Basic Economic Concepts

AP Microeconomics · Vocabulary in context

Word	Example
Economics /ˌiːkəˈnɒmɪks/	**Economics** studies how people choose to use limited resources.
resources /rɪˈzɔːsɪz/	Animals compete for **resources** such as food and water.
scarcity /ˈskeəsɪti/	**Scarcity** means we cannot have everything we want.
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**.
opportunity cost /ɒpəˈtjuːnɪti kɒst/	The **opportunity cost** of a holiday is what else you could have bought.
economic system /ˌiːkəˈnɒmɪk ˈsɪstəm/	Every **economic system** must decide what to make, how and for whom.
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.

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mixed /mɪkst/	Most countries have **mixed** economies with both markets and government.
incentives /ɪn'sentɪvz/	Lower prices are **incentives** for people to buy more.
production possibilities curve (PPC) /prə'dʌkʃn ˌpɒsə'bɪlɪtiz kɜ:v/	A **production possibilities curve (PPC)** shows the most a country can make of two goods.
efficient /ɪ'fɪʃənt/	An **efficient** factory wastes no materials.
unattainable /ʌnə'teɪnəbl/	A point outside the PPC is **unattainable**.
economic growth /ˌi:kə'nɒmɪk grəʊθ/	**Economic growth** means the economy makes more each year.
specializing /'speʃəlaɪzɪŋ/	By **specializing** in rice, the country produces it more cheaply.
absolute advantage /'æbsəlu:t əd'væntɪdʒ/	A country with **absolute advantage** makes more with the same resources.
comparative advantage /kəm'pærətɪv əd'væntɪdʒ/	A country has a **comparative advantage** in what it gives up least to make.
terms of trade /tɜ:mz ɒv treɪd/	The **terms of trade** improve when export prices rise faster than import prices.
sunk cost /sʌŋk kɒst/	Money spent on advertising is a **sunk cost**: you cannot get it back.
Marginal analysis /'mɑ:dʒɪnl ə'næləsɪs/	**Marginal analysis** asks whether one more hour of work is worth it.

PPC

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Word	Example
marginal benefit /ˈmɑːdʒɪnl ˈbenɪfɪt/	The **marginal benefit** of a second pizza is smaller than the first.
marginal cost /ˈmɑːdʒɪnl kɒst/	**Marginal cost** is the extra cost of producing one more unit.
utility /juːˈtɪlɪti/	**Utility** is the happiness you get from using a product.
law of diminishing marginal utility /lɔː ɒv dɪˈmɪnɪʃɪŋ ˈmɑːdʒɪnl juːˈtɪlɪti/	The **law of diminishing marginal utility** says the third cake is less enjoyable than the first.

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