Supply and Demand

AP Microeconomics · Vocabulary in context

Word	Example
property rights /ˈprɒpəti raɪts/	Clear **property rights** show who owns the land.
Demand /dɪˈmænd/	**Demand** for umbrellas rises when it rains.
law of demand /lɔ: ɒv dɪˈmænd/	The **law of demand** says people buy less when prices rise.
substitution effect /ˌsʌbstɪˈtjuːʃn ɪˈfekt/	The **substitution effect** makes people buy less of a good when it becomes more expensive than others.
income effect /ˈɪŋkʌm ɪˈfekt/	The **income effect** happens because a lower price leaves you more money to spend.
determinants /dɪˈtɜːmɪnənts/	Income and tastes are **determinants** of demand.
substitute /ˈsʌbstɪtjuːt/	Tea is a **substitute** for coffee.
complement /ˈkɒmplɪmənt/	Ink is a **complement** to a printer.
normal good /ˈnɔːml gʊd/	Restaurant meals are a **normal good**: people buy more as income rises.
inferior good /ɪnˈfɪərɪə gʊd/	Instant noodles may be an **inferior good**: people buy fewer as income rises.
horizontal summation /ˌhɒrɪˈzɒntl sʌˈmeɪʃn/	Market demand is the **horizontal summation** of each buyer's demand.
Supply /səˈplaɪ/	**Supply** of strawberries rises in summer.

exercises.lol exercises.com.cn

Word	Example
law of supply /lɔ: ɒv səˈplaɪ/	The **law of supply** says firms sell more when prices rise.
subsidies /ˈsʌbsɪdiz/	The government pays **subsidies** to farmers.
price elasticity of demand /praɪs ɪlæˈstɪsɪti ɒv dɪˈmænd/	**Price elasticity of demand** shows how much demand changes when the price changes.
elastic /ɪˈlæstɪk/	Demand is **elastic** when a small price rise causes a big fall in sales.
inelastic /ɪnɪˈlæstɪk/	Demand is **inelastic** when a price rise causes only a small fall in sales.
total revenue /ˈtəʊtl ˈrevənjuː/	**Total revenue** is price times the number sold.
Price elasticity of supply /praɪs ɪlæˈstɪsɪti ɒv səˈplaɪ/	**Price elasticity of supply** shows how much selling rises when the price rises.
Cross-price elasticity /krɒs praɪs ɪlæˈstɪsɪti/	Coffee and tea have a positive **cross-price elasticity**.
Income elasticity /ˈɪŋkʌm ɪlæˈstɪsɪti/	Luxury cars have a high **income elasticity**.
Equilibrium /ˌiːkwɪˈlɪbrɪəm/	At **equilibrium**, the amount people want to buy equals the amount for sale.
Consumer surplus /kənˈsuːmə ˈsɜːpləs/	**Consumer surplus** is the gap between what you would pay and what you do pay.
Producer surplus /prəˈdjuːsə ˈsɜːpləs/	**Producer surplus** is the gap between the price and the seller's lowest price.

Word	Example
total surplus /ˈtəʊtl ˈsɜːpləs/	**Total surplus** is consumer surplus plus producer surplus.
allocatively efficient /ˈæləkətɪvli ɪˈfɪʃənt/	A market is **allocatively efficient** when it makes the goods people want most.
surplus /ˈsɜːpləs/	A **surplus** of apples makes their price fall.
shortage /ˈʃɔːtɪdʒ/	When tickets are cheap, there is a **shortage**: not enough for everyone.
price ceiling /praɪs ˈsiːlɪŋ/	A **price ceiling** on rent stops landlords charging more than a set amount.
price floor /praɪs flɔː/	A minimum wage is a **price floor**.
excise tax /ekˈsaɪz tæks/	An **excise tax** on cigarettes raises their price.
tax incidence /tæks ˈɪnsɪdəns/	**Tax incidence** shows how much of a tax buyers pay and how much sellers pay.
deadweight loss /ˈdedweɪt lɒs/	A tariff causes a **deadweight loss** that nobody gains.
world price /wɜːld praɪs/	The **world price** of oil is set in global markets.
imports /ɪmˈpɔːts/	Phones made in Korea and sold in France are French **imports**.
exports /ˈekspɔːts/	Chinese cars sold abroad are Chinese **exports**.
tariff /ˈtærɪf/	A **tariff** is a tax on imported goods.
quota /ˈkwəʊtə/	An import **quota** limits how many cars can come in.

exercises.lol exercises.com.cn