The price system and the microeconomy

A-Level Economics · Vocabulary in context

Word	Example
demand /dɪˈmænd/	Hot weather increases the **demand** for ice cream.
price /praɪs/	The **price** of a coffee is £3.
quantity demanded /ˈkwɒntɪti dɪˈmændɪd/	**Quantity demanded** is how much people buy at one price.
demand curve /dɪˈmænd kɜːv/	A **demand curve** slopes down: people buy more when the price falls.
shift /ʃɪft/	A rise in income will **shift** the demand curve to the right.
determinants /dɪˈtɜːmɪnənts/	Income and tastes are **determinants** of demand.
income /ˈɪŋkʌm/	Wages are **income** received over time.
substitute /ˈsʌbstɪtjuːt/	Tea is a **substitute** for coffee.
complement /ˈkɒmplɪmənt/	Ink is a **complement** to a printer.
consumer /kənˈsuːmə/	A **consumer** buys goods for their own use.
market demand /ˈmɑːkɪt dɪˈmænd/	**Market demand** is the demand of all buyers added together.
utility /juːˈtɪlɪti/	**Utility** is the happiness you get from using a product.
marginal utility /ˈmɑːdʒɪnl juːˈtɪlɪti/	**Marginal utility** is the extra happiness from one more unit.

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diminishing marginal utility /dɪˈmɪnɪʃɪŋ ˈmɑːdʒɪnl juːˈtɪlɪti/	The third ice cream is less fun than the first: **diminishing marginal utility**.
supply /səˈplaɪ/	A new bakery increases the **supply** of bread.
producers /prəˈdjuːsəz/	**Producers** make goods to sell.
quantity supplied /ˈkwɒntɪti səˈplaɪd/	**Quantity supplied** rises when the price rises.
profit /ˈprɒfɪt/	If sales are bigger than costs, the firm makes a **profit**.
supply curve /səˈplaɪ kɜːv/	A **supply curve** slopes up: firms sell more when the price rises.
costs of production /kɒsts ɒv prəˈdʌkʃn/	Wages and materials are **costs of production**.
subsidy /ˈsʌbsɪdi/	A **subsidy** is money from the government that lowers a firm's costs.
firms /fɜːmz/	Many **firms** sell phones.
market supply /ˈmɑːkɪt səˈplaɪ/	**Market supply** is the supply of all firms added together.
price elasticity of demand /praɪs ɪlæˈstɪsɪti ɒv dɪˈmænd/	**Price elasticity of demand** shows how much demand changes when the price changes.
elastic /ɪˈlæstɪk/	Demand is **elastic** when a small price rise causes a big fall in sales.

Word	Example
inelastic /ɪnɪ'læstɪk/	Demand is **inelastic** when a price rise causes only a small fall in sales.
unit elastic /'juːnɪt ɪ'læstɪk/	Demand is **unit elastic** when sales and price change by the same percentage.
perfectly inelastic /'pɜːfektlɪ ɪnɪ'læstɪk/	Demand is **perfectly inelastic** when sales do not change at all with price.
perfectly elastic /'pɜːfektlɪ ɪ'læstɪk/	Demand is **perfectly elastic** when any price rise loses all sales.
necessity /nə'sesɪti/	Bread is a **necessity**: people still buy it when prices rise.
luxury /'lʌkʃəri/	Holidays abroad are a **luxury**: people buy many more as they get richer.
Point elasticity /pɔɪnt ɪlæ'stɪsɪti/	**Point elasticity** measures elasticity at one exact price on the demand curve.
total revenue /'təʊtl 'revənjuː/	Price times quantity sold gives **total revenue**.
Governments /'gʌvənmənts/	**Governments** collect taxes and spend money on schools and roads.
income elasticity of demand /'ɪŋkʌm ɪlæ'stɪsɪti ɒv dɪ'mænd/	**Income elasticity of demand** shows how demand changes when income rises.
normal good /'nɔːml gʊd/	Fresh fruit is a **normal good**: people buy more as income rises.

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inferior good /ɪn'fɪərɪə gʊd/	Cheap bread may be an **inferior good**: people buy less as income rises.
cross elasticity of demand /krɒs ɪlæ'stɪsɪti ɒv dɪ'mænd/	**Cross elasticity of demand** shows how the price of tea affects demand for coffee.
price elasticity of supply /praɪs ɪlæ'stɪsɪti ɒv sə'plaɪ/	**Price elasticity of supply** shows how much supply changes when the price changes.
spare capacity /speə kə'pæsɪti/	A factory with **spare capacity** can make more without new machines.
stocks /stɒks/	The shop keeps **stocks** of goods in the back room.
momentary /'məʊməntəri/	In the **momentary** period, firms cannot change output at all.
short run /ʃɔːt rʌn/	In the **short run**, a firm cannot build a new factory.
long run /lɒŋ rʌn/	In the **long run**, a firm can change everything, even its factory.
equilibrium /ˌiːkwɪ'lɪbrɪəm/	At **equilibrium**, the amount people want to buy equals the amount for sale.
equilibrium price /ˌiːkwɪ'lɪbrɪəm praɪs/	At the **equilibrium price**, the amount wanted equals the amount for sale.
equilibrium quantity /ˌiːkwɪ'lɪbrɪəm 'kwɒntɪti/	The **equilibrium quantity** is the amount bought and sold at the equilibrium price.
signalling /'sɪgnəlɪŋ/	A degree is a form of **signalling**: it shows employers your skills.

Word	Example
rationing /ˈræʃənɪŋ/	High prices act as **rationing**: only those who can pay get the good.
incentive /ɪnˈsentɪv/	Profit is an **incentive** for firms to make what people want.
disequilibrium /ˌdɪˌsiːkwɪˈlɪbrɪəm/	In **disequilibrium**, there is either a shortage or a surplus.
excess demand /ekˈses dɪˈmænd/	**Excess demand** means people want more than is for sale, so queues form.
shortage /ˈʃɔːtɪdʒ/	When tickets are cheap, there is a **shortage**: not enough for everyone.
excess supply /ekˈses səˈplaɪ/	At a high price there is **excess supply**: goods are left unsold.
product markets	In **product markets**, households buy goods and services from firms.
factor markets	In **factor markets**, firms hire workers and rent land.
wage /weɪdʒ/	Her **wage** is the money she gets for each hour of work.
foreign exchange market /ˈfɒrən eksˈtʃeɪndʒ ˈmɑːkɪt/	On the **foreign exchange market**, people swap one money for another, such as dollars for yuan.
exchange rate /eksˈtʃeɪndʒ reɪt/	The **exchange rate** is the price of one currency in another.
Joint demand /dʒɔɪnt dɪˈmænd/	Cars and petrol are in **joint demand**: people buy them together.

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Alternative demand /ɔːlˈtɜːnətɪv dɪˈmænd/	Butter and margarine are in **alternative demand**: people buy one or the other.
Derived demand /dɪˈraɪvd dɪˈmænd/	The demand for builders is a **derived demand**: it comes from the demand for new houses.
Joint supply /dʒɔɪnt səˈplaɪ/	Beef and leather are in **joint supply**: one cow gives both.
consumer surplus /kənˈsuːmə ˈsɜːpləs/	If you would pay £10 but pay only £8, your **consumer surplus** is £2. £10 £8 £2
producer surplus /prəˈdjuːsə ˈsɜːpləs/	**Producer surplus** is the extra a seller gets above the lowest price they would accept.
welfare /ˈwelfeə/	**Welfare** means how well off people are.