
Economics questions open with a definition mark more often than any other subject on this site, and the mark is for precision: the right nouns, the right condition, and the ceteris paribus clause where the theory needs it.

Basic economic ideas

- Scarcity** – unlimited wants set against limited resources, which forces choice
- Opportunity cost** – the benefit forgone from the next best alternative when a choice is made
- Ceteris paribus** – all other factors held constant, so the effect of one variable can be isolated
- Free good** – a good with no opportunity cost, because it is not scarce
- Production possibility curve** – a curve showing the maximum combinations of two goods an economy can produce with all resources fully and efficiently employed
- Positive statement** – a statement of fact that can be tested against evidence
- Normative statement** – a statement of opinion or value judgement, containing words such as should or ought

Demand, supply and elasticity

- Effective demand** – the quantity consumers are willing AND able to buy at a given price in a given period
- Law of demand** – as price rises, quantity demanded falls, ceteris paribus
- Movement along a demand curve** – a change in quantity demanded caused by a change in the good's own price
- Shift in demand** – a change in demand at every price, caused by a determinant other than the good's own price
- Price elasticity of demand** – the responsiveness of quantity demanded to a change in price: percentage change in quantity demanded divided by percentage change in price
- Income elasticity of demand** – percentage change in quantity demanded divided by percentage change in income; negative for an inferior good
- Cross elasticity of demand** – percentage change in quantity demanded of one good divided by percentage change in the price of another; positive for substitutes, negative for complements
- Price elasticity of supply** – percentage change in quantity supplied divided by percentage change in price; greater in the long run when factors are mobile
- Consumer surplus** – the difference between what consumers are willing to pay and what they actually pay
- Producer surplus** – the difference between the price producers receive and the minimum they would accept

The price system and market failure

- Market failure** – where the free market fails to allocate resources efficiently, so welfare is not maximised
- Externality** – a cost or benefit falling on a third party not involved in the transaction
- Negative externality of production** – where marginal social cost exceeds marginal private cost, so the market overproduces
- Merit good** – a good which is under-consumed because consumers undervalue its private benefit, and which also creates positive externalities
- Public good** – a good that is non-rival and non-excludable, so the free market fails to provide it – the free-rider problem
- Allocative efficiency** – where price equals marginal cost, so resources are allocated to the goods consumers value most
- Productive efficiency** – producing at the lowest point on the average cost curve, so output is made at least cost
- Government failure** – where government intervention creates a net welfare loss, often through unintended consequences or information failure
- Maximum price** – a legal ceiling set BELOW equilibrium, which creates excess demand
- Minimum price** – a legal floor set ABOVE equilibrium, which creates excess supply

The firm and market structure

- Fixed cost** – a cost that does not vary with output in the short run
- Marginal cost** – the addition to total cost from producing one more unit
- Law of diminishing returns** – as more of a variable factor is added to a fixed factor, the marginal product of the variable factor eventually falls
- Economies of scale** – the fall in long-run average cost as the scale of output rises
- Perfect competition** – many buyers and sellers, a homogeneous product, perfect information and free entry and exit, so each firm is a price taker
- Monopoly** – a single seller with high barriers to entry; in Cambridge terms, a firm with more than 25% of the market
- Oligopoly** – a market dominated by a few firms, with interdependent decision-making
- Normal profit** – the minimum return needed to keep a firm in the industry; it is a cost of production
- Supernormal profit** – profit above normal profit, earned when average revenue exceeds average cost
- Natural monopoly** – an industry where economies of scale are so large that one firm can supply the whole market at lower cost than several

Macroeconomics

Gross domestic product in a given period	– the total value of goods and services produced within a country
Real GDP	GDP – GDP adjusted for inflation, so it measures a change in output rather than in prices
Economic growth capacity	– an increase in real GDP; potential growth is an increase in productive capacity
Inflation	– a sustained rise in the general price level
Deflation inflation	– a sustained FALL in the general price level; disinflation is a fall in the RATE of inflation
Demand-pull inflation aggregate supply	– inflation caused by aggregate demand rising faster than aggregate supply
Cost-push inflation aggregate supply left	– inflation caused by a rise in the costs of production, shifting aggregate supply left
Unemployment seeking it	– people of working age who are without work, available for work and actively seeking it
Cyclical unemployment	– unemployment caused by a lack of aggregate demand in a downturn
Structural unemployment or location and the jobs available	– unemployment caused by a mismatch between workers' skills or location and the jobs available
Balance of payments of the world in a period	– a record of all transactions between residents of a country and the rest of the world in a period
Current account deficit transfers exceeds exports	– where the value of imports of goods, services, income and transfers exceeds exports
Fiscal policy	– the use of government spending and taxation to influence aggregate demand
Monetary policy	– the use of interest rates and the money supply to influence aggregate demand
Supply-side policy	– policy aimed at increasing the productive capacity of the economy by improving incentives, skills or competition
Multiplier caused it	– the ratio of the final change in national income to the initial change in injection that caused it
Terms of trade	– the ratio of an index of export prices to an index of import prices, times 100
Comparative advantage another country	– the ability to produce a good at a lower opportunity cost than another country
Protectionism domestic producers	– the use of tariffs, quotas and subsidies to restrict imports and shield domestic producers