Principles of Microeconomics

University Business · Vocabulary in context

Word	Example
microeconomics /ˌmaɪkrəʊˌiːkəˈnɒmɪks/	**Microeconomics** studies the choices of buyers, sellers and firms.
production possibilities frontier	The **production possibilities frontier** shows the most a bakery can make with its hours.
scarcity /ˈskeəsɪti/	**Scarcity** means we cannot have everything we want, so we must choose.
opportunity cost /ɒpəˈtjuːnɪti kɒst/	The **opportunity cost** of a holiday is what else you could have bought.
ceteris paribus /ˈsetərɪs ˈpærɪbəs/	**Ceteris paribus** means "all other things staying the same".
demand /dɪˈmænd/	Hot weather increases the **demand** for ice cream.
quantity demanded /ˈkwɒntɪti dɪˈmændɪd/	**Quantity demanded** is how much people buy at one price.
supply /səˈplaɪ/	A new bakery increases the **supply** of bread.
quantity supplied /ˈkwɒntɪti səˈplaɪd/	**Quantity supplied** rises when the price rises.
equilibrium /ˌiːkwɪˈlɪbrɪəm/	At **equilibrium**, the amount people want to buy equals the amount for sale.
comparative statics	**Comparative statics** compares the market before and after one change.

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price elasticity of demand /praɪs ɪlæˈstɪsɪti ɒv dɪˈmænd/	**Price elasticity of demand** shows how much demand changes when the price changes.
income elasticity /ˈɪŋkʌm ɪlæˈstɪsɪti/	An **income elasticity** above 1 means people buy much more as they get richer.
cross elasticity /krɒs ɪlæˈstɪsɪti/	A negative **cross elasticity** means the two goods are bought together.
marginal product /ˈmɑːdʒɪnl ˈprɒdʌkt/	The **marginal product** of the eighth baker is the extra bread he makes.
diminishing returns /dɪˈmɪnɪʃɪŋ rɪˈtɜːnz/	**Diminishing returns** set in when the kitchen gets crowded.
fixed cost /fɪkst kɒst/	The shop's rent is a **fixed cost**: it stays the same however much it sells.
variable cost /ˈveərɪəbl kɒst/	Packaging is a **variable cost**: it rises as the firm sells more.
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.
economies of scale /ɪˈkɒnəmiz ɒv skeɪl/	Large firms gain **economies of scale**, so each unit costs less.
perfect competition /ˈpɜːfekt ˌkɒmpəˈtɪʃn/	In **perfect competition**, many small firms sell the same product.
monopoly /məˈnɒpəli/	A **monopoly** is the only seller in a market.

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monopolistic competition /məˈnɒpəlɪstɪk ˌkɒmpəˈtɪʃn/	Hairdressers are in **monopolistic competition**: many firms, each a little different.
oligopoly /ˌɒlɪˈgɒpəli/	In an **oligopoly**, a few big firms control the market.
deadweight loss /ˈdedweɪt lɒs/	A tariff causes a **deadweight loss** that nobody gains.
externality /ekˈstɜːnælɪti/	Smoke affecting nearby households is a negative **externality**.
marginal social cost /ˈmɑːdʒɪnl ˈsəʊʃl kɒst/	**Marginal social cost** adds the harm to others to the firm's own cost.
tax wedge	The **tax wedge** is the gap between what buyers pay and what sellers keep.
incidence /ˈɪnsɪdəns/	**Incidence** tells us who really pays a tax.

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