Eco402 - Microeconomics Glossary By www.virtualians.pk

Break-even point : the point at which price equals the minimum of average total cost.

Externalities : the spillover effects of production or consumption for which no payment is made.

Inferior goods : items for which an increase in income results in a fall in the amount bought e.g. Bread, linoleum and coal.

Marginal physical product : the change in total product measured in physical terms caused by a one unit increase in a variable input.

Market supply curve : the horizontal summation of all the individual supply curves.

Monetary base : the same as "high-powered money": cash in commercial banks, plus cash in circulation and deposits of the commercial bank at the central bank.

Movement along the curve : a situation in which a change in the variable on one axis causes a change in the variable on the other axis, but maintains the position of the curve.

Mixed economy : a market economy in which the government plays a very large role.

Multiplier effect : the tendency for a change in aggregate spending to cause a more than proportionate change in the level of real national income.

Negatively related : a situation in which an increase in one variable is associated with a decrease in another variable (also called inversely related).

Net exports : the value of goods and services sold abroad minus the value of goods and services bought from the rest of the world – that is, exports minus imports.

Non-tariff barrier : any government action other than a tariff that reduces imports, such as a quota or a standard.

Normal profits : the amount of accounting profits when economic profits are equal to zero the amount of accounting profits when economic profits are equal to zero .

Normative economics : economic analysis that makes recommendations about economic policy.

Opportunity cost : the value of the next-best forgone alternative that was not chosen because something else was chosen.

Pareto efficiency : a situation in which it is not possible to make someone better off without making someone else worse off.

Perfectly elastic supply : supply for which the price elasticity is infinite, indicating an infinite response of quantity supplied to a change in price and thereby a horizontal supply curve.

Perfectly inelastic demand : demand for which the price elasticity is zero, indicating no response to a change in price and therefore a vertical demand curve.

Perfectly inelastic supply : supply for which the price elasticity is zero, indicating no response of quantity supplied to a change in price and thereby a vertical supply curve.

Physical capital : the factories, improvements to cultivated land, machinery and other tools, equipment and structures used to produce goods and services.

Positive economics : economic analysis that explains what happens in the economy and why, without making recommendations about economic policy.

Positive externality : the situation in which benefits spill over onto someone not involved in producing or consuming the good.

Positive slope : a slope of a curve that is greater than zero, representing a positive or direct relationship between two variables.

Positively related : a situation in which an increase in one variable is associated with an increase in another variable (also called directly related).

Present discounted value : the value in the present of future payments.

Price : the amount of money or other goods that one must pay to obtain a particular good.

Price ceiling : a government price control that sets the maximum allowable price for a good.

Price control : a government law or regulation that sets or limits the price to be charged for a particular good.

Price elasticity of demand : the percentage change in the quantity demanded of a good divided by the percentage change in the price of that good.

Price elasticity of supply : the percentage change in quantity supplied divided by the percentage change in price.

Quantity supplied : the amount of a good that firms are willing to sell at a given price.

Relatively elastic : a situation in which the elasticity of one good is greater than the elasticity of another good.

Shift of the curve : a change in the position of a curve usually caused by a change in a variable not represented on either axis.

Specific tax : a tax that is proportional to the number of items sold.

Substitute : a good that has many of the same characteristics of, and can be used in place of, another good.

Substitution effect : the amount by which quantity demanded falls when the price rises, exclusive of the income effect.

Supply : a relationship between price and quantity supplied.

Supply curve : a graph of supply showing the upward-sloping relationship between price and quantity supplied.

Supply schedule : a tabular presentation of supply showing the price and quantity supplied of a particular good, all else being equal.

Surplus : the situation in which quantity supplied is greater than quantity demanded.

Tacit collusion : implicit or unstated cooperation of firms to make mutually beneficial pricing or production decisions.

Tariff : a tax on imports.

Taxable income : an individual's income minus deductions.

Tax incidence : the allocation of the burden of the tax between buyer and seller.

Tax revenue : a tax rate times the amount subject to tax.

Terms of trade : quantity of imported goods a country can obtain in exchange for a unit of exported goods.

Total costs : the sum of variable costs and fixed costs.

Total revenue : the price per unit times the quantity the firm sells.

Transfer payment : a grant of funds from the government to an individual.

Unit elastic demand : demand for which price elasticity equals 1.

Unit-free measure : a measure that does not depend on a unit of measurement.

Utility : a numerical indicator of a person's preferences in which higher levels of utility indicate a greater preference.

Voluntary export restriction (ver) : a country's self-imposed government restriction on exports to a particular country.

Wage : the price of labour defined over a period of time worked.

World trade organization (wto) : an international organisation that can mediate trade disputes.

Average fixed cost (afc) : fixed cost divided by the quantity produced.

Average total cost (atc) : total costs of production divided by the quantity produced (also called cost per unit)

Price discrimination : a situation in which different groups of consumers are charged different prices for the same good.

Price floor : a government price control that sets the minimum allowable price for a good.

Price leader : the price-setting firm in a collusive industry where other firms follow the leader.

Price-maker : a firm that has the power to set its price, rather than taking the price set by the market.

Privatization : the process of changing a government enterprise into a privately owned enterprise.

Producer surplus : the difference between the price received by a firm for an additional item sold and the marginal cost of the item's production.

Product differentiation : the effort by firms to produce goods that are slightly different from other types of good.

Production function : a relationship that shows the quantity of output for any given amount of input.

Production possibilities : alternative combinations of production of various goods that is possible, given the economy's resources.

Production possibilities curve : a curve showing the maximum combinations of production of two goods that are possible, given the economy's resources and level of technology.

Profit maximization : an assumption that firms try to achieve the highest possible level of profits – total revenue minus total costs – given their production function.

Profits : total revenue received from selling the product minus the total costs of producing the product.

Quantity demanded : the amount of a good that people want to buy at a given price.

Quota : an upper limit on the quantity of a good that may be imported or sold.

Rate of return : the return on an asset stated as a percentage of the price of the asset.

Real wage : the wage or price of labour adjusted for inflation. In contrast, the nominal wage has not been adjusted for inflation.

Revenue tariff : an import tax whose main purpose is to provide revenue to the government.

Sales tax : a tax on sales of a broad group of goods.

Scarcity : the situation in which the quantity of resources is insufficient to meet all wants.

Short run : the period of time during which it is not possible to change all inputs to production. Only some inputs, such as labour, can be changed.

Shortage : the situation in which quantity demanded is greater than quantity supplied.

Shutdown point : the point at which price equals the minimum of average variable cost.

Specialization : the situation in which a resource, such as labour, concentrates and develops efficiency at a particular task.

Specific tariff : a tax on inputs that is proportional to the number of units or items imported.

Tangency point : the only point in common for two curves, showing the point where the two curves just touch.

Average product of labour : the quantity produced divided by the amount of labour input.

Average variable cost (avc) : variable costs divided by the quantity produced.

An abnormal loss : an abnormal loss is where total revenue does not cover total cost. It is a situation where a firm is making below normal profits.

Average product of labor : the average product is the output per worker.

Economic rent : a surplus paid to any factor of production over its supply price. Economic rent is the difference between what a factor of production is earning (its return) and what it would need to be earning to keep it in its present use.

Economies of scale : a reduction in long run unit costs which arise from an increase in production. Economies of scale occur when larger firms are able to lower their unit costs.

Elasticity : elasticity indicates how one variable responds to a change in another variable.

Elasticity of demand : the elasticity of demand indicates the responsiveness of demand to a change in a determinate, for instance, price, price of other goods and income.

Elasticity of supply : the responsiveness of supply to a given change in price.

Factors of production : the factors of production are the resources that are necessary for production.

Imperfect competition : covers market structures between perfect competition and monopoly, i.e. An industry with barriers to entry and differentiated products.

Income elasticity of demand : this measures the responsiveness of demand to a given change in income.

Indifference curves : a curve which shows all the different combination of two goods where a consumer is indifferent.

Indifference map : a graph that shows a whole set of indifference curves. The further away a particular curve is from the origin then the higher the level of satisfaction it represents.

Inelastic : one variable is unresponsive to changes in another.

Labour market : this is made up of firms willing to employ workers and labour seeking employment. The demand for labour by firms is downward sloping with respect to wage (price of labour), while the supply of labour by households is upward sloping with respect to wage.

Marginal cost : the increase in total cost consequent upon a one unit increase in the production of a good.

Marginal product of labor : the addition to output made by each extra worker.

Marginal propensity to consume : the part of the last dollar of disposable income that would be spent on additional consumption.

Perfect competition : a market in which there are many buyers and sellers of products that are homogeneous. Buyers and sellers have full information about prices, and are price-takers.

Average revenue : total revenue divided by quantity.

Barriers to entry : anything that prevents firms from entering a market.

Bilateral monopoly : the situation in which there is one buyer and one seller in a market

Budget constraint : an income limitation on a person's expenditure on goods and services.

Budget line : a line showing the maximum combinations of two goods that is possible for a consumer to buy, given a budget constraint and the market prices of the two goods.

Allocative efficiency : allocative efficiency refers to the efficiency with which markets are allocating resources.

Average costs : the amount spent on producing each unit of output. The average cost is calculated by dividing the total level of cost by the level of output.

Average fixed cost : total fixed cost divided by output. The average fixed cost will decline as output increases.

Average total costs : the amount spent on producing each unit of output. The average cost is calculated by dividing the total level of cost by the level of output.

Cartel : a group of producers in the same industry who coordinate pricing and production decisions.

Collusion : agreements between firms to restrict competition.

Collusive oligopoly : when several large firms in an industry act to restrict price or output.

Demand curve : the demand curve is a graph which shows the amount of a good that consumers are willing and able to buy at various prices.

Diseconomies of scale : increases in long run costs which occur from an increase in the scale of production.

Marginal propensity to save : the part of the last dollar of disposable income that would be saved.

Normal good : a good for which demand increases when income rises and decreases when income falls.

Oligopoly : an industry characterized by few firms selling the same product with limited entry of other firms.

Payroll tax : a tax on wages and salaries paid by employers.

Perfectly elastic demand : demand for which the price elasticity is infinite, indicating an infinite response to a change in the price and therefore a horizontal demand curve.

Price-taker : any firm that takes the market price as given. This firm cannot affect the market price because the market is competitive.

Principle of diminishing marginal utility : the proposition that the satisfaction derived from consuming an additional unit of a good or service declines as additional units are acquired.

Slope : it refers to a curve and is defined as the change in the variable on the vertical axis divided by the change in the variable on the horizontal axis.

Utility maximization : an assumption that people try to achieve the highest level of utility given their budget constraint.

Variable costs : costs of production that vary with the quantity of production.

Marginal revenue : the addition to total revenue resulting from the sale of one additional unit of output.

Marginal revenue product : the change in total revenue that results from employing one more unit of a factor.

Market demand : the relationship between the total quantity of a good demanded and its price.

Market failure : instances of a free market being unable to achieve an optimum allocation of resources.

Marginal utility : the satisfaction gained from the consumption of one extra unit of a good.

Microeconomics : the study of the individual parts of the economy, the household and the firm, how prices are determined and how prices determine the production, distribution and use of goods and services.

Minimum wage : a wage per hour below which it is illegal to pay workers.

Monetary policy : the use of the central bank's power to control the domestic money supply to influence the supply of credit, interest rates and ultimately the level of real economic activity.

Money : anything generally acceptable in exchange. Money serves a number of functions: it is a medium of exchange, it is used as a unit of account, and it can be used as a store of value.

Monopolistic competition : a market situation in which one or more firms may be capable of influencing the price of the product. It is characterized by product differentiation, often established through advertising.

Monopoly : strictly defined as a market situation in which there is a single supplier of a good or service, but often used to suggest any situation in which a firm has considerable power over market price.

Monopsony : a situation in which there is a single buyer of a particular good or service in a given market.

Monopolistic firm : a firm which is the sole buyer of a good or service, most likely of labor in a particular market.

Natural monopoly : a single firm in an industry in which average total cost is declining over the entire range of production and the minimum efficient scale is larger than the size of the market.

Negative externality : the situation in which costs spill over onto someone not involved in producing or consuming the good.

Negative slope : a slope of a curve that is less than zero, representing a negative or inverse relationship between two variables.

Natural rate of unemployment : the rate of unemployment that would exist when the economy is operating at full capacity. It would be equal to the amount of frictional unemployment in the system.