Basic Economic Concepts

AP Macroeconomics · Vocabulary in context

Word	Example
Economics /ˌiːkəˈnɒmɪks/	**Economics** studies how people choose to use limited resources.
scarcity /ˈskeəsɪti/	**Scarcity** means we cannot have everything we want.
resources /rɪˈzɔːsɪz/	Animals compete for **resources** such as food and water.
factors of production /ˈfæktəz ɒv prəˈdʌkʃn/	Land, workers and machines are **factors of production**.
labor /ˈleɪbə/	Factory workers provide **labor**.
capital /ˈkæpɪtl/	Machines and buildings are **capital**.
entrepreneurship /ˌɒntrɪprəˈnjʊəʃɪp/	Starting your own shop takes **entrepreneurship**.
trade-offs /treɪd ɒfs/	Every choice has **trade-offs**: more time for games means less time for study.
market economy /ˈmɑːkɪt ɪˈkɒnəmi/	In a **market economy**, prices decide what is made.
command economy /kəˈmænd ɪˈkɒnəmi/	In a **command economy**, the government decides what to make.
mixed economy /mɪkst ɪˈkɒnəmi/	In a **mixed economy**, both the government and private firms provide goods.

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opportunity cost /ɒpəˈtjuːnɪti kɒst/	The **opportunity cost** of a holiday is what else you could have bought.
production possibilities curve (PPC) /prəˈdʌkʃn ˌpɒsəˈbɪlɪtiz kɜːv/	A **production possibilities curve (PPC)** shows the most a country can make of two goods.
economic growth /ˌiːkəˈnɒmɪk grəʊθ/	**Economic growth** means the economy makes more each year.
absolute advantage /ˈæbsəluːt ədˈvæntɪdʒ/	A country with **absolute advantage** makes more with the same resources.
comparative advantage /kəmˈpærətɪv ədˈvæntɪdʒ/	A country has a **comparative advantage** in what it gives up least to make.
terms of trade /tɜːmz ɒv treɪd/	The **terms of trade** improve when export prices rise faster than import prices.
Demand /dɪˈmænd/	**Demand** for umbrellas rises when it rains.
law of demand /lɔː ɒv dɪˈmænd/	The **law of demand** says people buy less when prices rise.
substitutes /ˈsʌbstɪtjuːts/	Tea and coffee can be **substitutes**.
complements /ˈkɒmplɪmənts/	Printers and ink are **complements**: you need both.
quantity demanded /ˈkwɒntɪti dɪˈmændɪd/	**Quantity demanded** is how much people buy at one price.
normal good /ˈnɔːml 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.
Supply /sə'plaɪ/	**Supply** of strawberries rises in summer.
law of supply /lɔ: ɒv sə'plaɪ/	The **law of supply** says firms sell more when prices rise.
subsidies /'sʌbsɪdiz/	The government pays **subsidies** to farmers.
quantity supplied /'kwɒntɪti sə'plaɪd/	**Quantity supplied** rises when the price rises.
Equilibrium /ˌi:kwɪ'lɪbrɪəm/	At **equilibrium**, the amount people want to buy equals the amount for sale.
surplus /'sɜ:pləs/	A **surplus** of apples makes their price fall.
shortage /'ʃɔ:tɪdʒ/	When tickets are cheap, there is a **shortage**: not enough for everyone.

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