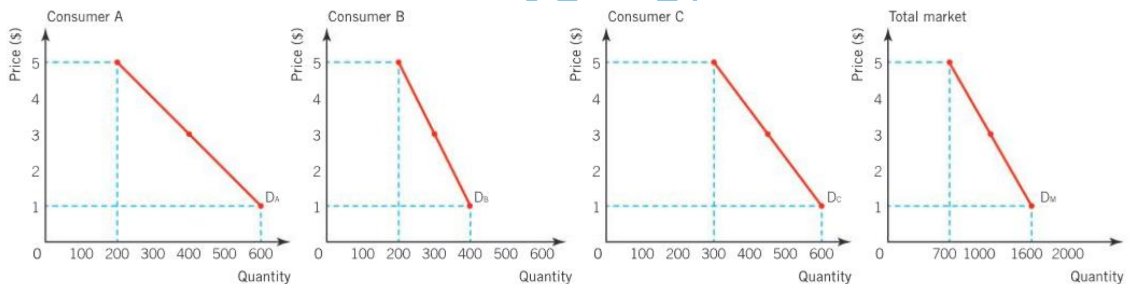
H

heuristics - **A convenient way of solving the problem of imperfect information and limited time in which to make a decision**. Examples of heuristics include using 'common sense and intuition' (goods are cheaper in sales), and using a 'rule of thumb' (I only buy if it's on a special offer'.

homo economicus - or economic man, is the portrayal of humans as agents who are consistently rational and narrowly self-interested, and who pursue their subjectively-defined ends optimally.

Horizontal Merger - merger between two firms in the same industry at the same stage of production.

horizontal summing - The market demand gives the quantity purchased by all the market participants—the sum of the individual demands—for each price. This is sometimes called a "horizontal sum" because **the summation is over the quantities for each price**. The market supply is the horizontal (quantity) sum of all the individual supply curves.



human capital - The knowledge and skills that people obtain through education, experience, and training.

Human Development Index (HDI) - compares countries on the basis of real GDP per capita at PPP, life expectancy, education (literacy and school enrolment)

Human Suffering Index (HSI) - takes into account factors such as access to clean water, adequate food, and education.

hyperbolic discounting - **our inclination to choose immediate rewards over rewards that come later in the future**, even when these immediate rewards are smaller.

YOUR EDUCATION PLUS

I

Imperfect Competition - market structure where there are several firms in industry, each of which has some ability to control the price they set for their product.

imports - An import is **a good or service bought in one country that was produced in another**.

income - Money received, especially on a regular basis, for work or through investments.

income effect - It is the change in demand for a good or service caused by a change in a consumer's purchasing power resulting from a change in real income. This change can be the result of a rise in wages etc., or because existing income is freed up by a decrease or increase in the price of a good that money is being spent on.

income elasticity of demand – A measure of how much the quantity demanded of a product changes when there is a change in the consumer's income.

$$YED = \frac{\%\ \text{change in quantity demanded of a product}}{\%\ \text{change in the consumer's income}}$$

indirect tax - An indirect tax is a tax that is levied upon goods and services before they reach the customer who ultimately pays the indirect tax as a part of market price of the good or service purchased. **Sales tax, value-added tax, excise tax, and customs duties** are examples of indirect taxes.

industrial policies - Industrial Policy is defined as **the strategic effort by the state to encourage economic transformation**, i.e. the shift from lower to higher productivity activities, between or within sectors.

ineffective demand - is merely a desire or want to own goods or services but not backed up by the possible means.

inelastic demand - 0<PED<1 When a change in the price of a product results in little or no change in the demand for the same product.

inelastic supply - 0<PES<1 When a change in the price of a product results in little or no change in the supply for the same product.

inertia bias / status quo - Often the case where consumers, faced with a bewildering set of choices, would prefer to maintain the status quo by doing nothing.

inferior goods - Goods where demand falls when income increases (YED <0). The demand decreases as income increases/

YOUR EDUCATION PLUS

inflation - **Inflation occurs when prices rise, decreasing the purchasing power of your dollars**. In 1980, for example, a movie ticket cost on average $2.89. By 2019, the average price of a movie ticket had risen to $9.16.

interdependence - Economic interdependence is a consequence of specialization or the division of labor. The participants in any economic system must belong to a trading network or organization to obtain the products they cannot produce efficiently for themselves. **One of the Key Concepts of Economics**

international environmental agreement - An intergovernmental document intended as legally binding with a primary stated purpose of preventing or managing human impacts on natural resources

intervention - **An action taken by a government or international institution in a market economy in an effort to impact the economy beyond the basic regulation** of fraud, enforcement of contracts, and provision of public goods and services. **One of the Key Concepts of Economics**

interventionist supply-side policies - Supply-side interventions **operate by improving the supply of healthcare** and include interventions such as increasing the number, coverage, and training of health professionals.

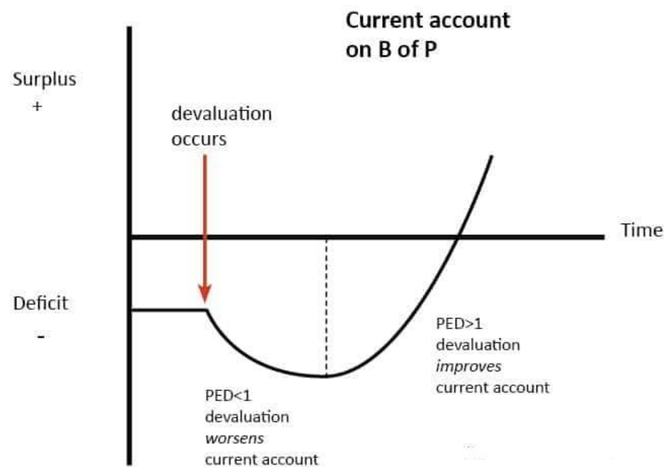
investment - Investment is defined as **the commitment of current financial resources in order to achieve higher gains in the future**.

invisible hand - Invisible hand, metaphor, introduced by the 18th-century Scottish philosopher and economist Adam Smith, for the unseen forces that move the free market economy. Through individual self-interest and freedom of production and consumption, the best interest of society, as a whole, are fulfilled. The constant interplay of individual pressures on market supply and demand causes the natural movement of prices and the flow of trade.

YOUR EDUCATION PLUS

J

J-Curve - **An economic theory that says the trade deficit will initially worsen after currency depreciation**. ... Then, as quantities adjust, there is an increase in imports as exports remain static, and the trade deficit shrinks or reverses into a surplus forming a "J" shape.



joint supply - **A product or process that can yield two or more outputs**. *Common examples occur within the livestock industry: cows can be utilized for milk, beef, and hide. ... If the supply of cows increases, so will the joint supply of dairy and beef products.*

YOUR EDUCATION PLUS

K

Karl Marx (1818-1883) - A German philosopher during the 19th century. He worked primarily in the realm of political philosophy and was a **famous advocate for communism**. The **labor theory of value, decreasing rates of profit, and increasing concentration of wealth** are key components of Marx's economic thought.

Keynes, John Maynard (1883-1946) - An English economist, whose ideas fundamentally changed the theory and practice of macroeconomics and the economic policies of governments. He is best known for his economic theories (Keynesian economics) on the causes of prolonged unemployment. His most important work, The General Theory of Employment, Interest and Money (1935–36), advocated a remedy for economic recession based on a government-sponsored policy of full employment. Keynes purposed that in order for governments to stimulate the economy by increasing overall demand, they should go into debt and “run budget deficits”.

Keynesian economics - **A macroeconomic economic theory of total spending in the economy and its effects on output, employment, and inflation**. ... Based on his theory, Keynes advocated for increased government expenditures and lower taxes to stimulate demand and pull the global economy out of the depression.

Kyoto Protocol - An international treaty which extended the 1992 United Nations Framework Convention on Climate Change that commits state parties to reduce greenhouse gas emissions, based on the scientific consensus that global warming is occurring and that human-made CO_2 emissions are driving it.

YOUR EDUCATION PLUS

L

law of demand - The relationship between demand and price. The law simply states that "as the price of a product falls, the quantity demanded of the product will usually increase, *ceteris paribus*".

law of diminishing marginal utility - The law of diminishing marginal utility states **that all else equal**, as consumption increases, the marginal utility derived from each additional unit declines. ... The utility is an economic term used to represent satisfaction or happiness.

law of diminishing returns - The idea that there is a decrease in marginal output of a production process as the amount of a single factor of production is incrementally increased, holding all other factors of production equal.

labor market rigidities - Labor market rigidity refers to conditions where the market mechanism does not work in the labor market. Wages do not necessarily respond to changes in labor demand and supply. For example, during a recession, labor demand falls because businesses cut their production.

labor theory of value (LTV) - The labor theory of value (LTV) was **an early attempt by economists to explain why goods were exchanged for certain relative prices on the market**. It suggested that the value of a commodity was determined by and could be measured objectively by the average number of labor hours necessary to produce it.

laissez-faire theory - (French: "allow to do") **policy of minimum governmental interference in the economic affairs of individuals and society**. ... The pervading theory of the 19th century was that individuals, pursuing their own desired ends, would thereby achieve the best results for the society of which they were part.

leakage - Leakage is an economic term that describes capital or income that escapes an economy or system in the context of a circular flow of income model.

linear economy - A linear economy traditionally follows the "take-make-dispose" step-by-step plan. This means that **raw materials are collected**, and then transformed into products that are used until they are finally discarded as waste. Value is created in this economic system by producing and selling as many products as possible.

lobbying - Any **attempt by individuals or private interest groups to influence the decisions of government**; in its original meaning it referred to efforts to influence the votes of legislators, generally in the lobby outside the legislative chamber.

long run - A period of time when all factor inputs can be varied, but the state of tech. remains constant.

YOUR EDUCATION PLUS

loss aversion bias - the tendency to prefer avoiding losses to acquiring equivalent gains. Losing ten euros hurts more than the benefit of gaining ten euros.

YOUR EDUCATION PLUS

M

Macroeconomic Policy Objectives –

macroeconomics - A branch of economics dealing with performance, structure, behavior, and decision-making of an economy as a whole; for example, using interest rates, taxes, and government spending to regulate an economy's growth and stability. This includes regional, national, and global economies.

managed floating exchange rates - A managed floating exchange rate is **an exchange rate system that allows a nation's central bank to intervene regularly in foreign exchange markets to change the direction of the currency's float** and/or reduce the amount of currency volatility.

mandated choice - a situation or scenario in which people must make a decision in advance with respect to whether they wish to participate in a particular action – they are required by law to make that choice.

marginal benefit (MB) - A maximum amount a consumer is willing to pay for an additional good or service. It is also the additional satisfaction or utility that a consumer receives when the additional good or service is purchased. The marginal benefit for a consumer tends to decrease as consumption of the good or service increases.

marginal cost (MC) - The increase in total cost of producing an extra unit of output. $MC = \Delta TC/\Delta q$, where ΔTC is the change in total cost and Δq is the change in the level of output.

marginal income tax rate - This is **the amount of tax that applies to each additional level of income**. In our progressive tax system, you pay more in taxes as your income rises and a portion of your income moves into a higher tax bracket.

marginal private benefit (MPB) - The change in benefits associated with the consumption of an additional unit of a good or service. (*see table below*)

marginal private cost (MPC) - The change in the producer's total cost brought about by the production of an additional unit of a good or service. It is also known as marginal cost of production.
For example if production costs rise from$1,000 to $1,050 as one more unit of a good is produced the marginal private cost is $50.
(*see table below*)

marginal product (MP) - The extra output that is produced by using an extra unit of the variable factor of production. $MP = \Delta TP/\Delta V$, where ΔTP is the change in total output and ΔV is the change in the number of units of the variable factor employed.

YOUR EDUCATION PLUS

marginal product of labor (MPL) - Refers to **a company's increase in total production when one additional unit of labor is added** (in most cases, one additional employee) and all other factors of production remain constant.

marginal propensity to import (MPM) - Is **the amount imports increase or decrease with each unit rise or decline in disposable income**. The idea is that rising income for businesses and households spurs greater demand for goods from abroad and vice versa.

marginal social benefit (MSB) - Marginal social benefit is the change in benefits associated with the consumption of an additional unit of a good or service. It is measured by the amount people are willing to pay for the additional unit of a good or service.

Marginal Social Benefit=Marginal Private Benefit+External Benefit

MSB = MPB + XB

For example, suppose you are currently consuming two slices of pizza .per day. Assume you would be willing to pay $.75 to consume a third slice of pizza per day. $.75 represents the marginal social benefit of the third, or additional, slice of pizza. (*see table below*)

YOUR EDUCATION PLUS

marginal social cost (MSC) - The change in society's total cost brought about by the production of an additional unit of a good or service. It includes both marginal private cost and marginal external cost.

Marginal Social Cost = Marginal Private Cost + External Cost

MSC = MPC + XC

For example, suppose it costs a producer $50 to produce an additional unit of a good. Suppose that when the additional unit is produced pollution is emitted which causes $25 worth of damage to the paint on your car. The marginal social cost of production is the producer's cost plus the external cost, or $75. (see table below)

Cost or benefit	Definition
Marginal private benefit (MPB)	The benefit to the consumer from each additional unit consumed
Marginal social benefit (MSB)	The benefit that is enjoyed by society from each additional unit consumed
Marginal private cost (MPC)	The cost to the producers of each additional unit produced
Marginal social cost (MSC)	The cost to society of each additional unit produced

marginal utility - The added satisfaction that a consumer gets from having one more unit of a good or service.

market - It is where buyers and sellers are in contact with each other. Markets may be physical place where goods and services are exchanged for money, but they may also be online.

market-based approach - Is **a method of determining the value of an asset based on the selling price of similar assets**. ... Because the market approach relies on comparisons to similar assets, it is most useful when there is substantial data available regarding recent sales of comparable assets.

market-clearing price - **The price at which the demand for a good by consumers is equal to the number of goods that can be produced at that price**. At this price, the supply and demand are exactly equal: there are no unused goods waiting to be sold, and no buyers who are unable to buy.

YOUR EDUCATION PLUS

market failure - Where resources are inefficiently allocated due to imperfections in the working of the market mechanism. Market failure occurs **when the price mechanism fails to account for all of the costs and benefits necessary to provide and consume a good**. The market will fail by not supplying the socially optimal amount of the good. ... The imbalance causes allocative inefficiency, which is the over- or under-consumption of the good. (*also see externalities*)

Market prices:

Marshall Lerner condition - This refers to the proposition that **the devaluation of a country's currency will lead to an improvement in its balance of trade with** the rest of the world only if the sum of the price elasticities of its exports and imports is greater than one.

maximum price - A maximum price (or ceiling price) is **a price control set by government prohibiting the charging of a price higher than a certain level**. ... The advantages of a maximum price control are that it will lower the price of the good or service and make it more affordable for consumers, and there is no cost to the government.

Maximum Revenue - MR = 0

Measure of Economic Welfare (MEW) - allows for leisure, non-marketed goods, public amenities, as well as economic 'bads' like pollution or 'regrettables' like defense spending.

mercantilism - Mercantilism is based on the principle that the world's wealth was static, and consequently, many European nations attempted to accumulate the largest possible share of that wealth by maximizing their exports and by limiting their imports via tariffs.

merit good - A commodity or service, such as education, that is regarded by society or government as deserving public finance. A commodity which is judged that an individual or society should have on the basis of some concept of benefit, rather than ability and willingness to pay.

microeconomics - A branch of mainstream economics that studies the behavior of individuals and firms in making decisions regarding the allocation of scarce resources and the interactions among these individuals and firms.

Milton Friedman (1912-2006) - Mr. Friedman was awarded the Nobel Prize for Economic Science in 1976. He was best known for **explaining the role of money supply in economic and inflation fluctuations**. He advocated monetarism.

minimum price - A minimum price is **the lowest price that can legally be set**, e.g. minimum price for alcohol, minimum wage.

YOUR EDUCATION PLUS

missing markets - A significant market failure is the failure to produce some goods and services, despite being needed or wanted. Because **markets for these goods are not likely to form they** are called missing markets and are considered a special case where demand exists, but supply is absent. An example is where people that should buy insurance do not because the market price is distorted due to those that abuse the system.

mitigation - Consists of actions to limit global warming and its related effects. This involves reductions in human emissions of greenhouse gases (GHGs) as well as activities that reduce their concentration in the atmosphere. It is one of the ways to respond to climate change, along with adaptation.

monetarism - A theory in economics that stable economic growth can be assured only by control of the rate of increase of the money supply to match the capacity for growth of real productivity

monetary policy - Monetary policy is **the control of the quantity of money available in an economy and the channels by which new money is supplied**. By managing the money supply, a central bank aims to influence macroeconomic factors including inflation, the rate of consumption, economic growth, and overall liquidity.

monetary union - An **agreement between two or more states creating a single currency area**. A monetary union involves the irrevocable fixation of the exchange rates of the national currencies existing before the formation of a monetary union. ... Usually, a monetary union involves the introduction of common banknotes and coins.

Monopolistic Competition - market structure where a large number of small firms produces non-homogeneous products and where there are no barriers to entry or exit.

Monopoly - market structure where one firm supplies all output in the industry without facing competition because of high barriers to entry to the industry.

moral hazard - **A situation in which one party gets involved in a risky event knowing that it is protected against the risk and the other party will incur the cost**. It arises when both the parties have incomplete information about each other. A driver may drive in a more reckless fashion after purchasing car insurance, knowing that if there is damage to the car, it will be paid for by the insurance company.

Most-Favoured Nation (MFN) principle - **Based on the idea that countries should treat all their trade partners equally**—that no one country should be "more favoured." It means no country should give special treatment to goods or services coming from one particular trading partner.

Multiplier - figure used to multiply a change in autonomous expenditure, such as investment, to find the final change in income / ratio of the final change in income to the initial change in autonomous expenditure.

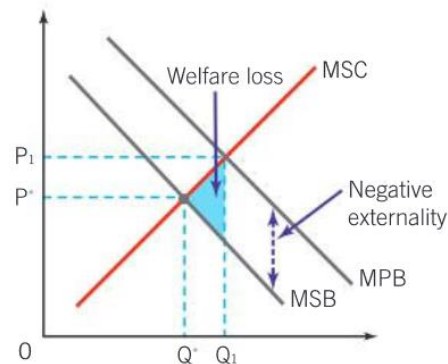
YOUR EDUCATION PLUS

N

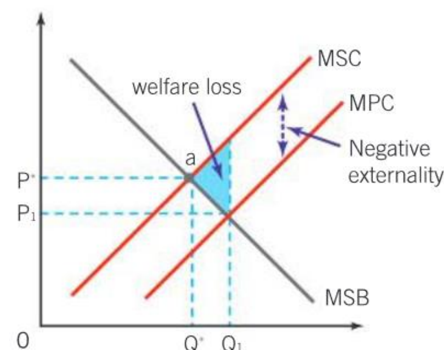
National Income - includes the above.

necessity goods - Products that have a low income elasticity. The demand for them will change very little if income rises.

negative consumption externality - **A situation where the social cost of consuming the good or service is more than the private benefit**. *For example, when a person consumes alcohol and becomes drunk, he/she causes social disorder, disturbing the peace of non-drinkers.*
MPB > MSB & MSC = MPB & MSC > MSB & MSC = MPC (due to no externalities from production)



negative production externality - When a firm's production reduces the well-being of others who are not compensated by the firm. F*or example, the over-use of pesticides will pollute rivers and streams which then cause harm to those who use them.*
MSC > MPC & MSC = MPC + XC & MSC > MSB & MPB = MSB (due to no externalities of consumption)



neoclassical economics - An approach to economics in which the production, consumption and valuation of goods and services are driven by the supply and demand model.

Natural Monopoly - where economies of scale are so large relative to demand that the dominant producer in the industry will always enjoy lower costs of production than any other potential competitor.

necessity goods - Products that have low elasticity. The demand for them will change very little if income rises.

neoclassical theory - is a broad theory that focuses on supply and demand as the driving forces behind the production, pricing, and consumption of goods and services. It emerged in around 1900 to compete with the earlier theories of classical economics.

Net -

Net Social Product (NSP) - adjusts for positive and negative externalities to calculate social benefits and social costs, including pollution, divorce, crime and suicide rates.

non-price determinants of demand – The factors other than the current price that can potentially influence the demand of a service or product and hence result in a shift in its demand curve.

non-price determinants of supply – The factors other than the current price that can potentially influence the supply of a service or product and hence result in a shift in its supply curve.

normal goods - goods where demand increases when income increases (YED > 0)

normal profit - Normal profit is **a condition that exists when a company or industry's economic profit is equal to zero**. For example, if a company spends $200,000 every year on expenses, it needs to make $200,000 in revenue to return a normal profit.

normative economics - **One of the two ways the economics approaches the world.** Normative economics is concerned with how things should be, and thus involves judgmental statements such as, should, ought, etc.

nominal - values unadjusted for the effects of inflation / values at current prices, a.k.a. monetary values measured in current prices.

nudge - Nudge theory is a concept in behavioral economics, political theory, and behavioral sciences that **proposes positive reinforcement and indirect suggestions as ways to influence the behavior and decision-making of groups** or individuals.

nudge marketing - refers **to deliberately manipulating how choices are presented to consumers**. Its goal is to influence what consumers choose, either to steer them toward options that the marketer believes are good for them or simply to stimulate purchases and increase sales.

YOUR EDUCATION PLUS

O

Oligopoly - market structure where there is a small number of firms in the industry and where each firm is interdependent with other firms.

open market operations (OMO) - An activity by a central bank to give (or take) liquidity in its currency to (or from) a bank or a group of banks. The central bank can either buy or sell government bonds (or other financial assets) in the open market

opportunity cost - The opportunity cost of a particular activity option is the loss of value or benefit that would be incurred by engaging in that activity, relative to engaging in an alternative activity offering a higher return in value or benefit. In a nutshell, it's **a value of the road not taken**. A commuter takes the train to work instead of driving.

opt-in / opt-out approach - "Opt-in" is the **process used to describe when a positive action is required in order to subscribe a user to a newsletter list**, for example. "Opt-out" on the other hand means that a user can be signed up much more easily and he needs to be given the possibility to opt-out easily.

Optimal Allocation -

YOUR EDUCATION PLUS

P

Paris agreement - Often referred to as the Paris Accords or the Paris Climate Accords, is an international treaty on climate change, adopted in 2015. It covers climate change mitigation, adaptation, and finance.

percent tax - It is also known as a valorem tax. This is a tax that is a percentage of the product's selling price.

Perfect Competition - market structure where there are many buyers and sellers, where there is freedom of entry and exit to the market, perfect knowledge, and where all firms produce a homogeneous product.

perfect information - (sometimes referred to as "**no hidden information**") is a feature of perfect competition. With perfect information in a market, all consumers and producers have perfect and instantaneous knowledge of all market prices, their own utility, and own cost functions.

physical capital - Goods that have been produced and are used to produce other goods and services. They are used over and over again in the production process. Also called capital goods and capital resources.

Pigovian tax - A tax assessed against private individuals or businesses for engaging in activities that create adverse side effects for society. Adverse side effects are those costs that are not included as a part of the product's market price. These include environmental pollution, strains on public healthcare from the sale of tobacco products, and any other side effects that have an external, negative impact. Pigovian taxes were named after English economist, Arthur Pigou, a significant contributor to early externality theory.

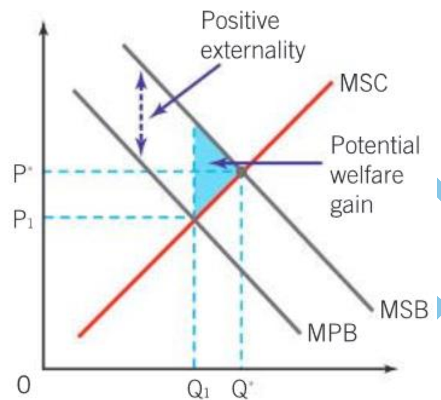
planned economy - A centrally planned economy, also known as a command economy, is an economic system in which a central authority, such as a government, makes economic decisions regarding the manufacturing and the distribution of products.

portfolio investment - **Ownership of a stock, bond, or other financial asset with the expectation that it will earn a return or grow in value over time, or both**. It entails passive or hands-off ownership of assets as opposed to direct investment, which would involve an active management role.

Positive - scientific or objective study of the allocation of resources

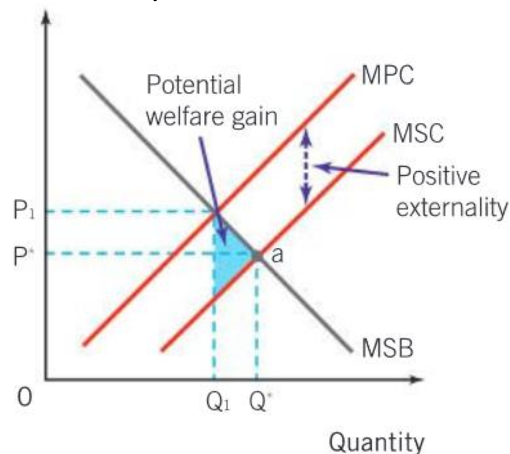
YOUR EDUCATION PLUS

positive consumption externality - This occurs when the consumption or production of a good causes a benefit to a third party.
MSB > MSC & MPC = MSC, XC = 0 & MSB > MPC & MSB > MPB thus MSB = MPB + XB
For example, when a farmer who grows apple trees provides a benefit to a beekeeper. The beekeeper gets a good source of nectar to help make more honey.



positive economics - **One of the two ways the economics approaches the world.** Positive economics is concerned with describing and analyzing economic relationships and making factual and objective claims.

positive production externality - When the consumption or production of a good causes a benefit to a third party.
MPC > MSC & MSB > MSC & MPB = MSB
For example, when a farmer who grows apple trees provides a benefit to a beekeeper. The beekeeper gets a good source of nectar to help make more honey.



price ceiling - **The mandated maximum amount a seller is allowed to charge for a product or service**. Usually set by law, price ceilings are typically applied to staples such as food and energy products when such goods become unaffordable to regular consumers.

YOUR EDUCATION PLUS

price elasticity of demand (PED) - The **price elasticity of demand** (PED) is a measure that captures the responsiveness of a good's quantity demanded to a change in its price. More specifically, it is the percentage change in quantity demanded in response to a one percent change in price. It is effectively a ratio: (% change demand) / (% change in price).

price elasticity of supply (PES) - **It** is a measure used in economics to show the responsiveness, or elasticity, of the quantity supplied of a good or service to a change in its price or cost. More specifically, it is the percentage change in quantity supplied in response to a one percent change in price. It is effectively a ratio: (% change supply) / (% change in price).

price floor - A government-mandated minimum price that must be paid for a good or service.

Price stability -

primary sector - The production sector that consists of agricultural and fishing industries and extraction industries such as forestry and mining. Their products are known as primary products.

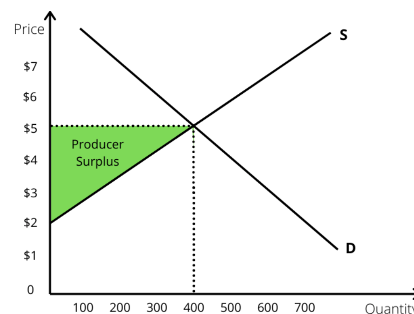
Private cost and benefit - cost or benefit to an individual economic unit such as a consumer or a firm.

Private Good - Goods which are excludable, rivalrous.

privatization - The transfer or sale of state-owned assets to the private sector. These assets are typically airports, harbors and utility companies.

producer revenue - The total revenue that a producer **receives from selling their goods.**

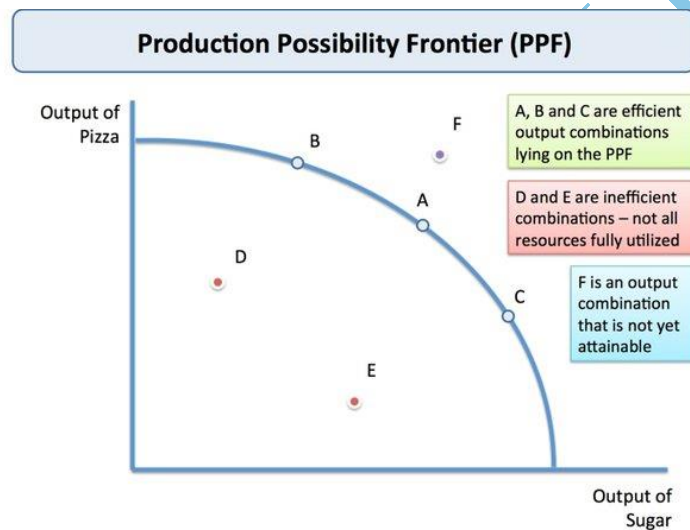
producer surplus - It is **the difference between how much a person would be willing to accept for given quantity of a good versus how much** they can receive by selling the good at the market price. The difference or surplus amount is the benefit the producer receives for selling the good in the market.



YOUR EDUCATION PLUS

production inefficiency - An economic term **describing a level at which an economy or entity can no longer produce additional amounts of a good without lowering the production** level of another product.

production possibility curve (PPC) - A curve which shows various combinations of the amounts of two goods which can be produced within the given resources and technology/a graphical representation showing all the possible options of output for two products that can be produced using all factors of production, where the given resources are fully and efficiently utilized per unit time.



Production possibility frontier - curve which shows the maximum potential level of output of one good given a level of output for all other goods in the economy.

Productive Efficiency - production is at lowest cost (MC = AC)

profit - The excess of total revenue over total cost during a specific period of time. In economics, profit is **the excess over the returns to capital, land, and labour (interest, rent, and wages)**. Profit = TR — TC = Q(AR-AC).

property rights - **The theoretical and legal ownership of resources and how they can be used**. ... In economics, property rights form the basis for all market exchange, and the allocation of property rights in a society affects the efficiency of resource use.

protection - **Government policies that restrict international trade to help domestic industries**. Protectionist policies are usually implemented with the goal to improve economic activity within a domestic economy but can also be implemented for safety or quality concerns.

Profit Maximization: MC = MR

public good - Good where consumption by one person does not reduce the amount available for consumption by another person, (non-excluding / non-rivalrous) leads to the concept of the free rider. i.e.: defense, streetlights.

pure public goods - **Goods that are perfectly non-rival in consumption and**. **are non-excludable**. **Non-rival in consumption**: One individual's consumption of a good does not affect another's opportunity to consume the good. Examples include national defense and flood barriers that protect a certain area.

YOUR EDUCATION PLUS

Q

Quantitative easing (QE) - A type of unconventional monetary policy in which a nation's central bank, such as the US Federal Reserve, attempts to boost the economy by purchasing a large number of **long-term securities** and other commercial bank assets in the open market in order to increase the money supply and encourage lending and investment.

quasi-public goods - **Have characteristics of both private and public goods**, including partial excludability, partial rivalry, partial diminishability and partial rejectability. Examples include roads, tunnels and bridges.

quota rent - The economic rent received by the holder of the right (or license) to import under a quota. Equals the domestic price of the imported good, net of any tariff, minus the world price, times the quantity of imports.
In simple words, the extra revenue that an importer of a good receives for a product is is limited by a quota, given that the price of a good within the country is above that of the world price.

quota - In international trade, **government-imposed limit on the quantity**, or in exceptional cases the value, of the goods or services that may be exported or imported over a specified period of time. ... Applied selectively to various countries, quotas can also be a coercive economic weapon.

YOUR EDUCATION PLUS

R

rational economic behavior - refers to **a decision-making process that is based on making choices that result in an optimal level of benefit or utility**.

rational expectations - Where decisions are based on current information and anticipated future events.

Real: values adjusted for inflation –

real income - is an **economic** measure that provides an estimation of an individual's actual purchasing power in the open market after accounting for inflation.

reciprocal absolute advantage - In a two good, two country situation each country benefits from an absolute advantage (i.e. more efficient production as they can make more goods with the same resources) in one of the two goods. As the absolute advantage is reciprocal there is a **clear incentive** to specialise and trade.

regionalism - Trading blocs have bias in favor of their member countries. These **economies establish tariffs and quotas that protect intra-regional trade from outside forces**. Rather than following the World Trade Organization, regional trade bloc countries participate in regionalism.

related goods - are classified as either **substitutes or complements**.
Substitutes are goods that satisfy a similar need or desire. ... An increase in the price of a good will increase demand for its substitute,
Complements are goods that are often purchased together such as printers and complements. ...A decrease in the price of a good will decrease demand for its substitute.
Unrelated goods are products such that the price of one product will have no effect upon the demand for the other product.

recession - A recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.

regional trading blocs (RTAs) - **A group of countries within a geographical region that protect themselves from imports from non-members**. Trading blocs are a form of economic integration, and increasingly shape the pattern of world trade.

regressive tax - **One where the average tax burden decreases with income**. Low-income taxpayers pay a disproportionate share of the tax burden, while middle- and high-income taxpayers shoulder a relatively small tax burden.

YOUR EDUCATION PLUS

remittances - **Funds transferred from migrants to their home country**. They are the private savings of workers and families that are spent in the home country for food, clothing and other expenditures, and which drive the home economy.

repatriate profits - Repatriation refers **to the conversion of any foreign currency into one's local currency**. It may become necessary to repatriate money because of business transactions, foreign investments, or international travel.

reserve assets - Are currencies or other **assets**, such as gold, that can be readily transferable and are used to balance international transactions and payments.

reserve requirement ratio - This is the percentage of a commercial bank's deposits that it cannot lend out and must hold as reserves.

resource - **A service or other asset used to produce goods and services that meet human needs and wants**. Also referred to as factors of production, economics classifies resources into four categories — land, labor, capital and enterprise.

Returns to scale - when the change of percentage output is the same as the percentage change in input.

revaluation - **A calculated upward adjustment to a country's official exchange rate relative to a chosen baseline**. ... Revaluation is the opposite of devaluation, which is a downward adjustment of a country's official exchange rate.

YOUR EDUCATION PLUS

S

savings - Saving is income received by households that is not spent nor paid to the government in taxes. Savings are a withdrawal (or leakage) out of the circular flow of income.

Say's law - A theory from classical economics **arguing that the ability to purchase something depends on the ability to produce and thereby generate income**. Say reasoned that to have the means to buy, a buyer must first have produced something to sell.

scarcity - The limited availability of economic resources relative to society's unlimited demand for goods and services. **One of the Key Concepts of Economics**

screening - In economics refers to a strategy of combating adverse selection – one of the potential decision-making complications in cases of asymmetric information – by the agent(s) with less information. An example would be when an insurance agent ask questions in order to determine the health/risk of a new client.

secondary (manufacturing) sector - These are industries that take primary products (raw materials) from the primary sector and use them to manufacture producer goods, such as machinery or consumer goods such as electronic goods or clothing. The secondary sector also includes the construction industry.

sectoral change - The shift in the relative share of national output and employment that is attributed to each of the production sectors as an economy develops over time.

self-righting equilibrium - It means that **if we try to move away from the equilibrium situation it will revert back to its original position**, if there is no external disturbance.

short run - A period of time when at least one factor input cannot be varied.

signaling - What takes place when the party with more information regarding a sale/transaction can provide reliable information to the party with less information. A used car dealer can instill confidence in a buyer by providing a good warranty.

social conformity / herd behavior - a type of social influence involving a change in belief or behaviour in order to fit in with a group.

social cost and benefit - Cost or benefit to society as a whole.

Sovereign Wealth Fund (SWF) - Is **a state-owned investment fund comprised of money generated by the government, often derived from a country's surplus reserves**. SWFs provide a benefit for a country's economy and its citizens. These funds generally invest in financial instruments such as bonds, stocks, gold, and real estate.

YOUR EDUCATION PLUS

specific tax - A per unit tax, or specific tax, is a tax that is defined as a fixed amount for each unit of a good or service sold, such as cents per kilogram. It is thus proportional to the particular quantity of a product sold, regardless of its price. An **example** would be placing a $3 tax per pack of cigarette, regardless of pack price.

specific subsidy - A specific amount of money given for each unit of a product; eg. per kilogram.

Speculative goods - a fall in price will discourage people from buying (sometimes) b/c they are afraid of further falls in price.

status quo / inertia bias - Often the case where consumers, faced with a bewildering set of choices, would prefer to maintain the status quo by doing nothing.

subsidy - A subsidy is **a benefit given to an individual, business, or institution**, usually by the government. ... The subsidy is typically given to remove some type of burden, and it is often considered to be in the overall interest of the public, given to promote a social good or an economic policy.

substitute goods - A substitute is **a product or service that can be easily replaced with another by consumers**. In economics, products are often substitutes if the demand for one product increases when the price of the other goes up.

substitution effect - if price rises, demand will switch to substitute products.

superior goods - Products that have a high income elasticity. The demand for them changes significantly if income rises.

supernormal profit - Supernormal profit or pure profit, is "profit of a firm over and above what provides its owners with a normal (market equilibrium) return to capital."

supply creates its own demand - The production of goods is actually the source of all demand in an economy.

supply-side policies - Supply-side policies include a range of policies designed to reduce costs, improve efficiency, productivity, and international competitiveness so that the economy can grow without experiencing inflation.

surplus - When the quantity supplied of a good or service exceeds the quantity demanded at a particular price.

sustainable economy - A sustainable economy is **one that is resilient and provides a good quality of life for everybody**. It stays within the limits of the planet and helps keep global warming within the well below 2°C threshold.

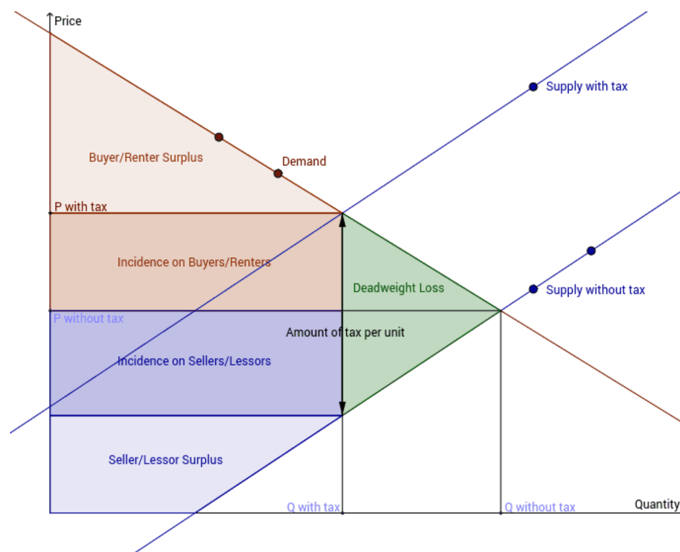
sustainability - The **ability of the present generation to meet its needs** without compromising the ability of future generations to meet their own needs. **One of the Key Concepts of Economics.**

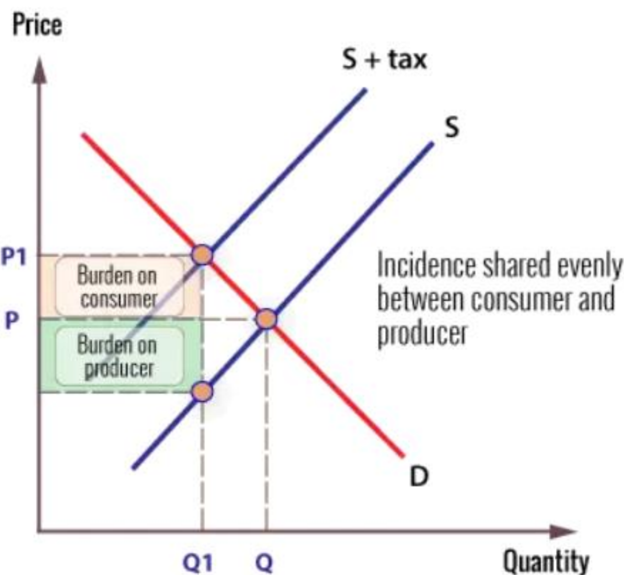
YOUR EDUCATION PLUS

T

tariff - A tax imposed by one country on the goods and services imported from another country.

tax incidence - (or incidence of tax) is an economic term for understanding the division of a tax burden between stakeholders, such as buyers and sellers or producers and consumers. Tax incidence can also be related to the price elasticity of supply and demand.





tax revenue - The income that is gained by governments through taxation. Taxation is the primary source of government revenue. Revenue may be extracted from sources such as individuals, public enterprises, trade, royalties on natural resources and/or foreign aid.

YOUR EDUCATION PLUS

taxes - Taxes are the primary source of revenue for most governments. They are simply defined as a charge or fee on income or commerce. Taxes are most readily understood from the perspective of income taxes or sales tax.

technological change - An advance in overall knowledge in a specific area. Also known as technological advance.

tertiary (service) sector - These are industries that produce services or intangible products, such as financial services, education, information technology and mass media to name a few.

terms of trade –

total cost TC) - The sum of all costs incurred by a firm in producing a certain level of output.

total producti (TP) - The total output that a firm produces, using its fixed and variable factors in a given time period.

tradable pollution permits - **These** permits are so-called cap and trade schemes. They **give companies a legal right to pollute a certain amount per fixed time span**. Firms that pollute less can then sell their leftover pollution permits to firms that pollute more.

trade creation - **An economic term related to international economics in which trade flows are redirected due to the formation of a free trade area or a customs union**. ... In practice, both trade creation and diversion effects take place due to formation of economic union.

trade deficit - **Occurs when a country's imports exceed its exports during a given time period**. It is also referred to as a negative balance of trade (BOT). The balance can be calculated on different categories of transactions: goods (a.k.a., "merchandise"), services, goods and services.

trade diversion - An **economic term related to international economics in which trade is diverted from a more efficient exporter towards a less efficient one by the formation of** a free trade agreement or a customs union.

trade liberalization - The process involving **the removal or reduction of restrictions or barriers on the free exchange of goods between nations**. These barriers include tariffs, such as duties and surcharges, and non-tariff barriers, such as licensing rules and quotas.

trade surplus - **If the exports of a country exceed its imports, the country is said to have a favourable balance of trade**, or a trade surplus. Conversely, if the imports exceed exports, an unfavourable balance of trade, or a trade deficit, exists.

YOUR EDUCATION PLUS

tragedy of the commons - A situation in which individual users, who have open access to a resource unhampered by shared social structures or formal rules that govern access and use, act independently according to their own self-interest and, contrary to the common good of all users, cause depletion of the resource through their uncoordinated action.

transfer payments - A payment made or income received in which no goods or services are being paid for, such as a benefit payment or subsidy.

YOUR EDUCATION PLUS

U

underallocation - It means **that there are more resources on hand than it is necessary to complete the job at hand**. This results in wasted money, potential, and lower levels of productivity.

unemployment - Unemployment is a term referring to individuals who are employable and actively seeking a job but are unable to find a job.

unemployment benefits - Payment made by the state or trade union, to an unemployed person.

unit elastic demand – PED = 1 When a change in the price of a product results in a proportionate change in the demand for the same product.

unit elastic supply – PES = 1 When a change in the price of a product results in a proportionate change in the supply for the same product.

universal basic income (UBI)- It is a regular cash payment every individual receives, without any reference to their other income or wealth and without any conditions.

unrelated goods - Are products such that the price of one product will have no effect upon the demand for the other product.

utility - The total satisfaction received from consuming a good or service.

YOUR EDUCATION PLUS

V

Valuing Natural Resources - takes into account growth without the destruction of natural capita.

Veblen Good - (snob goods) goods bought in order to gain status, often sell better at high prices.

Vertical Merger - merger between two firms at different production stages in the same industry.

Very Long Run - the period of time when the state of technology may change.

YOUR EDUCATION PLUS

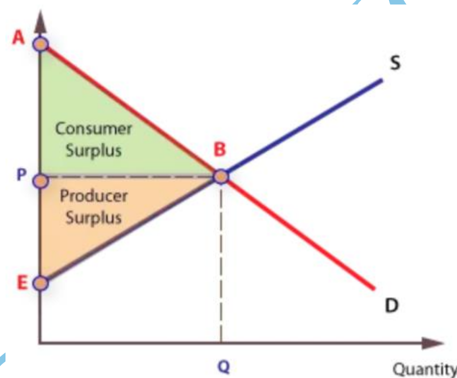
W

welfare - Refers to **a range of government programs that provide financial or other aid to individuals or groups who cannot support themselves**. Welfare programs are typically funded by taxpayers and allow people to cope with financial stress during rough periods of their lives.

welfare gain - The total extra benefit or happiness enjoyed by producers and consumers who feel they got a good price for the product being exchanged (paid less than they were willing to pay or received more than they were willing to accept).

welfare loss - A measure of lost economic efficiency when the socially optimal quantity of a good or a service is not produced.

welfare (economic) - is economic wellbeing expressed in terms of the sum of consumer and producer surplus – also known as community surplus.



Consumer surplus exists whenever the price a consumer would be willing to pay in terms of their expected private benefit is greater than they actually pay. Producer surplus exists when the price a producer would be prepared to supply at is less than the actual market price.

Welfare maximization -

World Trade Organization (WTO) - An intergovernmental organization that regulates and facilitates international trade between nations. Governments use the organization to establish, revise, and enforce the rules that govern international trade.

YOUR EDUCATION PLUS

Formulae (need much, much work)

PED:

- %D Q D / %D P
- D Q/Q * P/D P
- D Q/(Q1+Q2) * (P1+P2)/ D P
- >1 elastic // <1 inelastic // =1 unitary

PES: %D Q S / %D P

YED:

- %D QD / %D Y
- D Q/(Q1+Q2) * (Y1-Y2)/ D Y
- positive = normal good // negative = inferior good // YED > 1 = luxury good

XED: D Qy / D Px // Substitutes: XED > 0 // Complements: XED <0 //

APC: the proportion of income consumed, APC = C/Y

APS: APS = S/Y

APC + APS = 1

MPC: MPC = D C/D Y

MPS: D S/D Y

MPC + MPS = 1

C = a + b(Y) // Consumption = autonomous C + MPC*Income

AD = C + I + G + (X-M)

m = D Y/D I // also m = 1 / MPS in a simple closed economy.

Gov. Spending m = D Y/D G

Bank/credit m = 1 / Reserve Ratio

MV = PQ // M = Money Supply // V = income velocity of circulation // P = price level // Q = real GDP

Monetarists believe: D M à D P

Standard of Living = Real GDP / Population

YOUR EDUCATION PLUS