Demand, supply and policy (2.1-2.7)

International Baccalaureate · IB Diploma · Economics · HL · Vocabulary in context

Word	Example
demand /dɪ'mænd/	Hot weather increases the **demand** for ice cream.
law of demand /lɔ: ɒv dɪ'mænd/	The **law of demand** says people buy less when prices rise.
diminishing marginal utility /dɪ'mɪnɪʃɪŋ 'mɑ:dʒɪnl ju:'tɪlɪti/	The third ice cream is less fun than the first: **diminishing marginal utility**.
supply /sə'plaɪ/	A new bakery increases the **supply** of bread.
bounded rationality	**Bounded rationality** means people make good-enough choices because they cannot know everything.
default choice	Most people keep the **default choice**, such as joining a pension plan automatically.
framing /'freɪmɪŋ/	**Framing** changes choices: “90% fat-free” sounds better than “10% fat”. “90% fat-free” “10% fat”
nudge /nʌdʒ/	Putting fruit at eye level is a **nudge** towards healthy eating.
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.

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excess supply /ekˈses səˈplaɪ/	At a high price there is **excess supply**: goods are left unsold.
consumer surplus /kənˈsuːmə ˈsɜːpləs/	If you would pay £10 but pay only £8, your **consumer surplus** is £2. £10 £8 £2
producer surplus /prəˈdjuːsə ˈsɜːpləs/	**Producer surplus** is the extra a seller gets above the lowest price they would accept.
allocative efficiency /ˈæləkətɪv ɪˈfɪʃənsi/	**Allocative efficiency** means making exactly what society wants most.
deadweight loss /ˈdedweɪt lɒs/	A tariff causes a **deadweight loss** that nobody gains.
price elasticity of demand /praɪs ɪlæˈstɪsɪti ɒv dɪˈmænd/	**Price elasticity of demand** shows how much demand changes when the price changes.
marginal revenue /ˈmɑːdʒɪnl ˈrevənjuː/	**Marginal revenue** is the extra revenue from one more sale.
price elasticity of supply /praɪs ɪlæˈstɪsɪti ɒv səˈplaɪ/	**Price elasticity of supply** shows how much supply changes when the price changes.
income elasticity of demand /ˈɪŋkʌm ɪlæˈstɪsɪti ɒv dɪˈmænd/	**Income elasticity of demand** shows how demand changes when income rises.
cross elasticity of demand /krɒs ɪlæˈstɪsɪti ɒv dɪˈmænd/	**Cross elasticity of demand** shows how the price of tea affects demand for coffee.
indirect tax /ɪndaɪˈrekt tæks/	VAT is an **indirect tax**. VAT
incidence /ˈɪnsɪdəns/	The **incidence** of a tax shows who really pays it, buyers or sellers.

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subsidy /ˈsʌbsɪdi/	A **subsidy** is money from the government that lowers a firm's costs.
maximum price /ˈmæksɪməm praɪs/	A **maximum price** below the market price causes shortages.
minimum price /ˈmɪnɪməm praɪs/	A **minimum price** above the market price causes surpluses.
export ban	An **export ban** prevents goods from being sold abroad.
buffer stock /ˈbʌfə stɒk/	A **buffer stock** sells stored grain when prices rise.
cash transfer	A **cash transfer** gives money directly to a household.

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