The price system and the microeconomy (A Level)

A-Level Economics · Vocabulary in context

Word	Example
utility /juːˈtɪlɪti/	**Utility** is the happiness you get from using a product.
total utility /ˈtəʊtl juːˈtɪlɪti/	**Total utility** is all the satisfaction you get from eating three apples.
marginal utility /ˈmɑːdʒɪnl juːˈtɪlɪti/	**Marginal utility** is the extra happiness from one more unit.
diminishing marginal utility /dɪˈmɪnɪʃɪŋ ˈmɑːdʒɪnl juːˈtɪlɪti/	The third ice cream is less fun than the first: **diminishing marginal utility**.
equi-marginal principle /ˈekwi ˈmɑːdʒɪnl ˈprɪnsɪpl/	The **equi-marginal principle** says the last yuan spent on each good should give the same extra satisfaction.
demand curve /dɪˈmænd kɜːv/	A **demand curve** slopes down: people buy more when the price falls.
budget line /ˈbʌdʒɪt laɪn/	The **budget line** shows all the things you can buy with your money.
indifference curve /ɪnˈdɪfrəns kɜːv/	Every point on an **indifference curve** makes the buyer equally happy.
Consumer equilibrium /kənˈsuːmə ˌiːkwɪˈlɪbrɪəm/	At **consumer equilibrium**, a shopper cannot become happier by spending their money in another way.
substitution effect /ˌsʌbstɪˈtjuːʃn ɪˈfekt/	The **substitution effect** makes people buy less of a good when it becomes more expensive than others.

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Word	Example
income effect /ˈɪŋkʌm ɪˈfekt/	The **income effect** happens because a lower price leaves you more money to spend.
normal good /ˈnɔːml gʊd/	Fresh fruit is a **normal good**: people buy more as income rises.
inferior good /ɪnˈfɪərɪə gʊd/	Cheap bread may be an **inferior good**: people buy less as income rises.
Giffen good /ˈdʒɪfən gʊd/	A **Giffen good** is a rare good that people buy more of when its price rises.
productive efficiency /prəˈdʌktɪv ɪˈfɪʃənsi/	**Productive efficiency** means making goods at the lowest cost per unit.
average cost /ˈævrɪdʒ kɒst/	**Average cost** is total cost divided by the number of units.
allocative efficiency /ˈæləkətɪv ɪˈfɪʃənsi/	**Allocative efficiency** means making exactly what society wants most.
marginal social benefit /ˈmɑːdʒɪnl ˈsəʊʃl ˈbenɪfɪt/	The **marginal social benefit** is the total benefit to society from one more unit.
marginal social cost /ˈmɑːdʒɪnl ˈsəʊʃl kɒst/	The **marginal social cost** includes the harm to others from one more unit.
marginal cost /ˈmɑːdʒɪnl kɒst/	**Marginal cost** is the extra cost of producing one more unit.
Pareto optimality /pæˈriːtəʊ ˌɒptɪˈmælɪti/	**Pareto optimality** means nobody can be made better off without making someone worse off.

Word	Example
dynamic efficiency /daɪˈnæmɪk ɪˈfɪʃənsi/	**Dynamic efficiency** means products and methods get better over time.
market failure /ˈmɑːkɪt ˈfeɪlɪə/	Pollution with no price is a **market failure**.
externalities /ekˈstɜːnælɪtiz/	Pollution from a factory is one of the **externalities** that harm people nearby.
Public goods /ˈpʌblɪk ɡʊdz/	Street lights are **public goods**: everyone can use them, and no one can be kept out.
Information failure /ˌɪnfəˈmeɪʃn ˈfeɪlɪə/	**Information failure** happens when buyers do not know enough to make a good choice.
Factor immobility /ˈfæktə ɪˌməʊˈbɪlɪti/	**Factor immobility** means workers cannot easily move to a new job or a new town.
private cost /ˈpraɪvət kɒst/	The **private cost** of a car trip is what the driver pays for fuel and parking.
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 benefit /ˈpraɪvət ˈbenɪfɪt/	The **private benefit** of a degree is the higher pay the graduate earns.
external benefit /ekˈstɜːnl ˈbenɪfɪt/	A neighbour's pretty garden gives you an **external benefit**.
social benefit /ˈsəʊʃl ˈbenɪfɪt/	The **social benefit** of education includes the gains to everyone else, too.

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Word	Example
Marginal analysis /ˈmɑːdʒɪnl əˈnæləsɪs/	**Marginal analysis** asks whether one more hour of work is worth it.
Marginal private cost /ˈmɑːdʒɪnl ˈpraɪvət kɒst/	**Marginal private cost** is the cost to the firm of making one more unit.
marginal private benefit /ˈmɑːdʒɪnl ˈpraɪvət ˈbenɪfɪt/	**Marginal private benefit** is the extra benefit to the buyer of one more unit.
Marginal external cost /ˈmɑːdʒɪnl ekˈstɜːnl kɒst/	**Marginal external cost** is the harm that one more unit causes to other people.
marginal external benefit /ˈmɑːdʒɪnl ekˈstɜːnl ˈbenɪfɪt/	**Marginal external benefit** is the extra gain to others from one more unit.
negative externality /ˈnegətɪv ekˈstɜːnælɪti/	Smoke from a factory is a **negative externality** for the people who live nearby.
positive externality /ˈpɒzɪtɪv ekˈstɜːnælɪti/	A neighbour's beautiful garden is a **positive externality**: you enjoy it for free.
Deadweight welfare loss /ˈdedweɪt ˈwelfeə lɒs/	A tax can cause a **deadweight welfare loss**, because some useful trades no longer happen.
Asymmetric information /ˌeɪsɪˈmetrɪk ˌɪnfəˈmeɪʃn/	There is **asymmetric information** when the seller of a used car knows more than the buyer.
moral hazard /ˈmɒrəl ˈhæzəd/	**Moral hazard** happens when insured people take more risks.
short run /ʃɔːt rʌn/	In the **short run**, a firm cannot build a new factory.

Word	Example
long run /lɒŋ rʌn/	In the **long run**, a firm can change everything, even its factory.
total product /ˈtəʊtl ˈprɒdʌkt/	**Total product** is all the output made by the workers.
average product /ˈævrɪdʒ ˈprɒdʌkt/	**Average product** is total output divided by the number of workers.
marginal product /ˈmɑːdʒɪnl ˈprɒdʌkt/	The **marginal product** of the eighth baker is the extra bread he makes.
diminishing returns /dɪˈmɪnɪʃɪŋ rɪˈtɜːnz/	**Diminishing returns** set in when the kitchen gets crowded.
fixed cost /fɪkst kɒst/	The shop's rent is a **fixed cost**: it stays the same however much it sells.
variable cost /ˈveərɪəbl kɒst/	Packaging is a **variable cost**: it rises as the firm sells more.
total cost /ˈtəʊtl kɒst/	**Total cost** is fixed cost plus variable cost.
Average fixed cost /ˈævrɪdʒ fɪkst kɒst/	**Average fixed cost** falls as a firm makes more units, because rent is shared out.
average variable cost /ˈævrɪdʒ ˈveərɪəbl kɒst/	**Average variable cost** is variable cost divided by output.
returns to scale /rɪˈtɜːnz tə skeɪl/	**Returns to scale** show what happens to output when a firm doubles all its inputs.
increasing returns to scale /ɪnˈkriːsɪŋ rɪˈtɜːnz tə skeɪl/	With **increasing returns to scale**, doubling all inputs more than doubles output.

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Word	Example
constant returns to scale /ˈkɒnstənt rɪˈtɜːnz tə skeɪl/	With **constant returns to scale**, doubling all inputs exactly doubles output.
decreasing returns to scale /ˈdiːkriːsɪŋ rɪˈtɜːnz tə skeɪl/	With **decreasing returns to scale**, doubling all inputs less than doubles output.
economies of scale /ɪˈkɒnəmiz ɒv skeɪl/	Large firms gain **economies of scale**, so each unit costs less.
Minimum efficient scale /ˈmɪnɪməm ɪˈfɪʃənt skeɪl/	**Minimum efficient scale** is the smallest output at which average cost is as low as it gets.
diseconomies of scale /ˌdɪsɪˈkɒnəmiz ɒv skeɪl/	A very large firm can face **diseconomies of scale**, such as slow decisions.
Internal economies of scale /ɪnˈtɜːnl ɪˈkɒnəmiz ɒv skeɪl/	Buying in bulk gives a big firm **internal economies of scale**.
external economies of scale /ekˈstɜːnl ɪˈkɒnəmiz ɒv skeɪl/	Good local roads can give all firms in an area **external economies of scale**.
Internal diseconomies of scale /ɪnˈtɜːnl ˌdɪsɪˈkɒnəmiz ɒv skeɪl/	A very large firm can face **internal diseconomies of scale**, such as slow decisions.
External diseconomies of scale /ekˈstɜːnl ˌdɪsɪˈkɒnəmiz ɒv skeɪl/	Traffic jams in a busy industrial area are **external diseconomies of scale**.
total revenue /ˈtəʊtl ˈrevənjuː/	Price times quantity sold gives **total revenue**.
average revenue /ˈævrɪdʒ ˈrevənjuː/	**Average revenue** is revenue per unit sold.

Word	Example
marginal revenue /ˈmɑːdʒɪnl ˈrevənjuː/	**Marginal revenue** is the extra revenue from one more sale.
economic profit /ˌiːkəˈnɒmɪk ˈprɒfɪt/	**Economic profit** is profit after all costs, including what your money could earn elsewhere.
normal profit /ˈnɔːml ˈprɒfɪt/	A firm making **normal profit** earns just enough to stay in business.
supernormal profit /ˈsuːpənɔːml ˈprɒfɪt/	A firm earns **supernormal profit** when it makes more than it needs to stay in business.
subnormal profit /ˈsʌbnɔːml ˈprɒfɪt/	A firm earns **subnormal profit** when it makes less than it needs to stay in the industry.
market structure /ˈmɑːkɪt ˈstrʌktʃə/	The **market structure** depends on how many firms there are and how they compete.
perfect competition /ˈpɜːfekt ˌkɒmpəˈtɪʃn/	In **perfect competition**, many small firms sell the same product.
monopolistic competition /məˈnɒpəlɪstɪk ˌkɒmpəˈtɪʃn/	Hairdressers are in **monopolistic competition**: many firms, each a little different.
oligopoly /ˌɒlɪˈgɒpəli/	In an **oligopoly**, a few big firms control the market.
monopoly /məˈnɒpəli/	A **monopoly** is the only seller in a market.
Product differentiation /ˈprɒdʌkt ˌdɪfəˌrenʃiˈeɪʃn/	**Product differentiation** makes a brand look different from its rivals.
barriers to entry /ˈbærɪəz tʊ ˈentri/	High start-up costs can act as **barriers to entry**.

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Word	Example
cartel /kɑːˈtel/	OPEC is a **cartel**: its members agree how much oil to produce. OPEC
collusion /kəˈluːʒn/	**Collusion** is when firms secretly agree to keep prices high.
price taker /praɪs ˈteɪkə/	A farmer selling wheat is a **price taker**: he must accept the market price.
natural monopoly /ˈnætʃərəl məˈnɒpəli/	Water supply is a **natural monopoly**: one firm can do it most cheaply.
concentration ratio /ˌkɒnsənˈtreɪʃn ˈreɪʃɪəʊ/	A five-firm **concentration ratio** of 80% means the five biggest firms have 80% of sales. 80% 80%
contestable market /kənˈtestəbl ˈmɑːkɪt/	In a **contestable market**, new firms can enter and leave easily.
sunk cost /sʌŋk kɒst/	Money spent on advertising is a **sunk cost**: you cannot get it back.
payoff matrix /ˈpeɪɒf ˈmeɪtrɪks/	A **payoff matrix** shows what each firm gets from each choice.
Prisoner's Dilemma /ˈprɪzənəz daɪˈlemə/	In the **Prisoner's Dilemma**, both players do worse because they cannot trust each other.
price competition /praɪs ˌkɒmpəˈtɪʃn/	**Price competition** means firms try to win customers by cutting prices.
non-price competition /nɒn praɪs ˌkɒmpəˈtɪʃn/	Better service is a form of **non-price competition**.
price discrimination /praɪs dɪˌskrɪmɪˈneɪʃn/	**Price discrimination** charges different groups different prices for the same product.

Word	Example
First-degree price discrimination /fɜːst dɪˈgriː praɪs dɪˌskrɪmɪˈneɪʃn/	In **first-degree price discrimination**, each buyer pays the most they are willing to pay.
Second-degree price discrimination /ˈsekənd dɪˈgriː praɪs dɪˌskrɪmɪˈneɪʃn/	Cheaper prices for buying in larger amounts are **second-degree price discrimination**.
third-degree price discrimination /θɜːd dɪˈgriː praɪs dɪˌskrɪmɪˈneɪʃn/	Cheaper tickets for students are **third-degree price discrimination**.
Internal growth /ɪnˈtɜːnl grəʊθ/	A firm that opens new shops with its own money is using **internal growth**.
organic growth /ɔːˈgænɪk grəʊθ/	**Organic growth** means a firm grows by itself, step by step.
diversification /daɪˌvɜːsɪfɪˈkeɪʃn/	**Diversification** means a firm starts selling new products in new markets.
external growth /ekˈstɜːnl grəʊθ/	Buying another company is **external growth**.
merger /ˈmɜːdʒə/	A **merger** joins two businesses into one.
takeover /ˈteɪkəʊvə/	In a **takeover**, one firm buys control of another.
horizontal integration /ˌhɒrɪˈzɒntl ˌɪntɪˈgreɪʃn/	When two banks join, this is **horizontal integration**.
backward vertical integration /ˈbækwəd ˈvɜːtɪkl ˌɪntɪˈgreɪʃn/	When a chocolate maker buys a cocoa farm, this is **backward vertical integration**.

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Word	Example
forward vertical integration /ˈfɔːwəd ˈvɜːtɪkl ˌɪntɪˈgreɪʃn/	When a factory buys its own shops, this is **forward vertical integration**.
conglomerate integration /kənˈglɒmərəɪt ˌɪntɪˈgreɪʃn/	When a food firm buys a bank, this is **conglomerate integration**.
vertical integration /ˈvɜːtɪkl ˌɪntɪˈgreɪʃn/	When a car maker buys a tyre maker, this is **vertical integration**.
niche /niːʃ/	A shop that sells only left-handed tools serves a **niche**.
Barriers to exit /ˈbærɪəz tʊ ˈegzɪt/	Expensive machines that cannot be sold are **barriers to exit**.
principal-agent problem /ˈprɪnsɪpl ˈeɪdʒənt ˈprɒbləm/	The **principal-agent problem** happens when managers do what is good for them, not for the owners.
divorce of ownership from control /dɪˈvɔːs ɒv ˈəʊnəʃɪp frɒm kənˈtrəʊl/	The **divorce of ownership from control** means owners and managers are different people.
profit maximisation /ˈprɒfɪt ˌmæksɪmaɪˈzeɪʃn/	**Profit maximisation** means making the gap between revenue and cost as large as possible.
Revenue maximisation /ˈrevənjuː ˌmæksɪmaɪˈzeɪʃn/	**Revenue maximisation** means making total sales income as high as possible.
Sales maximisation /seɪlz ˌmæksɪmaɪˈzeɪʃn/	**Sales maximisation** means selling as many units as possible without making a loss.
satisficing /ˈsætɪsfɪsɪŋ/	**Satisficing** means the managers aim for a result that is good enough, not the best.

Word	Example
limit pricing /ˈlɪmɪt ˈpraɪsɪŋ/	**Limit pricing** keeps prices low so new firms do not want to enter.
predatory pricing /ˈpredətəri ˈpraɪsɪŋ/	**Predatory pricing** means cutting prices below cost to push rivals out.
price leadership /praɪs ˈliːdəʃɪp/	With **price leadership**, one big firm sets the price and the others follow.
price elasticity of demand /praɪs ɪlæˈstɪsɪti ɒv dɪˈmænd/	**Price elasticity of demand** shows how much demand changes when the price changes.
kinked demand curve /kɪŋkt dɪˈmænd kɜːv/	The **kinked demand curve** explains why prices stay the same in some markets.
X-inefficiency /eks ɪnɪˈfɪʃənsi/	**X-inefficiency** happens when a firm without competition lets its costs rise.

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