Information and market power (2.10-2.11)

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

Word	Example
asymmetric information /ˌeɪsɪˈmetrɪk ˌɪnfəˈmeɪʃn/	There is **asymmetric information** when the seller knows more than the buyer.
market power /ˈmɑːkɪt ˈpaʊə/	A firm with **market power** can influence its selling price.
market structures	**Market structures** differ in how many firms there are and how easy it is to enter.
adverse selection /ædˈvɜːs sɪˈlekʃn/	**Adverse selection** happens when risky people are the most keen to buy insurance.
moral hazard /ˈmɒrəl ˈhæzəd/	**Moral hazard** happens when insured people take more risks.
screening	An insurer uses **screening** to find out how risky a customer is.
signalling /ˈsɪgnəlɪŋ/	A degree is a form of **signalling**: it shows employers your skills.
warranty	A **warranty** promises to repair the product if it breaks.
government regulation	**Government regulation** can make sellers tell buyers about risks.
excess /ekˈses/	An insurance **excess** is the first part of the cost that you pay yourself.
total revenue /ˈtəʊtl ˈrevənjuː/	Price times quantity sold gives **total revenue**.

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average revenue /ˈævrɪdʒ ˈrevənjuː/	**Average revenue** is revenue per unit sold.
marginal revenue /ˈmɑːdʒɪnl ˈrevənjuː/	**Marginal revenue** is the extra revenue from one more sale.
marginal cost /ˈmɑːdʒɪnl kɒst/	**Marginal cost** is the extra cost of producing one more unit.
average total cost /ˈævrɪdʒ ˈtəʊtl kɒst/	**Average total cost** is total cost divided by output.
profit maximisation /ˈprɒfɪt ˌmæksɪmaɪˈzeɪʃn/	**Profit maximisation** means making the gap between revenue and cost as large as possible.
normal profit /ˈnɔːml ˈprɒfɪt/	A firm making **normal profit** earns just enough to stay in business.
abnormal profit	**Abnormal profit** is profit above normal profit.
loss /lɒs/	A firm makes a **loss** when total costs exceed total revenue.
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.
perfect competition /ˈpɜːfekt ˌkɒmpəˈtɪʃn/	In **perfect competition**, many small firms sell the same product.
homogeneous /ˌhɒməˈdʒiːniəs/	**Homogeneous** products are all the same, such as wheat from different farms.

Word	Example
barriers to entry /ˈbærɪəz tʊ ˈentri/	High start-up costs can act as **barriers to entry**.
price-taker /praɪs ˈteɪkə/	A **price-taker** accepts the market price.
monopoly /məˈnɒpəli/	A **monopoly** is the only seller in a market.
substitutes /ˈsʌbstɪtjuːts/	Tea and coffee can be **substitutes**.
price-maker	A **price-maker** has some control over its selling price.
economies of scale /ɪˈkɒnəmiz ɒv skeɪl/	Large firms gain **economies of scale**, so each unit costs less.
patents	**Patents** protect inventions and can restrict entry.
network effects	**Network effects** make a phone app more useful as more people join.
deadweight loss /ˈdedweɪt lɒs/	A tariff causes a **deadweight loss** that nobody gains.
research and development /rɪˈsɜːtʃ ænd dɪˈveləpmənt/	**Research and development** can create better products.
dynamic efficiency /daɪˈnæmɪk ɪˈfɪʃənsi/	**Dynamic efficiency** means products and methods get better over time.
natural monopoly /ˈnætʃərəl məˈnɒpəli/	Water supply is a **natural monopoly**: one firm can do it most cheaply.
subsidy /ˈsʌbsɪdi/	A **subsidy** is money from the government that lowers a firm's costs.

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monopolistic competition /məˈnɒpəlɪstɪk ˌkɒmpəˈtɪʃn/	Hairdressers are in **monopolistic competition**: many firms, each a little different.
product differentiation /ˈprɒdʌkt ˌdɪfəˌrenʃiˈeɪʃn/	**Product differentiation** makes buyers see one brand as distinct.
non-price competition /nɒn praɪs ˌkɒmpəˈtɪʃn/	Better service is a form of **non-price competition**.
excess capacity /ekˈses kəˈpæsɪti/	A firm has **excess capacity** when it could make much more than it does.
oligopoly /ˌɒlɪˈgɒpəli/	In an **oligopoly**, a few big firms control the market.
interdependence /ˌɪntədɪˈpendəns/	**Interdependence** means each firm's choices affect its rivals.
game theory /geɪm ˈθɪəri/	**Game theory** studies decisions when outcomes depend on others' choices.
dominant strategy /ˈdɒmɪnənt ˈstrætədʒi/	A **dominant strategy** is best whatever the rival does.
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
tacit collusion	In **tacit collusion**, firms keep prices high without ever agreeing to.

Word	Example
price leader	A **price leader** changes price and other firms follow.
price war	A **price war** involves repeated price cuts by rivals.
concentration ratio /ˌkɒnsənˈtreɪʃn ˈreɪʃiəʊ/	A five-firm **concentration ratio** of 80% means the five biggest firms have 80% of sales. 
competition law	**Competition law** stops big firms from unfairly blocking rivals.
mergers /ˈmɜːdʒəz/	**Mergers** combine firms and may reduce competition.
government ownership	**Government ownership** puts a business in public hands.
trade liberalisation /treɪd ˌlɪbərəlaɪˈzeɪʃn/	Cutting tariffs is a form of **trade liberalisation**.
X-inefficiency /eks ɪnˈfɪʃənsi/	Without competition, a firm can get lazy and waste money: this is **X-inefficiency**.

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