Imperfect Competition

AP Microeconomics · Vocabulary in context

Word	Example
patent /ˈpeɪtənt/	A **patent** protects a new invention.
market power /ˈmɑːkɪt ˈpaʊə/	A firm with **market power** can raise its price without losing all its buyers.
substitute /ˈsʌbstɪtjuːt/	Tea is a **substitute** for coffee.
imperfectly competitive /ɪmˈpɜːfektlɪ kəmˈpetɪtɪv/	A monopoly is **imperfectly competitive**.
uniform pricing	Under **uniform pricing**, every buyer pays the same price.
marginal revenue /ˈmɑːdʒɪnl ˈrevənjuː/	**Marginal revenue** is the extra money from selling one more unit.
perfect competition /ˈpɜːfekt ˌkɒmpəˈtɪʃn/	In **perfect competition**, many small firms sell the same product.
barriers to entry /ˈbærɪəz tʊ ˈentri/	High start-up costs can act as **barriers to entry**.
economies of scale /ɪˈkɒnəmiz ɒv skeɪl/	Large firms gain **economies of scale**, so each unit costs less.
economic profit /ˌiːkəˈnɒmɪk ˈprɒfɪt/	**Economic profit** is profit after all costs, including what your money could earn elsewhere.
monopsony /məˈnɒpsəni/	A **monopsony** is a market with only one buyer.

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monopoly /məˈnɒpəli/	A **monopoly** is the only seller in a market.
marginal cost /ˈmɑːdʒɪnl kɒst/	**Marginal cost** is the extra cost of producing one more unit.
fixed cost /fɪkst kɒst/	The shop's rent is a **fixed cost**: it stays the same however much it sells.
average total cost /ˈævrɪdʒ ˈtəʊtl kɒst/	**Average total cost** is total cost divided by output.
consumer surplus /kənˈsuːmə ˈsɜːpləs/	If you would pay £10 but pay only £8, your **consumer surplus** is £2. £10 £8 £2
willingness to pay /ˈwɪlɪŋnəs tə peɪ/	A survey measures people's **willingness to pay** for cleaner water.
deadweight loss /ˈdedweɪt lɒs/	A tariff causes a **deadweight loss** that nobody gains.
producer surplus /prəˈdjuːsə ˈsɜːpləs/	**Producer surplus** is the extra a seller gets above the lowest price they would accept.
variable cost /ˈveərɪəbl kɒst/	Packaging is a **variable cost**: it rises as the firm sells more.
total surplus /ˈtəʊtl ˈsɜːpləs/	**Total surplus** is consumer surplus plus producer surplus.
unit elastic /ˈjuːnɪt ɪˈlæstɪk/	Demand is **unit elastic** when sales and price change by the same percentage.
elastic /ɪˈlæstɪk/	Demand is **elastic** when a small price rise causes a big fall in sales.

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inelastic /ɪnɪ'læstɪk/	Demand is **inelastic** when a price rise causes only a small fall in sales.
natural monopoly /'nætʃərəl mə'nɒpəli/	Water supply is a **natural monopoly**: one firm can do it most cheaply.
subsidy /'sʌbsɪdi/	A **subsidy** is money from the government that lowers a firm's costs.
productive efficiency /prə'dʌktɪv ɪ'fɪʃənsi/	**Productive efficiency** means making goods at the lowest cost per unit.
antitrust /ˌæntɪ'trʌst/	**Antitrust** laws stop firms from forming monopolies.
regulation /ˌregjʊ'leɪʃn/	New **regulation** says that factories must clean their waste water.
Price discrimination /praɪs dɪˌskrɪmɪ'neɪʃn/	Cheaper student tickets are a form of **price discrimination**.
resale /'riːseɪl/	Name-only tickets stop **resale** to other people.
Monopolistic competition /mə'nɒpəlɪstɪk ˌkɒmpə'tɪʃn/	Restaurants are in **monopolistic competition**.
differentiated /ˌdɪfə'renʃɪeɪtɪd/	Brands of shampoo are **differentiated** products.
non-price competition /nɒn praɪs ˌkɒmpə'tɪʃn/	Better service is a form of **non-price competition**.
tangent /'tændʒənt/	The **tangent** line touches the curve at one point.

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excess capacity /ek'ses kə'pæsɪti/	A firm has **excess capacity** when it could make much more than it does.
allocative inefficiency	**Allocative inefficiency** means the market makes the wrong mix of goods.
oligopoly /ˌɒlɪ'gɒpəli/	In an **oligopoly**, a few big firms control the market.
interdependent /ˌɪntədɪ'pendənt/	In an oligopoly, firms are **interdependent**.
game theory /geɪm 'θɪəri/	**Game theory** studies decisions when outcomes depend on others' choices.
colluding /kə'luːdɪŋ/	Firms **colluding** on price are breaking the law.
cartels /kɑː'telz/	OPEC is one of the world's best-known **cartels**. OPEC
payoff matrix /'peɪɒf 'meɪtrɪks/	A **payoff matrix** shows what each firm gets from each choice.
dominant strategy /'dɒmɪnənt 'strætədʒi/	Confessing is each prisoner's **dominant strategy**: it is best whatever the other one does.
Nash equilibrium /næʃ ˌiːkwɪ'lɪbrɪəm/	At a **Nash equilibrium**, no player can do better by changing their choice alone.
prisoners' dilemma /'prɪzənəz daɪ'lemə/	In the **prisoners' dilemma**, both players end up worse off by not trusting each other.
best response	A firm's **best response** is the choice that pays most, given what its rival does.

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Word	Example
merger /ˈmɜːdʒə/	A **merger** joins two businesses into one.

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