Government microeconomic intervention

A-Level Economics · Vocabulary in context

Word	Example
market failure /ˈmɑːkɪt ˈfeɪlɪə/	Pollution with no price is a **market failure**.
allocate /ˈæləkeɪt/	Markets **allocate** resources through prices.
externality /ekˈstɜːnælɪti/	Smoke affecting nearby households is a negative **externality**.
third party /θɜːd ˈpɑːti/	A **third party** is someone outside the deal who is still affected by it.
negative externality /ˈnegətɪv ekˈstɜːnælɪti/	Smoke from a factory is a **negative externality** for the people who live nearby.
external cost /ekˈstɜːnl kɒst/	Noise from a factory is an **external cost** to its neighbours.
social cost /ˈsəʊʃl kɒst/	The **social cost** of driving includes the fuel you pay for and the dirty air others breathe.
private cost /ˈpraɪvət kɒst/	The **private cost** of a car trip is what the driver pays for fuel and parking.
positive externality /ˈpɒzɪtɪv ekˈstɜːnælɪti/	A neighbour's beautiful garden is a **positive externality**: you enjoy it for free.
external benefit /ekˈstɜːnl ˈbenɪfɪt/	A neighbour's pretty garden gives you an **external benefit**.
public good /ˈpʌblɪk gʊd/	A flood wall is a **public good**: it protects everyone.
non-rivalry /nɒn ˈraɪvəlri/	A street light shows **non-rivalry**: one more person using it costs nothing.

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non-excludability /nɒn eksˌkluːdəˈbɪlɪti/	A street light shows **non-excludability**: no one can be stopped from using it.
free-rider problem /friː ˈraɪdə ˈprɒbləm/	People who use the street lights without paying cause the **free-rider problem**.
merit good /ˈmerɪt gʊd/	Education is a **merit good**: people may use less than is good for them.
demerit good /ˈdemərɪt gʊd/	Cigarettes are a **demerit good**: people may use more than is good for them.
information failure /ˌɪnfəˈmeɪʃn ˈfeɪlɪə/	**Information failure** happens when people do not know enough to choose well.
monopoly /məˈnɒpəli/	A **monopoly** is the only seller in a market.
Monopoly power /məˈnɒpəli ˈpaʊə/	A firm with **monopoly power** can raise its price without losing many customers.
inequality /ɪniːˈkwɒlɪti/	There is great **inequality** when a few people are rich and many are poor.
asymmetric information /ˌeɪsɪˈmetrɪk ˌɪnfəˈmeɪʃn/	There is **asymmetric information** when the seller knows more than the buyer.
indirect tax /ɪndaɪˈrekt tæks/	VAT is an **indirect tax**. VAT
incidence of a tax /ˈɪnsɪdəns əvə tæks/	The **incidence of a tax** shows who really pays it: buyers, sellers or both.

Word	Example
inelastic /ɪnɪ'læstɪk/	Demand is **inelastic** when a price rise causes only a small fall in sales.
elastic /ɪ'læstɪk/	Demand is **elastic** when a small price rise causes a big fall in sales.
regressive /rɪ'gresɪv/	A sales tax is **regressive** because poor people pay a bigger share of their income.
subsidy /'sʌbsɪdi/	A **subsidy** is money from the government that lowers a firm's costs.
maximum price /'mæksɪməm praɪs/	A **maximum price** is the highest price that sellers are allowed to charge.
minimum price /'mɪnɪməm praɪs/	A **minimum price** is the lowest price that sellers are allowed to charge.
shortage /'ʃɔ:tɪdʒ/	When tickets are cheap, there is a **shortage**: not enough for everyone.
excess supply /ek'ses sə'plaɪ/	At a high price there is **excess supply**: goods are left unsold.
buffer stock /'bʌfə stɒk/	A **buffer stock** sells stored grain when prices rise.
State provision /steɪt prə'vɪʒn/	Free schools are an example of **state provision**.
government /'gʌvənmənt/	The **government** collects taxes and pays for roads and hospitals.
regulation /ˌregjʊ'leɪʃn/	New **regulation** says that factories must clean their waste water.

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Tradable permits /'treɪdəbl 'pɜ:mɪts/	Firms can buy and sell **tradable permits** that allow them to pollute a set amount.
government failure /'gʌvənmənt 'feɪlɪə/	**Government failure** happens when a policy makes things worse.
black market /blæk 'mɑ:kɪt/	When rice was rationed, people sold it secretly on the **black market**.
income /'ɪŋkʌm/	Wages are **income** received over time.
flow /fləʊ/	Income is a **flow**: it comes in over time, such as each month.
wealth /welθ/	A household's **wealth** is its assets minus debts.
stock /stɒk/	Wealth is a **stock**: it is the amount you own at one moment.
Gini coefficient /'dʒi:ni ˌkəʊɪ'fɪʃənt/	A higher **Gini coefficient** means more inequality.
progressive tax /prə'gresɪv tæks/	Income tax is a **progressive tax**: richer people pay a bigger share.
percentage /pə'sentɪdʒ/	Prices rose by five **percentage** points this year.
benefits /'benɪfɪts/	The family gets **benefits** from the government because the father lost his job.
transfer payments /'trænsfɜ: 'peɪmənts/	Pensions are **transfer payments**.
redistribution /ˌri:ˌdɪstrɪ'bju:ʃn/	Taxes on the rich that pay for help for the poor are a form of **redistribution**.

Word	Example
trade-off /treɪd ɒf/	There is a **trade-off**: more guns means less butter.
incentive /ɪn'sentɪv/	Profit is an **incentive** for firms to make what people want.

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