Firms, costs, growth and competition

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

Word	Example
types	Sole traders and companies are two **types** of business.
state-owned enterprises	**State-owned enterprises**, such as a national railway, belong to the government.
co-operatives	**Co-operatives** are owned by their members, who share the profits.
joint ventures /dʒɔɪnt 'ventʃəz/	In **joint ventures**, two firms work together on one project and share the risk.
SMEs	**SMEs** are small and medium-sized businesses.
organic growth /ɔ:'gænɪk grəʊθ/	**Organic growth** means a firm grows by opening new shops, not by buying other firms.
mergers /'mɜ:dʒəz/	**Mergers** happen when two firms agree to join into one.
takeovers /'teɪkəʊvəz/	In **takeovers**, one firm buys another firm.
horizontal integration /ˌhɒrɪ'zɒntl ˌɪntɪ'greɪʃn/	When two car makers join, this is **horizontal integration**.
backward vertical integration /'bækwəd 'vɜ:tɪkl ˌɪntɪ'greɪʃn/	A car maker that buys a steel firm is using **backward vertical integration**.

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forward vertical integration /'fɔ:wəd 'vɜ:tɪkl ˌɪntɪ'greɪʃn/	A brewery that buys pubs is using **forward vertical integration**.
conglomerate integration /kən'glɒmərəɪt ˌɪntɪ'greɪʃn/	When a phone maker buys a hotel chain, this is **conglomerate integration**.
demerger /de'mɜ:dʒə/	A **demerger** splits one company into two.
profit maximisation /'prɒfɪt ˌmæksɪmaɪ'zeɪʃn/	**Profit maximisation** means making the gap between revenue and cost as large as possible.
revenue maximisation /'revənju: ˌmæksɪmaɪ'zeɪʃn/	A firm aiming for **revenue maximisation** wants the most sales income, not the most profit.
sales volume maximisation	**Sales volume maximisation** means selling as many units as possible without a loss.
satisficing /'sætɪsfɪsɪŋ/	**Satisficing** means the managers aim for a result that is good enough, not the best.
principal–agent problem	The **principal–agent problem** arises when managers act for themselves, not for the owners.
law of diminishing returns /lɔ: ɒv dɪ'mɪnɪʃɪŋ rɪ'tɜ:nz/	The **law of diminishing returns** says each extra worker adds less output than the last.
normal profit /'nɔ:ml 'prɒfɪt/	A firm making **normal profit** earns just enough to stay in business.

Word	Example
supernormal profit /ˈsuːpənɔːml ˈprɒfɪt/	A firm making **supernormal profit** earns more than it needs to stay in business.
long-run average cost	The **long-run average cost** curve shows the lowest cost per unit at each size of firm.
economies of scale /ɪˈkɒnəmiz ɒv skeɪl/	Large firms gain **economies of scale**, so each unit costs less.
minimum efficient scale /ˈmɪnɪməm ɪˈfɪʃənt skeɪl/	At the **minimum efficient scale**, the cost per unit first reaches its lowest point.
diseconomies of scale /ˌdɪsɪˈkɒnəmiz ɒv skeɪl/	A very large firm can face **diseconomies of scale**, such as slow decisions.
external economies of scale /ekˈstɜːnl ɪˈkɒnəmiz ɒv skeɪl/	Good local roads can give all firms in an area **external economies of scale**.
efficiency /ɪˈfɪʃənsi/	A lamp with 20% **efficiency** turns only a fifth of its energy into light. 20%
allocative efficiency /ˈæləkətɪv ɪˈfɪʃənsi/	**Allocative efficiency** means making exactly what society wants most.
productive efficiency /prəˈdʌktɪv ɪˈfɪʃənsi/	**Productive efficiency** means making goods at the lowest cost per unit.
dynamic efficiency /daɪˈnæmɪk ɪˈfɪʃənsi/	**Dynamic efficiency** means products and methods get better over time.
concentration ratio /ˌkɒnsənˈtreɪʃn ˈreɪʃɪəʊ/	A five-firm **concentration ratio** of 80% means the five biggest firms have 80% of sales. 80% 80%

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perfect competition /ˈpɜːfekt ˌkɒmpəˈtɪʃn/	In **perfect competition**, many small firms sell the same product.
price taker /praɪs ˈteɪkə/	A farmer selling wheat is a **price taker**: he must accept the market price.
monopolistic competition /məˈnɒpəlɪstɪk ˌkɒmpəˈtɪʃn/	Hairdressers are in **monopolistic competition**: many firms, each a little different.
differentiated /ˌdɪfəˈrenʃɪeɪtɪd/	Brands of trainers are **differentiated**: each looks a little different.
oligopoly /ˌɒlɪˈgɒpəli/	In an **oligopoly**, a few big firms control the market.
interdependent /ˌɪntədɪˈpendənt/	In an oligopoly, firms are **interdependent**: each one watches what its rivals do.
barriers to entry /ˈbærɪəz tʊ ˈentri/	High start-up costs can act as **barriers to entry**.
sunk costs	Money spent on advertising is one of the **sunk costs** you cannot get back.
limit pricing /ˈlɪmɪt ˈpraɪsɪŋ/	**Limit pricing** keeps prices low so new firms do not want to enter.
Nash equilibrium /næʃ ˌiːkwɪˈlɪbrɪəm/	At a **Nash equilibrium**, no player can do better by changing their choice alone.
collusion /kəˈluːʒn/	**Collusion** lets firms coordinate choices to reduce competition.
cartel /kɑːˈtel/	OPEC is a **cartel**: its members agree how much oil to produce. OPEC

Word	Example
price wars	In **price wars**, firms keep cutting prices to win customers.
predatory pricing /ˈpredətəri ˈpraɪsɪŋ/	**Predatory pricing** means cutting prices below cost to push rivals out.
non-price competition /nɒn praɪs ˌkɒmpəˈtɪʃn/	Better service is a form of **non-price competition**.
monopoly /məˈnɒpəli/	A **monopoly** is the only seller in a market.
deadweight loss /ˈdedweɪt lɒs/	A tariff causes a **deadweight loss** that nobody gains.
natural monopoly /ˈnætʃərəl məˈnɒpəli/	Water supply is a **natural monopoly**: one firm can do it most cheaply.
third-degree price discrimination /θɜːd dɪˈgriː praɪs dɪˌskrɪmɪˈneɪʃn/	Cheaper tickets for students are **third-degree price discrimination**.
monopsony /məˈnɒpsəni/	A **monopsony** is a market with only one buyer.
contestable	A market is **contestable** if new firms can enter and leave it easily.
X-inefficiency /eks ɪnˈfɪʃənsi/	**X-inefficiency** happens when a firm without competition lets its costs rise.

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