Glossary

Allocation of resources How scarce resources are distributed among producers, and how scarce goods and services are allocated among consumers.

Average cost The cost of producing a unit (unit cost of production).

Average revenue The revenue per unit sold.

Balance of payments The record of all financial transactions between one country and the rest of the world.

Balance of payments on current account The total of net trade in goods and services, income flows and transfers between one country and the rest of the world.

Balanced current account Where the sum of exports plus the inflow of income and transfers is equal to the sum of imports plus the outflow of income and transfers.

Balanced government budget When government's revenue is equal to its expenditure/spending.

Boom A period of high economic activity and high levels of employment.

Borrowing To receive money from another party with the agreement that the money will be repaid.

Budget deficit When government expenditure is greater than its revenue.

Budget surplus When government's revenue is greater than its expenditure.

Building society A mutual financial institution that is owned by its members. Its primary objectives are to receive deposits from its members and to lend money for members to purchase property.

Capital The factor of production that relates to the human-made aids to production.

Claimant Count The method of measuring unemployment according to the number of people who are claiming unemployment-related benefits.

Competition Where different firms are trying to sell a similar product to a consumer.

Consumer A person or organisation that directly uses a good or service.

Consumer Price Index (CPI) Method used to calculate the rate of inflation.

Cost of living The price level of goods and services bought (by the average family).

Currency The system of money used in a country or group of countries.

Current account The record of trade in goods and services, income flows and transfers between one country and the rest of the world.

Current account deficit Where the sum of exports plus the inflow of income and transfers is less than the sum of imports plus the outflow of income and transfers.

Current account surplus Where the sum of exports plus the inflow of income and transfers is greater than the sum of imports plus the outflow of income and transfers.

Cyclical unemployment Lack of employment caused by a lack of demand in the economy.

Demand The willingness and ability to purchase a good or service at the given price in a given time period.

Determination of price The interaction of the free market forces of demand and supply to establish the general level of price for a good or service.

Developed country A country with high GDP per capita and developed industry and service sectors.

Development The process of increasing people's standard of living and wellbeing over time.

Direct tax A tax on income or wealth.

Distribution of income How incomes are shared out between individuals and households.

Distribution of wealth How wealth is shared out between individuals and households.

Division of labour Where workers specialise in, or concentrate on, one area of the production process.

Economic choice An option for the use of selected scarce resources.

Economic growth Growth in GDP (value of output) over time.

Economic problem How to best use scarce resources to satisfy the unlimited wants of people.

Economic sustainability The best use of resources in order to create growth or development for a country, firm or individual, both now and into the future.

Economies of scale The cost advantages a firm can gain by increasing the scale of production, leading to a fall in average costs.

Efficiency The optimal production and distribution of scarce resources.

Elastic demand When the percentage change in quantity demanded is greater than the percentage change in price.

Elastic supply When the percentage change in quantity supplied is greater than the percentage change in price.

Employment The use of labour in the economy to produce goods and services.

Enterprise The factor of production that takes a risk in organising the other three factors of production. The individual who takes this risk is known as an entrepreneur.

Environmental sustainability The impact of development or growth where the effect on the natural world is small and possible to manage, now and into the future.

Equilibrium price and quantity Where the quantity supplied exactly matches the quantity demanded.

European Union (EU) An economic and political group of countries in Europe that have free trade with each other.

Exchange The giving up of something that the individual or firm has, in return for something they wish to have but do not possess.

Exchange rate The price of one currency in terms of another currency.

Exports Goods and services sold abroad.

Externality An effect of an economic activity on a third party.

Factor market Market in which the services of the factors of production are bought and sold.

Factors of production The resources in an economy that can be used to make goods and services, e.g. land, labour, capital and enterprise.

Financial sector Consists of financial organisations and their products, and involves the flow of capital.

Fiscal policy A policy that uses taxation and government spending to affect the economy as a whole.

Free trade agreement Free movement of goods and services between countries, without any restrictions.

Frictional unemployment Lack of employment caused by time lags when workers move between jobs.

GDP per capita GDP divided by the population.

Globalisation The expansion of world trade in goods and services, together with capital flows, leading to greater international interdependence.

Good A tangible product, i.e. a product that can be seen or touched.

Government A political authority that decides how a country is run and manages its operation.

Government revenue The source of finance for government spending.

Government spending The total amount of money spent by the government in a given period of time.

Gross domestic product (GDP) The total value added of goods and services produced in the country in a year.

Gross income Income received before any taxes are taken or benefits given.

Gross pay The amount of money that an employee earns before any deductions are made.

Imports Goods and services bought from abroad.

Income The reward for the service provided by a factor of production, including labour.

Income and wealth redistribution Government action, using mainly taxation and benefits, to reduce inequalities of income and wealth.

Income tax A tax levied directly on personal income, i.e. a tax on a person's wages.

Indirect tax A tax on spending, often defined as a tax on goods and services.

Individual demand The demand for a good or service by an individual consumer.

Individual supply The supply of a good or service by an individual producer.

Inelastic demand When the percentage change in quantity demanded is less than the percentage change in price.

Inelastic supply When the percentage change in quantity supplied is less than the percentage change in price.

Inflation A sustained rise in the general price level over time.

Information provision The government provides information to encourage people (especially consumers) and organisations to change their behaviour.

Insurance company Financial institution that guarantees compensation for specified loss, damage, illness or death in return for an agreed premium.

International trade The exchange of goods and services between countries.

Investment The purchase of capital goods that are used to produce future goods and services (see Topic 3.1). It is also an asset purchased to provide an income in the future and/or to be sold at a profit.

Labour The factor of production that is concerned with the workforce of an economy in terms of both the physical and mental effort involved in production.

Labour force (or workforce) The number of people who work in a country.

Labour market Where workers sell their labour and employers buy the labour: it consists of households' supply of labour and firms' demand for labour.

Land The factor of production that is concerned with the natural resources of an economy, such as farmland and mineral deposits.

Law of demand For most products the quantity demanded varies inversely with its price.

Law of supply For most products the quantity supplied varies directly with its price.

Legislation Laws to control the way people and organisations behave.

Less developed country A country with a developing economy that has lower GDP per capita, lower levels of industrialisation and weaker indicators of wellbeing.

Level of unemployment The number of people in the working population who are unemployed.

Loss When a firm's revenue is less than its costs, i.e. *TR*, *TC*.

Market Any way of bringing together buyers and sellers to buy and sell goods and services.

Market demand The total demand for a good or service, found by adding together all individual demands.

Market economy An economy in which scarce resources are allocated by the market forces of supply and demand.

Market forces Factors that determine price levels and the availability of goods and services in an economy without government intervention.

Market supply The total supply of a good or service as a result of adding together all individual producers' supplies.

Medium of exchange Anything that sets the standard of value of goods and services acceptable to all parties involved in a transaction.

Monetary policy A policy that aims to control the total supply of money in the economy to try to achieve the government's economic objectives, particularly price stability.

Money Anything that is generally accepted as a means of payment for goods and services.

Monopoly A sole producer or seller of a good or service.

Mortgage An agreement with a financial institution to borrow money to purchase a property.

Movement along the demand curve When the price changes, leading to a movement up or down the existing demand curve.

Movement along the supply curve When the price changes, leading to a movement up (expansion) or down (contraction) on the existing supply curve.

National insurance A contribution paid by workers, and their employers, towards the cost of state benefits.

Negative externality Harmful effect of an economic activity on third parties, also known as external cost.

Net income Income available after the effect of direct taxes and benefits, often called disposable income.

Net pay The amount of money that an employee is left with after deductions are made from the gross income.

Oligopoly Where a small number of firms control the large majority of market share.

Opportunity cost The next best alternative given up when making a choice.

Pension contributions Payments made to a pension fund. If you are employed, contributions are usually from three sources – the employee, the employer and the government.

Positive externality Beneficial effect of an economic activity on third parties, also known as external benefit.

Price The sum of money paid by a consumer to a producer for a good or service. It is determined by the interaction of supply and demand.

Price elasticity of demand (*PED*) The responsiveness of quantity demanded to a change in the price of the product.

Price elasticity of supply (*PES*) The responsiveness of quantity supplied to a change in the price of the product.

Price stability When the general level of prices stays constant over time, or grows at an acceptably low rate.

Primary sector The direct use of natural resources, such as the extraction of basic materials and goods from land and sea.

Producer A person, company or country that makes, grows or supplies goods and/or services.

Production The total output of goods and services produced by a firm or industry in a time period.

Productivity One measure of the degree of efficiency in the use of factors of production in the production process. It is measured in terms of output per unit of input.

Product market Market in which final goods or services are offered to consumers, businesses and the public sector.

Profit The difference between the revenue received from the sale of a good or service and the costs involved in making and/or selling the good, including any opportunity costs.

Progressive tax A tax which takes a greater percentage of tax the higher the income.

Rate of inflation The percentage rise in the general price level over time.

Rate of interest/interest rate The cost of borrowing money, i.e. that which is paid to the lender. It is also the reward for saving.

Rate of unemployment The percentage of the country's workforce that is unemployed.

Recession A period of time when the country's GDP falls for two (or more) consecutive quarters.

Regulation Rules, directives or government orders to control the way people and organisations behave.

Saving(s) The part of a person's (disposable) income which is not spent on consumption. Savings are done by savers.

Scarce resources When there is an insufficient amount of something to satisfy all wants.

Seasonal unemployment Lack of employment caused by a fall in demand during a particular season.

Secondary sector All activities in an economy that are concerned with either manufacturing or construction.

Service An intangible product, i.e. a product that cannot be seen or touched.

Shift of the demand curve A complete movement of the existing demand curve either outward (to the right) or inward (to the left).

Shift of the supply curve The complete movement of the existing supply curve either outward (to the right) or inward (to the left).

Social sustainability The impact of development or growth that promotes an improvement in quality of life for all, now and into the future.

Specialisation The process by which individuals, firms, regions and whole economies concentrate on producing those products that they are best at producing.

State provision Goods and services provided directly by the government.

Structural unemployment Unemployment caused by a permanent decline of an industry or industries.

Subsidy An amount of money the government gives directly to firms to encourage production and consumption.

Supply The ability and willingness of firms to provide goods and services at each price in a given time period.

Supply of labour The total number of people who are willing and eligible to supply their labour, including the unemployed.

Supply side policy Any policy that helps to improve a country's productive potential.

Tax A compulsory payment to the government.

Tertiary sector All activities in an economy that involve the idea of a service.

Total cost All the costs of the firm added together.

Total revenue The total income of a firm from the sale of its goods or services

Unemployment Occurs when workers able and willing to work at the current wage rates are unable to find employment.

Unitary supply When the percentage change in quantity is the same as the percentage change in price.

Unlimited wants The infinite desire for goods or services consumers would like to have.

Wealth The market value of all the assets owned by a person, group or country at a specific point in time. Wealth is a stock of assets, e.g. money, houses and land, whereas income is a flow over time.