Choice, models and market adjustment

Pearson Edexcel · International A-Level · Economics · Vocabulary in context

Word	Example
social science /ˈsəʊʃl ˈsaɪəns/	Economics is a **social science**: it studies how people behave.
models /ˈmɒdlz/	Psychologists use **models** to explain how the mind works.
ceteris paribus /ˈsetərɪs ˈpærɪbəs/	**Ceteris paribus** means “all other things staying the same”. “all other things staying the same”。
positive statement /ˈpɒzɪtɪv ˈsteɪtmənt/	“Prices rose 3% last year” is a **positive statement**: it can be checked. “Prices rose 3% last year”
normative statement /ˈnɔːmətɪv ˈsteɪtmənt/	“Prices should be lower” is a **normative statement**: it is an opinion. “Prices should be lower”
value judgement /ˈvæljuː ˈdʒʌdʒmənt/	“Taxes should be lower” is a **value judgement**. “Taxes should be lower”
scarcity /ˈskeəsɪti/	**Scarcity** means we cannot have everything we want.
renewable /rɪˈnjuːəbl/	Wood is a **renewable** resource if we plant new trees.
non-renewable /nɒn rɪˈnjuːəbl/	Coal is **non-renewable**: it will run out.
opportunity cost /ɒpəˈtjuːnɪti kɒst/	The **opportunity cost** of a holiday is what else you could have bought.
free good /friː gʊd/	Air is a **free good**: using it costs nothing.

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economic good /ˌiːkəˈnɒmɪk ɡʊd/	Bread is an **economic good**: making it uses scarce resources.
production possibility frontier /prəˈdʌkʃn ˌpɒsəˈbɪlɪti ˈfrʌntɪə/	A **production possibility frontier** shows the most that an economy can make.
capital goods /ˈkæpɪtl ɡʊdz/	Machines and tools are **capital goods**.
consumer goods /kənˈsuːmə ɡʊdz/	Food and clothes are **consumer goods**.
specialisation and the division of labour	**Specialisation and the division of labour** mean each worker does one small job.
money /ˈmʌni/	We use **money** to buy things and to measure what they are worth.
medium of exchange /ˈmiːdɪəm ɒv eksˈtʃeɪndʒ/	Money is a **medium of exchange**: people accept it in return for goods.
financial markets	People buy shares and borrow money in **financial markets**.
equities	**Equities** are shares in a company.
free market economy	In a **free market economy**, the government plays only a small part.
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.
rational /ˈræʃənl/	Economists often assume people are **rational**: they choose what is best for them.

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utility /juːˈtɪlɪti/	**Utility** is the happiness you get from using a product.
demand /dɪˈmænd/	Hot weather increases the **demand** for ice cream.
substitute /ˈsʌbstɪtjuːt/	Tea is a **substitute** for coffee.
complement /ˈkɒmplɪmənt/	Ink is a **complement** to a printer.
diminishing marginal utility /dɪˈmɪnɪʃɪŋ ˈmɑːdʒɪnl juːˈtɪlɪti/	The third ice cream is less fun than the first: **diminishing marginal utility**.
price elasticity of demand /praɪs ɪlæˈstɪsɪti ɒv dɪˈmænd/	**Price elasticity of demand** shows how much demand changes when the price changes.
price inelastic /praɪs ɪnɪˈlæstɪk/	Petrol is **price inelastic**: people still buy it when the price rises.
total revenue /ˈtəʊtl ˈrevənjuː/	**Total revenue** is price times the number sold.
income elasticity of demand /ˈɪŋkʌm ɪlæˈstɪsɪti ɒv dɪˈmænd/	**Income elasticity of demand** shows how demand changes when income rises.
normal good /ˈnɔːml gʊd/	Fresh fruit is a **normal good**: people buy more as income rises.
inferior good /ɪnˈfɪərɪə gʊd/	Cheap bread may be an **inferior good**: people buy less of it as they get richer.
cross elasticity of demand /krɒs ɪlæˈstɪsɪti ɒv dɪˈmænd/	**Cross elasticity of demand** shows how the price of tea affects demand for coffee.
supply /səˈplaɪ/	A new bakery increases the **supply** of bread.

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Word	Example
specific tax /spə'sɪfɪk tæks/	A **specific tax** adds a fixed amount, such as 50p, to each unit. 50p
ad valorem tax /æd 'vælɒrəm tæks/	An **ad valorem tax** is a percentage of the price, such as a 10% sales tax. 10%
price elasticity of supply /praɪs ɪlæ'stɪsɪti ɒv sə'plaɪ/	**Price elasticity of supply** shows how much supply changes when the price changes.
short run /ʃɔ:t rʌn/	In the **short run**, a firm cannot build a new factory.
long run /lɒŋ rʌn/	In the **long run**, a firm can change everything, even its factory.
equilibrium /ˌi:kwɪ'lɪbrɪəm/	At **equilibrium**, the amount people want to buy equals the amount for sale.
excess demand /ek'ses dɪ'mænd/	**Excess demand** means people want more than is for sale, so queues form.
excess supply /ek'ses sə'plaɪ/	At a high price there is **excess supply**: goods are left unsold.
consumer surplus /kən'su:mə 'sɜ:pləs/	If you would pay £10 but pay only £8, your **consumer surplus** is £2. £10 £8 £2
producer surplus /prə'dju:sə 'sɜ:pləs/	**Producer surplus** is the extra a seller gets above the lowest price they would accept.
price mechanism /praɪs 'mekənɪzəm/	The **price mechanism** uses price changes to share out goods.
tax incidence /tæks 'ɪnsɪdəns/	**Tax incidence** shows how much of a tax buyers pay and how much sellers pay.

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Word	Example
subsidy /ˈsʌbsɪdi/	A **subsidy** is money from the government that lowers a firm's costs.

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