# 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. |

| Word | Example |
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| **inferior good** /ɪnˈfɪərɪə ɡʊd/ | Cheap bread may be an **inferior good**: people buy less as income rises. |
| **Supply** /səˈplaɪ/ | **Supply** of strawberries rises in summer. |
| **law of supply** /lɔː ɒv səˈplaɪ/ | The **law of supply** says firms sell more when prices rise. |
| **subsidies** /ˈsʌbsɪdiz/ | The government pays **subsidies** to farmers. |
| **quantity supplied** /ˈkwɒntɪti səˈplaɪd/ | **Quantity supplied** rises when the price rises. |
| **Equilibrium** /ˌiːkwɪˈlɪbrɪəm/ | At **equilibrium**, the amount people want to buy equals the amount for sale. |
| **surplus** /ˈsɜːpləs/ | A **surplus** of apples makes their price fall. |
| **shortage** /ˈʃɔːtɪdʒ/ | When tickets are cheap, there is a **shortage**: not enough for everyone. |



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