

Glossary

The CIE 9708 syllabus contains examples of economic concepts and terms. These are divided into those included at the Core (AS Level) and Supplement (A Level) stages. Concepts and terms introduced at the Core stage may also be included in examinations at the Supplement stage.

These examples have been provided by CIE to assist teachers in the effective delivery of the syllabus. We have added others. When they first occur, terms have been reproduced in bold, blue type in the Coursebook.

This glossary provides an alphabetical listing of the most important concepts and terms – in particular it includes those which are most likely to be used in CIE examination questions and data response material. For the convenience of students, this glossary is divided into Core and Supplement sections.

Core stage – economic concepts and terms

absolute advantage – used in the context of international trade to represent a situation where, for a given set of resources, one country can produce more of a particular good than another country.

ad valorem tax – a tax which is charged as a given proportion of the price.

Adam Smith – Scottish economist who laid down the foundations of market economics.

adverse selection – where information failure in (say) the health insurance market results in unsuitable people obtaining insurance.

aggregate demand – the total spending on goods and services in the economy.

aggregate supply – the total output of any economy.

anticipated inflation – that which might be expected.

appreciation – an increase in the value of a currency as measured by the amount of another foreign currency it can buy.

average product – total product divided by the number of workers employed.

balance of payments – a record or overall statement of a country's economic transactions with the rest of the world, usually over a year.

balance of trade – the difference between the exports of goods and services and imports of goods and services (visibles).

barter – when people exchange goods and services without using money.

base date – the period or year whose data is identified as 100 in the construction of an index number.

birth rate – the number of live births per 1000 population per year.

capital – one of the factors of production; a man-made aid to production, such as industrial machinery, factories and roads.

capital account – part of the balance of payments showing transfers of financial assets between a country and the rest of the world.

capital consumption – the amount of capital required to replace that which is worn out on an annual basis.

change in demand – the outcome of a change in those factors which can be explained by a shift in the demand curve. Not to be confused with a change in quantity demanded.

change in quantity demanded – this term is used to show the outcome of a movement along a demand curve that is to show the change in quantity demanded when price changes.

cheque – a written order made by a customer to a bank to pay money.

choice – underpins the concept that resources are scarce so choices have to be made by consumers, firms and governments.

coincidence of wants – where there is a need for two parties to be willing to trade; relevant to money as a medium of exchange.

command economy – one in which decisions on resource allocation are taken by a central body.

comparative advantage – used in the context of international trade to explain why trade can be beneficial even if one country has an absolute

advantage in production but where the opportunity costs of production vary compared with another country.

complementary goods – those that are consumed together.

concentration ratio – the proportion of the market in the hands of a given number of firms.

consumer surplus – the difference between the value a consumer places on units consumed and the payment needed to actually make a purchase of a commodity.

consumption – total spending by consumers over a period of time.

contestable market – one where there is ease of entry for new firms.

cost-benefit analysis – a technique for assessing the desirability of a particular project, taking into account all of the respective costs and benefits.

cost of living – the cost of a range of goods and services that are necessary for normal existence.

cost-push inflation – a situation where inflation is caused by an increase in particular prices or wage rates.

costs – the value of inputs into the production process.

cross elasticity of demand – a numerical measure of the responsiveness of demand for one product following a change in price of a related product.

current account – within the balance of payments, a record of the trade in goods and services, investment income and current transfers.

customs union – free trade between member states and a common external tariff on imports.

death rate – the number of deaths per 1000 population per year.

demand – the quantity of goods or services that consumers want to buy at different prices.

demand curve – a representation of the relationship between quantity demanded and price.

demand-pull inflation – where inflation is caused by an increase in aggregate demand such as an increase in government spending or a reduction in the overall level of taxation in the economy.

demand schedule – the data from which a demand curve is drawn.

demerit goods – any good that has negative externalities associated with it, such as passive smoking or the excessive consumption of junk food.

dependency ratio – the proportion of the population that is not productive.

depreciation – a decrease in the value of a currency as measured by the amount of another foreign currency it can buy.

devaluation – an explicit decrease in the value of a currency.

developing economy – one in which there is not a high income per head.

disequilibrium – a market situation where supply and demand are not equal.

division of labour – workers specialise in one job within an overall production process.

dumping – selling goods in an overseas market at below their cost of production.

economic goods – those having a cost in terms of resources used.

economic growth – an increase in the productive potential in an economy.

economic integration – the processes, e.g. trade agreements, whereby individual economies get together to form a single unit.

economic problem – scarce resources in relation to unlimited wants; choices have to be made.

economic union – where member states agree to common economic policies and, sometimes, a common currency.

effective demand – demand that is supported by the ability to pay.

elastic – where the estimated elasticity value is greater than 1.

elasticity – a measure of responsiveness to change.

elasticity of demand – the responsiveness of the quantity demanded or of demand to a change in one of the determinants.

elasticity of supply – the responsiveness of the quantity supplied or of supply to a change in one of the determinants.

enterprise – the factor of production that refers to the willingness to take risks.

entrepreneur – an individual who is willing to take risks in the production of goods or services.

equilibrium – a situation where there is no tendency for change given current circumstances.

equilibrium price – the price where demand and supply are equal; where the market clears.

equilibrium quantity – the amount traded at the equilibrium price.

excise duties – taxes on specific products, often to restrict consumption.

expenditure dampening policies – fiscal or monetary policies that are designed to restrict aggregate demand.

expenditure switching policies – fiscal and monetary policies that are designed to reduce domestic expenditure on imports and transfer such demand to domestically produced goods.

exports – goods and services sold to another country.

external benefits – benefits that accrue to a third party.

external costs – costs that are borne by a third party.

externality – action that results in external benefits or external costs.

factor endowment – the range of resources available in an economy.

factor mobility – the ease with which factors of production can be moved around.

factor of production – anything that is useful in the production of goods and services.

financial account – that part of the balance of payments that records overseas investment.

floating exchange rate – one that is determined in the market by the forces of demand and supply.

foreign direct investment – provided by companies outside of their own national market.

foreign exchange rate – the price of currency in terms of a recognised global currency, for example \$US or euro.

free goods – those with no price and which can be enjoyed by all.

free rider – someone who has no incentive to pay for the use of a public good.

free trade area – where member states agree to remove any restrictions on trade among themselves.

globalisation – the processes by which the world's economies are becoming increasingly dependent upon each other.

hyperinflation – an exceptionally high rate of inflation which results in people losing confidence in money as a medium of change.

imports – any goods and services purchased from another country.

income elasticity of demand – a numerical measure of the responsiveness of demand following a change in income.

inelastic – a situation where the estimated elasticity of demand value is between 0 and 1.

infant industry argument – the case for protecting new firms in a developing economy.

inferior good – one whose demand falls as income increases.

inflation – a persistent increase in the level of prices in an economy.

information failure – where people do not have full information.

interest – a payment that has to be made in order to obtain money or a reward for parting with money.

investment – the creation of capital goods or adding to the stock of productive assets in an economy.

J-curve – the short-term response from the current account of the balance of payments due to a sharp fall in the exchange rate.

joint demand – when two items are consumed together.

joint supply – when two items are produced together.

labour – the human resources available in an economy; one of the factors of production.

labour force – the number of people available for work.

labour force participation rate – the labour force as a proportion of the total population.

labour force survey – a quarterly government survey of employment and unemployment.

land – the factor of production that consists of the natural resources in an economy.

law of demand – when price falls, the quantity demanded will increase (and vice versa).

law of supply – when price increases, the quantity supplied will increase (and vice versa).

liquidity – the extent to which a firm or bank has an adequate supply of assets that can be turned into cash.

macroeconomics – economic concepts and theories that apply to the economy as a whole.

marginal propensity to import – the proportion of an increase in income that is spent on imports.

market – where buyers and sellers get together to trade.

market demand – the total amount required by consumers.

market economy – one in which most decisions are taken through market forces.

market failure – where the market mechanism does not give an efficient allocation of resources.

market mechanism – where decisions on price and quantity are made on the basis of demand and supply.

Marshall-Lerner condition – for an exchange rate devaluation to be successful, the sum of the price elasticities of demand for exports and imports must be greater than 1.

measure of value – the way in which money that is accumulated can be measured.

medium of exchange – a function of money that is the basis on which transactions take place.

menu costs – additional costs incurred by a business as a consequence of inflation.

merit goods – those goods and services that have positive externalities.

microeconomics – economic concepts and theories that apply to particular parts of an economy such as consumers and firms.

migration – the movement of people from one country to another for work purposes.

monetary inflation – inflation caused by excessive increases in the money supply.

moral hazard – the risk of taking advice from someone who is better informed.

multilateral trade – trade between a number of countries.

multinational corporation – a firm which operates in different countries.

national income – total income for the economy as a whole.

needs – goods and services that are preferred.

negative externality – a situation which occurs when there are external costs associated with the production or consumption of a good or service.

nominal value – value in money terms.

non-excludable – a characteristic of public goods whereby it is not possible to restrict the consumption of a good or service.

non-rival – a characteristic of public goods whereby all consumers should be able to enjoy a particular good or service as they are not in competition with each other.

normal good – one where the quantity demanded increases as income increases.

normative economics – issues that involve making a value judgement.

opportunity cost – the cost expressed in terms of the best alternative that is foregone.

other things being equal – where a single change can be isolated, all other factors remaining the same.

paternalism – an attitude that favours laws and policies over the individual's preferences.

pegged exchange rate – one where the exchange rate is kept between an upper and lower limit.

perfectly elastic – all that is produced is sold at a given price.

perfectly inelastic – where a change in price has no effect on the quantity demanded.

planned economy – the same as command economy.

positive economics – those aspects that can be checked against particular criteria or evidence to see whether they are proven.

positive externality – an activity that generates external benefits.

price elasticity of demand – a numerical measure of the responsiveness of the quantity demanded to a change in price of a particular good or service.

price elasticity of supply – a numerical measure of the responsiveness of the quantity supplied to a change in price of a particular good or service.

price mechanism – the means of allocating resources in a market economy.

primary sector – production of agriculture, mining, fishing and forestry.

private benefits – those that directly accrue to an individual.

private costs – those that are directly incurred by an individual.

private goods – any that are consumed by someone and not available to anyone else.

production – the act of making goods and services.

production frontier – a representation of all products that can be produced with given resources.

production possibility curve – a representation of the maximum level of output that an economy can achieve when using the existing resources to the full.

productivity – for labour, output per person employed.

product transformation curve – as production possibility curve.

progressive tax – a tax that takes a higher proportion from high income earners rather than from low income earners.

protectionist policies – policies that are used to protect an economy from foreign competition.

public goods – those that are non-excludable and non-rival and for which it is usually difficult to charge a direct price.

Quantity Theory of Money – the theory that links inflation in an economy to changes in the money supply.

quasi-public goods – goods that display some but not all of the characteristics of public goods.

quota – a physical restriction on imports.

ration – limit the quantity available for consumption.

reallocation of resources – where resources are changed due to a change in demand.

real value – where an adjustment has been made for inflation.

regulation – rules and laws that apply to firms.

resources – inputs available for the production of goods and services.

Retail Prices Index (RPI) – a measure of inflation used in the UK to calculate price changes on a wide range of goods and services.

reevaluation – a deliberate increase in the value of a currency relative to that of others.

risk – the possibility that events may not turn out as expected.

scale of preference – the order in which needs are ranked.

scarcity – a situation in which wants and needs are in excess of the resources available.

secondary sector – manufacturing.

shadow price – one that is applied where there is no recognised market price.

shoe leather costs – a cost of inflation when consumers spend time and money trying to find the best prices.

social costs – the total costs of a particular action.

specialisation – the process by which firms, individuals and economies concentrate on producing those goods and services for which they have an advantage.

specific tax – an indirect tax that is fixed per unit.

standard deferred payment – the basis on which money can be used for future payments.

stocks – unsold items stored for future sale.

store of wealth – how money can be held over time before being used.

subsidy – a payment made to producers to reduce the market price of a good or service.

substitute goods – possible alternatives for consumers.

supply – goods and services produced.

supply conditions – those factors that determine supply.

supply curve – a representation of the relationship between price and the quantity supplied.

supply schedule – the data from which the supply curve is drawn.

tariff – a tax that is imposed on imports.

taxes – payments made to the government and levied on income or the consumption of goods and services.

terms of trade – a numerical measure of the relationship between export prices and import prices.

tertiary sector – production of services.

Tiger economies – the term given to the emerging economies in South East Asia.

total revenue – price multiplied by the quantity sold.

trade creation – where high-cost domestic production is replaced by more efficiently produced imports from within a customs union.

trade diversion – where trade with a low-cost country outside a customs union is replaced by higher-cost products supplied from within.

trade weighted exchange rate – for a given currency, this is calculated using weights that are directly proportional to other countries' shares in trade.

trading possibility curve – a representation of what trade is possible for given terms of trade.

unanticipated inflation – that which has not been forecast.

unemployment – where those willing and able to work are not able to find a job.

unitary elasticity – where the estimated value is 1.

unit of account – the function of money as a measure.

urbanisation – an increasing proportion of the population lives in large towns and cities.

value judgement – conclusions that are based mainly on opinions rather than facts.

wants – needs that are not necessarily realised.

weights – values given to (say) goods in a price index to take into account their relative importance.

Supplement stage – economic concepts and terms

abnormal profit – that which is earned above normal profit.

accelerator – a model that links changes in investment to changes in output.

active balances – the amount of money held by households or firms for possible future use.

aggregate expenditure – the total amount spent at different levels of income in the economy.

allocative efficiency – where price is equal to marginal cost.

automatic stabilisers – fiscal policies that operate to reduce fluctuations in aggregate demand without needing to make adjustments.

autonomous investment – that which is made independently from output.

average propensity to consume/save – the proportion of income that is consumed/saved.

balanced budget – one where government spending and receipts from taxation are equal.

barriers to entry/exit – any restrictions that prevent new firms from entering/leaving an industry.

broad money – a measure of the money supply that includes interest-bearing deposits held in financial institutions.

budget – an annual statement in which the government outlines plans for its spending and tax revenue.

budget line – a representation of the maximum amount of two goods that can be bought with a consumer's income.

capital-output ratio – a measure of the amount of capital used to produce a given amount of output.

cartel – a group of firms that deliberately collude to restrict output or fix prices for their own benefit.

circular flow of income – a simple model of the process by which income flows around an economy.

closed economy – one which does not trade with other economies.

closed shop – employment is restricted to workers belonging to a particular trade union.

collective bargaining – when employers and trade unions get together to negotiate wages and conditions of employment.

credit multiplier – the process by which banks can make more loans than deposits available.

cyclical unemployment – that which results from a downturn in the economy.

deadweight loss – the welfare loss to consumers when there is market failure.

decreasing returns – where the ratio of inputs to outputs falls as the scale of production increases.

deflationary gap – where there is a negative difference between the level of demand and that needed to achieve full employment.

demand-deficient unemployment – that caused by a lack of aggregate demand.

derived demand – where the demand for a good or service depends on the use that can be made from it.

diminishing marginal utility – where marginal utility falls as more of a product is consumed.

diminishing returns – where the output of an additional unit of input results in a fall in the marginal product.

diseconomies of scale – where long-run average costs increase as the scale of output increases.

dissaving – where households are obliged to withdraw savings from a bank in order to support current consumption expenditure.

distribution of income – the way in which total income is shared amongst different groups.

economic efficiency – where scarce resources are used in the most effective way to produce maximum output.

economic rent – payment made to a factor of production above that which is necessary to keep it in its current use.

economies of scale – the benefits derived from falling long-run average costs as the scale of output expands.

economies of scope – the benefits accruing to a firm as a consequence of it developing activities that are closely related to its core business.

equimarginal principle – a firm will produce most efficiently when the marginal valuation of returns from all of its factors of production are equal.

external economies of scale – the benefits to all firms as an industry grows and develops; those not directly controlled by a firm.

firm – any business that hires factors of production in order to sell goods and services.

fiscal policy – the use of taxation and government spending to manage the level of aggregate demand.

fixed costs – those that are independent of output in the short run.

frictional unemployment – that which is temporary and which arises where people change jobs.

full employment – the level of employment corresponding to where all who wish to work have found jobs, excluding frictional unemployment.

government failure – where in seeking to correct a market failure, the government creates further distortions in the market.

Gross Domestic Product (GDP) – a measure of total output produced by activities located in a country.

GDP deflator – a price index used to find the real value of output.

Gross National Product (GNP) – a measure of total output that takes into account the net income of residents from activities carried out abroad as well as in the home economy.

horizontal integration – a merger or take-over where firms are in the same type of activity.

idle balances – assets that are temporarily held in the form of cash as the current returns are too low.

immobility of labour – where the smooth flow of labour is inhibited for geographical or occupational reasons.

income effect – that part of a change in quantity demanded arising from a price change that is attributed to a change in real income.

income tax – a direct tax that is levied on earned and unearned income.

increasing returns – where a firm's output increases at a proportionally faster rate than inputs.

induced investment – that made in response to changes in output.

industry – a collection of firms in a particular activity.

injections – additions to the circular flow of income.

integration – the processes by which individual economies agree to form a single organisation.

internal economies of scale – the benefits arising within a firm as a result of an increase in the scale of output.

Keynesian (approach) – based on the ideas of John Maynard Keynes, the approach to managing the economy whereby government intervention should be used in situations where the market mechanism fails to produce the best allocation of resources.

leakages – a withdrawal from the circular flow of income.

liquidity preference – a Keynesian concept that explains why people demand money.

liquidity trap – a situation where interest rates cannot be reduced any more in order to stimulate an upturn in economic activity.

loanable funds theory – a theory which states that the rate of interest is determined where the demand for investment funds is equal to the supply of savings.

long run – the time period when a firm is able to alter all of its factors of production.

managed float – where a central bank buys and sells foreign exchange to keep the exchange rate at a given value.

marginal cost – the addition to total cost when one more unit of output is produced.

marginal product – the increase in output arising from the use of one additional unit of a factor of production.

marginal propensity to consume/save – a measure of the increase in consumption/saving in relation to an increase in income.

marginal revenue – the addition to total revenue arising from the sale of one more unit.

marginal revenue product – the addition to total revenue due to the employment of one more worker.

marginal utility – the utility derived from the consumption of one additional unit of a good or service.

mobility of labour – the ease with which labour can switch occupations or move around in the economy.

Monetarist (approach) – a school of economic thought that believes that the control of the money supply is essential for economic stability.

monetary policy – the use of interest rates or direct control of the money supply as a means for managing the economy.

money supply – the total amount of money in an economy.

monopolistic competition – a market structure where there are many firms, differentiated products and few barriers to entry.

monopoly – a market structure with technically one firm and high barriers to entry that keep out potential competitors.

monopsony – a market situation where there is only one buyer.

multiplier – a numerical estimate of a change in spending in relation to the final change in expenditure.

narrow money – rates and coins in circulation, cash held in banks and balances made by commercial banks at a central bank.

natural monopoly – a market where average costs are lowest with one provider and where duplication is wasteful.

natural rate of unemployment – that which would prevail with a constant rate of inflation.

net advantages – monetary and non-monetary factors that can affect the supply of labour.

Net Domestic Product (NDP) – Gross Domestic Product minus capital consumption.

Net National Product (NNP) – Gross National Product minus capital consumption.

net property income from abroad – the net receipts from rent, dividends, interest and retained profits received from abroad.

non-pecuniary advantages – non-monetary factors that can affect the supply of labour.

non-price competition – when firms compete through branding, advertising and customer service rather than by price.

normal profit – a cost of production that represents the level of profit that is just sufficient for a firm to keep operating in a particular industry.

occupational mobility – the extent to which someone trained in a skill which is no longer in demand is able to obtain another job.

oligopoly – a market structure with a few large firms and high barriers to entry.

open economy – one which is involved in trade with other economies.

optimum allocation of resources – where resources are allocated in the best possible way.

optimum population – the size of population that is consistent with the highest level of output per head.

paradox of thrift – where people start to save a larger proportion of their incomes, the result of which is a fall in aggregate demand that will eventually produce a fall in the level of saving.

pecuniary advantage – a monetary factor that can affect the supply of labour.

perfect competition – an ideal market structure that has many buyers and sellers, identical products and no barriers to entry.

Phillips curve – this shows the relationship between the rate of inflation and the unemployment rate in an economy over a period of time.

poverty trap – where someone may be worse off in employment compared to living on means-tested benefits.

precautionary motive – a reason for holding money for unexpected or unforeseen reasons.

price agreements – a feature of oligopoly when firms get together to fix prices.

price competition – when firms use market prices as the basis for competition.

price discrimination – a feature of monopoly whereby the market is segmented so that different prices are charged to different customers.

price leadership – a feature of oligopoly whereby one firm sets or varies the market price and other firms follow.

privatisation – the sale of publicly owned businesses to the private sector.

production function – this shows the maximum possible output from a given set of inputs.

productive efficiency – this occurs when a firm is producing at the lowest point of its average cost curve.

profit – the difference between total revenue and total costs.

profit maximisation – the normal objective of firms that is achieved where marginal cost is equal to marginal revenue.

progressive taxation – one where the rate rises more than proportionately with the rise in income.

regressive taxation – one where the ratio of taxation to income falls as income increases.

sales maximisation – an objective of firms whereby the aim is to maximise the volume of sales.

sales revenue maximisation – an objective of firms that involves maximising total revenue.

satisficing profits – a behavioural objective of firms that aims to achieve a level of profits acceptable to owners or shareholders.

saving – the difference between income and consumption.

seasonal unemployment – that which only occurs at certain times of year.

short run – the time period when a firm is unable to alter all except one factor input.

speculative motive – a reason for holding money with a view to making future gains.

structural unemployment – that caused as a result of the changing structure of economic activity.

substitution effect – that part of a change in quantity demanded arising from a price change that is attributed to the change in relative prices.

supernormal profit – same as abnormal profit.

supply-side policies – any policy that affects the total output of an economy.

sustainable development – the extent to which the interests of future generations are being safeguarded without compromising the well-being of the present generation.

technical economies of scale – the benefits of falling long run average costs that arise out of the increased efficiency of applying technology in a firm.

technological unemployment – that caused by the increased use of technological equipment to replace labour.

total currency flow – the total flow of liquid monetary assets in the economy.

total product – the total output of a firm.

trade union – an organisation that represents labour in the collective bargaining process.

transactions motive – the reason why there is a demand for money for the day-to-day buying of goods and services.

transfer earnings – the amount that is earned by a factor of production in its best alternative use.

utility – the satisfaction received from consumption.

variable costs – those directly related to the level of output.

vertical integration – where a firm combines two or more stages of production that are normally carried out by separate firms.

voluntary unemployment – that where workers agree to be made redundant.

wage differentials – variations in the wages paid within and between occupations.

withdrawals – leakages from the circular flow of income.