CAIE IGCSE

ECONOMICS (0455)

SUMMARIZED NOTES ON THE DEFINITIONS SYLLABUS

1. Definitions

1.1. The basic economic problem

1. Wants- desires for goods and services
2. Resources- factors used to produce goods and services
3. The economic problem - unlimited wants exceeding finite resources
4. Scarcity- a situation where there is not enough to satisfy everyone's wants
5. Economic good - a product which requires resources to produce it and therefore has an opportunity cost
6. Free good- a product which does not require any resources to make it and so does not have an opportunity cost
7. Capital/Capital goods- human-made goods used in production
8. Consumer goods- goods and services purchased by households for their own satisfaction
9. Entrepreneur- a person who bears the risks and makes the key decisions in a business
10. Occupationally mobile - capable of changing use
11. Geographically mobile - capable of moving from one location to another location
12. Mobility of labour- the ability of labour to change where it works or in which occupation
13. Mobility of capital-the ability to change where capital is used or in which occupation
14. Mobility of enterprise- the ability to change where enterprise is used or in which occupation
15. Labour force- people in work and those actively seeking work
16. Productivity- the output per factor of production in an hour
17. Output- goods and services produced by the factors of production
18. Investment-spending on capital goods
19. Gross investment- total spending on capital goods
20. Depreciation (capital consumption) - the value of capital goods that have worn out or become obsolete
21. Net investment- gross investment minus depreciation
22. Negative net investment- a reduction in the number of capital goods caused by some obsolete and worn-out capital goods not being replaced
23. Opportunity cost - the next best alternative forgone while making an economic decision
24. Production possibility curve- a curve that shows the maximum output of two types of products and combination of those products that can be produced with existing resources and technology

1.2. The allocation of resources

1. Microeconomics- the study of the behaviour and decisions of household and firms, and the performance of individual markets.
2. Macroeconomics- the study of the whole economy
3. Market- an arrangement which brings buyers into contact with sellers
4. Economic agents- those people who undertake economic activities and make economic decisions
5. Economic systems- the institutions, organisations and mechanisms that influence economic behaviour and determine how resources are allocated
6. Planned economic system- an economic system where the government makes the crucial decisions, land and capital are state-owned and resources are allocated by directives
7. Mixed economic system- an economy in which both the private and public sectors play an important role
8. Market economic system- an economic system where consumers determine what is produced, resources are allocated by the price mechanism and land and capital are privately owned
9. Price mechanism- the way the decisions made by households and firms interact to decide the allocation of resources
10. Capital- intensive- the use of a high proportion of capital relative to labour
11. Labour-intensive- the use of a high proportion of labour relative to capital
12. Market equilibrium- a situation where demand and supply are equal at the current price
13. Market disequilibrium- a situation where demand and supply are not equal at the current price
14. Demand- the willingness and ability to buy a product
15. Market demand - total demand for a product
16. Aggregation - the addition of individual components to arrive at a total amount
17. Extension in demand- a rise in the quantity demanded caused by a fall in the price of the product itself.
18. Contraction in demand- a fall in the quantity demanded caused by a rise in the price of the product itself.
19. Changes in demand- shifts in the demand curve
20. increase in demand- a rise in demand at any given price, causing the demand curve to shift to the right
21. Decrease in demand - a fall in demand at any given price, causing the demand curve to shift to the left
22. Normal goods- a product whose demand increases when income increases and decreases when income falls
23. Inferior goods- a product whose demand decreases when income increases and increases when income falls
24. Substitute- a product that can be used in place of another
25. Complement- a product that is used together with another product

26. Ageing population- an increase in the average age of the population
27. Birth rate- the number of live births per thousand of the population in a year
28. Supply- the willingness and ability to sell a product
29. Market supply- total supply of a product
30. Extension in supply- a rise in the quantity supplied caused by a rise in the price of the product itself.
31. Contraction in supply- a fall in the quantity supplied caused by a fall in the price of the product itself.
32. Changes in supply- changes in supply conditions causing shifts in the supply curve
33. Increase in supply- a rise in supply at any given price, causing the supply curve to shift to the right
34. Decrease in supply- a fall in supply at any given price, causing the supply curve to shift to the left
35. Unit cost- the average cost of production. It is found by dividing total cost by output
36. Improvements in technology- advances in the quality of capital goods and methods of production
37. Direct taxes- taxes on the income and wealth of individuals and firms
38. Indirect taxes- taxes on goods and services
39. Tax- a payment to the government
40. Subsidy- a payment by the government to encourage the production or consumption of a product
41. Equilibrium price- the price where demand and supply are equal
42. Disequilibrium - a situation where demand and supply are not equal
43. Excess supply- the amount by which supply is greater than demand
44. Excess demand- the amount by which demand is greater than supply
45. Price elasticity of demand (PED) - a measure of the responsiveness of the quantity demanded to a change in price
46. Elastic demand - when the quantity demanded changes by a greater percentage than the change in price
47. Inelastic demand - when the quantity demanded changes by a smaller percentage than the change in price
48. Perfectly elastic demand- when a change in price causes a complete change in the quantity demanded
49. Perfectly inelastic demand - when a change in price has no effect on the quantity demanded
50. Unit elasticity of demand - when a change in price causes an equal change in the quantity demanded, leaving total revenue unchanged.
51. Price elasticity of supply (PES) - a measure of the responsiveness of the quantity supplied to a change in price
52. Elastic supply- when the quantity supplied changes by a greater percentage than the change in price
53. Inelastic supply - when the quantity supplied changes by a smaller percentage than the change in price
54. Perfectly elastic supply - when a change in price causes a complete change in the quantity supplied
55. Perfectly inelastic supply- when a change in price has no effect on the quantity supplied
56. Unit elasticity of supply- when a change in price causes an equal change in the quantity supplied
57. Public sector- the part of the economy controlled by the government
58. State-owned enterprises (SOEs) - organisations owned by the government which sell products
59. Privatisation - the sale of public assets to the private sector
60. Price mechanism- the system by which the market forces of demand and supply determine prices
61. Market failure- market resources resulting in an inefficient allocation of resources
62. Free rider- someone who consumes a good or service without paying it
63. Allocative efficiency- when resources are allocated to produce the right products in the right quantities
64. Productively efficient- when products are produced at the lowest possible cost and making full use of resources
65. Dynamic efficiency - efficiency occurring over time as a result of investment and innovation
66. Third parties- those not directly involved in producing or consuming a product
67. Social benefits- the total benefits to a society of an economic activity
68. Social costs- the total costs to a society of an economic activity
69. Private benefits- benefits received by those directly consuming or producing a product
70. Private costs- costs bome by those directly consuming or producing a product
71. External benefits- benefits enjoyed by those who are not involved in the consumption and production activities of others directly
72. External costs- costs imposed on those who are not involved in the consumption and production activities of others directly
73. Socially optimum output- the level of output where social cost equals social benefit and society's welfare is maximised
74. Merit goods- products which the government considers consumers do not fully appreciate how beneficial they are and so they will be under-consumed if left to market forces. Such goods generate positive externalities.
75. Demerit goods- products which the government considers consumers do not fully appreciate how harmful they are and so they will be over-consumed if left to market forces. Such goods generate negative externalities
76. Public good - a product which is non-rival and non-excludable hence needs to be financed by taxation.
77. Private goods- a product which is both rival and excludable

78. Monopoly- a single seller
79. Price fixing- when two or more firms agree to sell a product at the same price
80. Mixed economic system- an economy in which both the private and public sectors play an important role
81. Rationing- a limit on the amount that can be consumed
82. Lottery- the drawing of tickets to decide who will get the products
83. Nationalisation- moving the ownership and control of an industry from the private sector to the government
84. Public corporation- a business organisation owned by the government which is designed to act in the public interest

1.3. Microeconomic decision makers

1. Money- an item which is generally acceptable as a means of payment
2. Commercial banks- banks which aim to make a profit by providing a range of banking services to households and firms
3. Central bank- a government-owned bank which provides banking services to the government and commercial banks and operates monetary policy
4. Liquidity - being able to turn an asset into cash quickly without a loss
5. Disposable income- income left after income tax has been deducted and state benefits received
6. Wealth- a stock of assets including money held in bank accounts, shares in companies, government bonds, cars and property
7. Rate of interest- a charge for borrowing money and a payment for lending money
8. Average propensity to consume (APC) - the proportion of household disposable income which is spent
9. Consumption- expenditure by households on consumer goods and income
10. Savings ratio- the proportion of household disposable income that is saved
11. Average propensity to save (APS)- the proportion of household disposable income that is saved
12. Mortgage- a loan to help buy a house
13. Earnings- the total pay received by a worker
14. Wage rate- a payment which an employer contracts to pay a worker. It is the basic wage a worker receives per unit of time or unit of output
15. National minimum wage (NMW) - a minimum rate of wage for an hour's work, fixed by the government for the whole economy
16. Elasticity of demand for labour- a measure of the responsiveness of demand for labour to a change in the wage rate
17. Elasticity of supply of labour- a measure of the responsiveness of supply of labour to a change in the wage rate
18. Specialisation - the concentration on particular products or tasks
19. Division of labour- workers specialising in particular tasks
20. Trade union- an association which represents the interests of a group of workers
21. Collective bargaining- representatives of workers negotiating with employers' associations
22. Industrial action- when workers disrupt production to put pressure on employers to agree to their demands
23. Industry- a group of firms producing the same product
24. Primary sector- covers industries which extract natural resources
25. Secondary sector- covers manufacturing and construction industries
26. Tertiary sector- covers industries which provide services
27. Quatemary sector- covers service industries that are knowledge based
28. internal growth- an increase in the size of a firm resulting from it enlarging existing plants or opening new ones
29. External growth- an increase in the size of a firm resulting from it merging or taking over another firm
30. Horizontal merger- the merger of firms producing the same product and at the same stage of production
31. Vertical merger- the merger of firms producing the same product, but at a different stage of production
32. Vertical merger backwards- a merger with a firm at an earlier stage of the supply chain
33. Vertical merger forwards- a merger with a firm at a later stage of the supply chain
34. Conglomerate merger- a merger between firms producing different products
35. Internal economies of scale - lower long run average costs resulting from a firm growing in size
36. External economies of scale - lower long run average costs resulting from an industry growing in size
37. Internal diseconomies of scale - higher long run average costs arising from a firm growing too large
38. External diseconomies of scale - higher long run average costs arising from an industry growing too large
39. Total cost- the total amount that has to be spent on the factors of production used to produce a product
40. Average total cost - total cost divided by output
41. Fixed costs- cost which do not change with output in the short run
42. Average fixed cost- total fixed cost divided by output
43. Variable cost- costs that change with output
44. Average variable cost- total variable cost divided by output
45. Price- the amount of money that has to be given to obtain a product
46. Total revenue- the total amount of money received from selling a product
47. Average revenue- the total revenue divided by the quantity sold

48. Profit satisficing - sacrificing some profit to achieve some goals
49. Profit maximisation - making as much profit as possible
50. Market structure- the conditions which exist in a market including the number of firms
51. Competitive market- a market with a number of firms that compete with each other
52. Monopoly- a market with a single supplier
53. Barrier to entry- anything that makes it difficult for a firm to start producing the product
54. Barrier to exit- anything that makes it difficult for a firm to stop producing the product
55. Scale of production- the size of production units and the methods of production used

1.4. Government and the macroeconomy

1. Local government- a government organisation with the authority to administer a range of policies within an area of the country
2. Natural monopoly- an industry where a single firm can produce at a lower average cost than two or more firms because of the existence of significant economies of scale
3. Strategic industries- industries are important for the economic development and safety of the country
4. National champions- industries that are, or have the potential to be, world leaders
5. Trade blocs- a regional group of countries that remove trade restrictions between them
6. Free international trade- the exchange of goods and services between countries without restriction
7. Economic growth- an increase in the output of an economy in the long run, an increase in the economy's productive potential
8. Actual economic growth- an increase in the output of an economy
9. Potential economic growth- an increase in an economy's productive capacity
10. Aggregate demand - the total demand for a country's product at a given price level. It consists of consumer expenditure, investment, government spending and net exports (exports-imports)
11. Aggregate supply- the total amount of goods and services that domestic firms are willing to supply at a given price level
12. Full employment- the lowest level of unemployment possible
13. Economically active- being a member of the labour force
14. Unemployment rate- the percentage of the labour force who are willing and able to work but are without jobs
15. Price stability- the price level in the economy not changing significantly over time
16. Inflation rate- the percentage rise in the price level of goods and services over time
17. Balance of payments- the record of a country's economic transactions with other countries
18. Budget- the relationship between government revenue and government spending
19. Budget deficit- government spending is higher than government revenue
20. Budget surplus- government revenue is higher than government spending
21. National debt- the total amount the goverment has borrowed over time
22. Multiplier effect- the final impact on aggregate demand being greater than initial change
23. Direct taxes- taxes on income and wealth
24. Indirect taxes- taxes on expenditure
25. Progressive tax- one which takes a larger percentage of the income or wealth of the rich
26. Proportional tax- one which takes the same percentage of income or wealth of all taxpayers
27. Regressive tax- one which takes a larger percentage of the income or wealth of the poor
28. Automatic stabilisers- forms of government expenditure and taxations that reduce fluctuations in economic activity, without any change in government policy
29. Inflation- the rise in the price level of goods and services over time
30. Informal economy- that part of the economy that is not regulated, protected or taxed by the government
31. Flat taxes- taxes with a single rate
32. Fiscal policy- decisions on government spending and taxation designed to influence aggregate demand
33. Expansionary fiscal policy- rises in government expenditure and/or cuts in taxation designed to increase aggregate demand
34. Contractionary fiscal policy - cuts in government expenditure and/or rises in taxation designed to reduce aggregate demand
35. Monetary policy- decisions on the money supply, the rate of interest and the exchange rate taken to influence aggregate demand
36. Foreign exchange rate- the price of one currency in terms of anther currency or currencies
37. Expansionary monetary policy- increases in the money supply and/or the reduction in the rate of interest designed to increase aggregate demand
38. Contractionary monetary policy- cuts in the money supply or growth of money supply and/or rises in the rate of interest designed to reduce aggregate demand
39. Supply-side policy- measures designed to increase aggregate supply
40. Deregulation- the removal of rules and regulations
41. Gross domestic product (GDP)- the total output of a country
42. Circular flow of income- the movement of expenditure, income and output around the economy

43. Value added- the difference between the sales revenue received and the cost of raw materials used.
44. Transfer payments- transfers of income from one group to another not in return for providing a good or service
45. Nominal GDP- GDP at current market prices and so, not adjusted for inflation
46. Real GDP- GDP at constant prices and so, adjusted for inflation
47. Subsistence agriculture - the output agricultural goods for farmers' personal use
48. Recession - a reduction in real GDP over a period of six months or more
49. Sustainable economic growth- economic growth that does not endanger the country's ability to grow in the future
50. Employment- being involved in a productive activity for which a payment is received
51. Unemployment - being without a job while willing and able to work
52. Claimant count- a measure of unemployment which counts as unemployed these in receipt of unemployment benefits
53. Labour force survey (ILO) Measure - a measure of unemployment which counts as unemployed people who identify as such in a survey
54. Frictional unemployment- temporary unemployment arising from workers being in between jobs
55. Structural unemployment - unemployment caused by long-term changes in the pattern of demand and methods of production
56. Cyclical unemployment - unemployment caused by a lack of aggregate demand
57. Search unemployment - unemployment arising from workers who have lost their jobs, looking for a job they are willing to accept
58. Casual unemployment- unemployment arising from workers regularly being between periods of employment
59. Seasonal unemployment- unemployment caused by a fall in demand at particular times of the year
60. Regional unemployment- unemployment caused by a decline in job opportunities in a particular area of the country
61. Technological unemployment- unemployment caused by workers being replaced by capital equipment
62. Deflation- a sustained fall in the prices of goods and services
63. Disinflation- a fall in the rate of inflation
64. Cost-push inflation- rises in the price level caused by higher costs of production
65. Demand-pull inflation- rises in the price level caused by excess demand
66. Wage-price spiral- wage rises leading to higher prices, in turn, lead to further wage claims and price rises
67. Monetary inflation- rises in the price level caused by an excessive growth of the money supply
68. Hyperinflation- a very rapid and large rise in the price level
69. Index-linking- changing payments in line with changes in the inflation rate
70. Menu costs- costs involved in having to change prices as a result of inflation
71. Shoe-leather costs- costs involved in moving money around to gain higher interest rates

1.5. Economic development

1. Purchasing power parity- an exchange rate based on the ratio of the price of a basket of a products in different countries
2. Human development index (HDI) - a measure of living standards which takes into account income, education and life expectancy
3. Absolute poverty- a condition where people's income is too low to enable them to meet their basic needs
4. Relative poverty - a condition where people are poor in comparison to others in the country. Their income is too low to enable them to enjoy the average standard of living in their country
5. Vicious circle of poverty - a situation where people become trapped in poverty
6. Emigration- the act of leaving the country to live in another country
7. Birth rate- the number of births in a year per 1000 population in a year
8. Death rate- the number of deaths in a year per 1000 population in a year
9. Infant mortality rate- the number of deaths per 1000 live births in a year
10. Population pyramid- a diagram showing the age and gender structure of a country's population
11. Optimum population- the size of population which maximizes the country’s output per head
12. Economic development- an improvement in economic welfare

1.6. International trade and globalisation

1. Globalisation- the process by which the world is becoming increasingly interconnected through trade and other links
2. Quota- a limit placed on imports and exports
3. Embargo- a ban placed on imports and exports
4. Exchange control- a limit on the amount of foreign currency that can be obtained
5. Infant industries- new industries with relatively low output and high cost
6. Declining industries- old industries which are going out of business
7. Strategic industries- industries that are considered important for the survival or development of the country

8. Foreign exchange rate- the price of one currency in terms of another currency or currencies
9. Fixed exchange rate - an exchange rate whose value is set at a particular value in terms of another currency or currencies
10. Devaluation- a fall in the value of a fixed exchange rate
11. Revaluation- a rise in the value of a fixed exchange rate
12. Floating exchange rate - an exchange rate which can change frequently as it determined by market forces
13. Appreciation- a rise in the value of a floating exchange rate
14. Depreciation- a fall in the value of a floating exchange rate
15. Trade in goods- the value of exported goods and imported goods
16. Trade in goods deficit- expenditure on imported goods exceeding revenue from exported goods
17. Trade in goods surplus - revenue from exported goods exceeding expenditure on imported goods
18. Trade in services- the value of exported services and imported services
19. Trade in services deficit- expenditure on imported services exceeding revenue from exported services
20. Trade in goods surplus - revenue from exported services exceeding expenditure on imported services
21. Primary income - income earned by people working in different countries and investment income which comes into and goes out of the country
22. Secondary income - transfers between residents and non-residents of money, goods or services, not in return for anything else
23. Current account balance- a record of the income received and the expenditure made by a country in its dealings with other countries

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