# Demand, supply and policy (2.1-2.7)

International Baccalaureate · IB Diploma · Economics · SL · 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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| Word | Example |
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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.<br>£10 £8<br>£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. |
| **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. |
| **indirect tax** /ɪndaɪˈrekt tæks/ | VAT is an **indirect tax**.<br>VAT |
| **incidence** /ˈɪnsɪdəns/ | The **incidence** of a tax shows who really pays it, buyers or sellers. |
| **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. |



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| Word | Example |
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| **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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