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SUMMARIZED NOTES ON THE DEFINITIONS SYLLABUS

1. Definitions

1. Economic efficiency – where scarce resources are used in the most efficient way to produce maximum output
2. Productive efficiency – when a firm is producing at the lowest possible cost
3. Allocative efficiency – where price is equal to marginal cost; firms are producing those goods and services most wanted by consumers
4. Pareto optimality – where it is impossible to make someone better off without making someone else worse off
5. Externality – where the actions of producers or consumers give rise to side effects on third parties who are not involved in the action, sometimes referred to as spill over effects
6. Negative externality – where the side effects have a negative impact and impose costs to third parties
7. Positive externality – where the side effects have a positive impact and provide benefits to third parties
8. Social costs – the total costs of a particular action
9. Private costs – those costs that are incurred by an individual who produces a good or service
10. External costs – those costs incurred and paid for by third parties not involved in the action
11. Social benefits – the total benefits arising from a particular action
12. Private benefits – benefits that accrue to individuals who produce or consume a particular good
13. External benefits – benefits that are received by third parties not involved in the action
14. Cost benefit analysis (CBA) – a method for assessing the desirability of a project taking into account the costs and benefits involved
15. Shadow price – one that is applied where there is no recognised market price available
16. Utility – the satisfaction received from consumption
17. Total utility – the total satisfaction received from consumption
18. Marginal utility – the utility derived from the consumption of one more unit of the good or service
19. Diminishing marginal utility – the fall in marginal utility as consumption increases
20. Equimarginal principle – consumers maximise their utility where their marginal valuation for each product consumed is the same
21. Budget line – the combinations of two products obtainable with given income and prices
22. Substitution effect – where following a price change, a consumer will substitute the cheaper product for the one that is now relatively more expensive
23. Income effect – where following a price change, a consumer has higher real income and will purchase more of this product
24. Indifference curve – this shows the different combinations of two goods that give a consumer equal satisfaction
25. Marginal rate of substitution – the rate at which a consumer is willing to substitute one good for another
26. Isoquant – a curve showing a particular level of output
27. Production function – this shows the maximum possible output from a given set of factor inputs
28. Marginal product – the change in output arising from the use of one more unit of factor of production
29. Diminishing returns – where the output from an additional unit of input leads to a fall in the marginal product
30. Firm – any business that hires factors of production in order to produce goods and services
31. Profit maximization - the assumed objective of a firm where the difference between total revenue and total cost is at a maximum
32. Fixed costs – those costs that are independent of output in the short run
33. Variable costs – those that vary directly with output, all costs are variable in the long run
34. Increasing returns to scale – where output increases at a proportionately faster rate than the increase in factor inputs
35. Decreasing returns to scale – where factor inputs increase at a proportionately faster rate than the increase in output
36. Economies of scale – the benefits gained from falling long run average costs as the scale of output increases
37. Diseconomies of scale – where long-run average costs increase as the scale of output increases
38. External economies of scale – cost savings accruing to all firms in an industry as the scale increases
39. Minimum efficient scale – lowest level of output at which costs are minimised
40. Normal profit – a cost of production that is just sufficient for a firm to keep operating in a particular industry
41. Abnormal profit – that which is earned above normal profit
42. Industry – all firms making the same product or in the same line of business
43. Multinational corporations (MNCs) – firms that operate in different countries
44. Small and medium enterprises (SMEs) – firms with fewer than 250 employees, small firms have fewer than 50 employees
45. Market structure – the way in which a market is organised in terms of the number of firms and the barriers to the entry of new firms
46. Barriers to entry – any restrictions that prevent new firms from entering an industry
47. Perfect competition – an ideal market structure that has many buyer and seller, identical or homogeneous products, no barriers to entry

48. Monopoly – a pure monopoly is just one firm in an industry with very high barriers to entry
49. Monopolistic competition – a market structure where there are many firms, differentiated products and few barriers to entry
50. Oligopoly – a market structure with few firms and high barriers to entry
51. Imperfect competition – any market structure expects for perfect competition
52. Natural monopoly – where a single supplier has substantial cost advantages such that competing producers would raise costs and where duplication will produce an inefficient use of resources
53. Barrier to exit – any restriction that prevents a firm leaving a market
54. Limit pricing – where firms deliberately lower prices and abandon a policy of profit maximisation to stop new firms entering a market
55. Horizontal integration – where a firm grows through a merger or acquisition of another firm in the same sector of an industry
56. Price leadership – a situation in a market where by a particular firm has the power to change prices, the result of which is that competitors follow this lead
57. Cartel – a formal agreement between firms to limit competition by limiting output or fixing prices
58. Contestable market – any market structure where there is a threat that potential entrants are free and able to enter this market
59. X-inefficiency – where the typical costs are above those experienced in a more competitive market
60. Economies of scope – reduction in ATC made possible by a firm increasing the different goods it produces
61. Diversification – where a firm grows through the production or sale of a wide range of different products
62. Vertical integration – where a firm grows by producing backwards or forwards in its supply chain
63. Horizontal integration – where a firm merge or acquires another in the same line of business
64. Sales revenue maximisation – a firm's objective to maximise turnover
65. Sales maximisation – a firm's objective to maximise the volume of sales
66. Satisficing – a firm's objective to make a reasonable level of profit
67. Game theory – where competing firms exhibit interdependent behaviour whereby the actions of one will impact on all other firms
68. Kinked demand curve – a means of analysing the behaviour of firms in oligopoly where there is no collusion
69. Deadweight loss – the welfare loss when due to market failure desirable consumption and production does not take place
70. Regulations – a wide range of legal and other requirements that come from governments and other organisations
71. Pollution permits – a form of licence given by governments that allows a firm to pollute up to a certain level
72. Property rights – where owners have a right to decide how their assets may be used
73. Privatisation – where there is a change in ownership from the public to the private sector
74. Equity – where the distribution of, say, income or wealth is fair
75. Wealth – an accumulated stock of assets
76. Lorenz curve – a graphical representation of inequality
77. Gini coefficient – a numerical measure of inequality
78. Progressive tax – one where the rate rises more than proportionately to the rise in income
79. Regressive tax – one where the ratio of taxation to income falls as income increases
80. Means-tested benefits – benefits that are paid only to those whose incomes fall below a certain level
81. Poverty trap – where an individual or a family are better off on means-tested benefits rather than working
82. Universal benefits – benefits that are available to all irrespective of income or wealth
83. Negative income tax – a unified tax and benefits system where people are taxed or receive benefits according to a single set of rules
84. Intergenerational equity – the responsibility that government has to provide for a more equitable future distribution of income and wealth
85. Derived demand – where the demand for a good or service depends upon the use that can be made from it
86. Marginal revenue product – the addition to total revenue as a result of employing one more worker
87. Transfer earnings – the amount that is earned by a factor of production in its best alternative use
88. Economic rent – a payment made to a factor of production above that which is necessary to keep it in its current use
89. Monopsony – where there is a single buyer in a market
90. Government failure – where government intervention to correct market failure causes further inefficiencies
91. Economic growth – in the short run an increase in a country's output and in the long run an increase in a country's productive potential
92. Economic development – an increase in welfare and the quality of life
93. Sustainable development – development that ensures that the needs of the present generation can be met without compromising the well-being of future generations
94. Actual economic growth – an increase in real GDP
95. Potential economic growth – an increase in the productive capacity of the economy
96. Output gap – a gap between actual and potential output

97. Negative output gap – a situation where actual output is below potential output
98. Positive output gap – a situation where actual output is above potential output
99. Trade cycle – fluctuations in economic activity over a period of years
100. National income – the total income for an economy
101. Gross national income (GNI) – the total output produced by a country's citizens wherever they produce it
102. Money GDP – total output measured in current prices
103. Real GDP – total output measured in constant prices
104. Shadow economy – the output of goods and services not included in official national income figures
105. Purchasing power parity (PPP) – a way of comparing international living standards by using an exchange rate based on the amount of each currency needed to purchase the same basket of goods and services.
106. National debt – the total amount of government debt
107. Multidimensional Poverty Index (MPI) – a composite measure of deprivation in terms of the proportion of households that lack the requirements for a reasonable standard of living.
108. Measurable Economic Welfare (MEW) – a composite measure of living standards that adjusts GDP for factors that reduce living standards and factors that improve living standards.
109. Human Development Index (HDI) – a composite measure of living standards that includes GNI per head, education and life expectancy
110. Kuznets curve – a curve that shows the relationship between economic growth and income inequality
111. Developed economies – economies with high GDP per head
112. Developing economy – an economy with a low GDP per head
113. Poverty cycles – the links between, for example, low income, low savings, low investment and low productivity
114. Development traps – restrictions on the growth of developing economies that arise from low levels of savings and investment
115. Emerging economies – economies with a rapid growth rate and that provide good investment opportunities
116. World Bank – an international organisation that lends money to developing economies for projects that will promote development
117. Primary sector – industries involved in farming and extracting natural resources
118. Secondary sector – industries that manufacture products
119. Tertiary sector – industries that produce services
120. Quaternary sector – industries involved in providing knowledge-based services
121. Malthusian theory – the view that population grows in geometric progression whereas the quantity of food grows in arithmetic progression
122. Optimum population – the size of population that maximises GDP per head
123. Dependency ratio – the proportion of the economically inactive to the labour force
124. Prebisch-Singer hypothesis – a theory that suggests that the terms of trade tend to move against developing economies so that developing economies have to export more to gain a given quantity of imports
125. Labour productivity – output per worker hour
126. Unemployment – the state of being willing and able to work but without a job
127. Full employment – the level of employment corresponding to where all who wish to work have found jobs, excluding frictional unemployment.
128. Natural rate of unemployment – the rate of unemployment that exists when the aggregate demand for labour equals the aggregate supply of labour at current wage rate and price level
129. Frictional unemployment – unemployment that is temporary and arises where people are in-between jobs
130. Structural unemployment – unemployment caused as a result of the changing structure of economic activity
131. Cyclical unemployment – unemployment that results from a lack of aggregate demand
132. Claimant count – a measure of unemployment based on those claiming unemployment benefits
133. Labour force survey – a measure of unemployment based on a survey that identifies people who are actively seeking a job
134. Multiplier – a numerical estimate of a change in spending in relation to the final change in spending
135. Reflationary fiscal or monetary policy measures – policy measures designed to increase aggregate demand
136. Open economy – an economy that is involved in trade with other economies
137. Closed economy – an economy that does not trade with other economies
138. Circular flow of income – a simple model of the process by which income flows around the economy
139. Marginal rate of taxation – the proportion of extra income taken in tax
140. Marginal propensity to import – the proportion of extra income spent on imports
141. Marginal propensity to save – the proportion of extra income which is saved
142. Aggregate expenditure – the total amount spent in the economy at different levels of income
143. Average propensity to consume – the proportion of income that is consumed
144. Dissaving – spending financed from past saving or from borrowing
145. Saving – income minus consumption
146. Marginal propensity to consume – the proportion of extra income that is spent

147. Consumption – spending by households on goods and services
148. Disposable income – income minus direct taxes plus state benefits
149. Consumption function – the relationship between income and consumption
150. Saving function – the relationship between income and saving
151. Average propensity to save – the proportion of income that is saved
152. Investment – spending by firms on capital goods
153. Government spending – the total of local and national government expenditure
154. Net exports – exports minus imports
155. Injections – additions to the circular flow of income
156. Withdrawals – leakages from the circular flow of income
157. Paradox of thrift – where the fact of people saving more results in a fall in saving due to lower spending and income
158. Inflationary gap – the excess of aggregate expenditure over potential output (equivalent to a positive output gap)
159. Deflationary gap – a shortage of aggregate expenditure so that potential output is not reached (equivalent to a negative output gap)
160. Autonomous investment – investment that is made independent of income
161. Induced investment – investment that is made in response to changes in income
162. Accelerator theory – a model that suggests investment depends on the rate of change in income
163. Capital-output ratio – a measure of the amount of capital used to produce a given amount, or value, of output
164. Narrow money – money that can be spent directly
165. Broad money – money used for spending and saving
166. Quantity Theory of Money – the theory that links inflation in an economy to changes in the money supply
167. Fisher equation – the statement that MV = PY
168. Credit multiplier – the process by which banks can make more loans than deposits available
169. Liquidity ratio – the proportion of a bank's assets held in liquid form
170. Government securities – bills and bonds issued by the government to raise money
171. Total currency flow – the current plus capital plus financial balances of the balance of payment
172. Quantitative easing – a central bank buying government bonds from the private sector to increase the money supply
173. Keynesians – economists who think that government intervention is needed to achieve full employment
174. Liquidity preference – a Keynesian concept that explains why people demand money
175. Transactions motive – the desire to hold money for the day-to-day buying of goods and services
176. Precautionary motive – a reason for holding money for unexpected or unforeseen events
177. Active balances – the amount of money held by households or firms for possible future use
178. Speculative motive – a reason for holding money with a view to make future gains from buying financial assets
179. Idle balances – the amount of money held temporarily as the returns from holding financial assets are too low
180. Liquidity trap – a situation where interest rates cannot be reduced any more in order to stimulate an upturn in economy activity
181. Foreign aid – assistance given to developing economies on favourable terms
182. Dependence – a situation where the economic development of a developing economy is hindered by its relationships with developed economies
183. International monetary fund (IMF) – an international organisation that promotes free trade and helps countries in balance of payments difficulties
184. Virtuous cycle – the links between, for example, an increase in investment, increase in productivity, increase in income and increase in saving
185. Foreign direct investment (FDI) – the setting up of production units or the purchase of existing production units in other countries
186. Inflation target – the rate a central bank is set to achieve
187. Phillips curve – a curve that shows the relationship between the unemployment rate and the inflation rate over a period of time
188. Expectations-augmented Phillips curve – a diagram that shows that while there may be a trade-off between unemployment and inflation in the short run, there is no trade-off in the long run
189. Tinbergen's rule – for every policy aim there must be at least one policy measure
190. Government macroeconomic failure – government intervention reducing rather than increasing economic performance
191. Counter-cyclically – going against the fluctuations in economic activity
192. Laffer curve – a curve showing tax revenue rising at first as the tax rate is increasing and then falling beyond a certain rate

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