
Most Economics questions open with a definition worth two marks, and the mark is for precision – the right nouns and the condition attached. Learn these as whole sentences.

The basic economic problem

- Scarcity** – unlimited wants set against limited resources, which forces people to choose
- Opportunity cost** – the next best alternative given up when a choice is made
- Factors of production** – land, labour, capital and enterprise – the four resources used to produce goods and services
- Production possibility curve** – a curve showing the maximum combinations of two goods an economy can produce when all its resources are fully used
- Mixed economy** – an economy in which both the private sector and the government allocate resources

Demand, supply and price

- Demand** – the quantity of a good consumers are willing and able to buy at a given price
- Supply** – the quantity of a good producers are willing and able to sell at a given price
- Equilibrium price** – the price at which quantity demanded equals quantity supplied, so there is no shortage or surplus
- Price elasticity of demand** – how much quantity demanded responds to a change in price: $\frac{\text{percentage change in quantity demanded}}{\text{percentage change in price}}$
- Inelastic demand** – demand that changes proportionately less than price, so a price rise raises total revenue
- Substitute / complement** – a good bought instead of another; a good bought together with another
- Normal good / inferior good** – demand rises as income rises; demand FALLS as income rises

Market failure and the government

- Market failure** – where the market allocates resources inefficiently, so society's welfare is not maximised
- External cost** – a cost of production or consumption falling on a third party, not on the buyer or seller
- Merit good** – a good under-consumed in a free market because consumers undervalue its benefit – education, vaccination
- Demerit good** – a good over-consumed because consumers undervalue its harm – tobacco, alcohol

- Public good** – a good that is non-excludable and non-rival, so the market will not provide it – street lighting, national defence
- Subsidy** – a payment by government to producers to lower costs and increase supply
- Indirect tax** – a tax on spending, collected by the seller, which raises the price the consumer pays
- Privatisation** – the sale of a government-owned business to the private sector

The individual as producer, consumer and borrower

- Specialisation** – concentrating on producing one good or performing one task, which raises output through practice and scale
- Division of labour** – breaking production into separate tasks, each done by a different worker
- Wage differential** – the difference in pay between occupations, caused by differences in skill, training, danger, and the demand for and supply of that labour
- Trade union** – an organisation of workers formed to protect and improve their pay and conditions
- Commercial bank** – a bank that accepts deposits, makes loans, and provides payment services to households and firms

The firm

- Fixed cost** – a cost that does not change with output in the short run – rent, insurance
- Variable cost** – a cost that changes directly with output – raw materials, piece-rate wages
- Economies of scale** – the fall in average cost as a firm increases its scale of production
- Diseconomies of scale** – the rise in average cost when a firm grows too large – usually through poor communication and coordination
- Profit** – total revenue minus total cost
- Monopoly** – a market with a single seller and high barriers to entry

The macroeconomy

- Gross domestic product** – the total value of all goods and services produced in a country in a year
- Economic growth** – an increase in real gross domestic product
- Inflation** – a sustained increase in the general price level
- Consumer Price Index** – a weighted index measuring the change in the price of a typical basket of goods bought by households
- Unemployment** – people of working age who are able and willing to work but cannot find a job
- Fiscal policy** – the use of government spending and taxation to influence the economy
- Monetary policy** – the use of interest rates and the money supply to influence the economy
- Progressive tax** – a tax taking a larger percentage of income as income rises

Balance of payments – a record of a country's transactions with the rest of the world over a period

Exchange rate – the price of one currency in terms of another

International trade and development

Free trade – trade between countries with no tariffs, quotas or other barriers

Tariff – a tax on imported goods, which raises their price and protects domestic producers

Quota – a physical limit on the quantity of a good that may be imported

Absolute poverty – an income below the level needed for basic needs – food, shelter, clothing

Relative poverty – an income well below the average for that society, so a person cannot afford a normal standard of living

Human Development Index – a composite measure combining life expectancy, education and income per head

Sustainable development – development that meets present needs without reducing the ability of future generations to meet theirs