Subject specific vocabulary

The following subject specific vocabulary provides definitions of key terms used in our GCSE Economics 8136 specification.

Your students should be familiar with, and gain understanding from all these terms.

Average revenue

Average income from the sales of each individual good (total revenue/quantity).

Appreciation

When the value of one currency rises in value to another.

Balance of payments

A record of all financial transactions between the UK and the rest of the world.

Balance of payments (current account) deficit

When the value of the UK's exports of goods and services are less than the value of imported goods and services. X > M.

Balance of payments (current account) surplus

When the UK's exports of goods and services are greater than the values of imported goods and services. X > M.

Balance of trade

The part of the current account that records the sales and purchase of physical items between the UK and the rest of the world.

Barriers to entry

Circumstances that could prevent a firm from successfully joining a market (selling a particular good or service).

Base rate

The interest rate set by the bank of England that influences market interest rates.

Budget deficit

When government spending is greater than tax revenue (spending > tax).

Budget surplus

When government tax revenue exceeds expenditure (tax > spending).

Building societies

A financial institution which is entirely owned by its members. It offers banking and other financial services to these members.

Capital

The machinery and tools used in the creation of goods and services. This could include a factory or a coffee machine. The payment for capital is interest. (This is usually because it is purchased using borrowed money.)

Claimant account

Measures unemployment by the number of individuals claiming unemployment benefit that week.

Commercial banks (also known as high street or retail banks)

These look to make profits by selling financial services to households and businesses.

Competitive market

A market where a wide variety of producers are competing with each other to supply goods and services.

Complimentary goods

Two goods which are often consumed together. Examples could include strawberries and cream or milk and cereal.

Consumers

A person who purchase goods and services for personal use.

Consumer price index (CPI)

Measuring inflation by taking the average weighted price level of a basket of goods and comparing it between years.

Cost push inflation

When inflation is caused by an increase in the costs of production. For example, an increase in wages or the cost of raw materials.

Current account

The part of the balance of payments which records the exchange of goods and services between the UK and the rest of the world.

Cyclical unemployment (often called demand deficient unemployment)

Unemployment caused by a lack of demand for goods and services (the economy is in a recession or slump).

Deferred payment

Agreement between the lender and borrower allowing the borrower to pay for goods immediately and make payments in the future.

Demand

The quantity of a good or service that consumers are willing and able to buy at a given price and a given time period.

Demand curve

A curve showing the quantity demanded for a good or service at any given price level.

Demand pull inflation

When inflation is caused by an increase in demand for goods and services within an economy (this often occurs during a recovery or boom stages of the economic cycle).

De-merit goods

Goods which are worse for the consumer than they perceive and so are over consumed by the market. An example of this would be consumption of fatty and sugary foods.

Depreciation

When the value of one currency falls in value to another.

Deregulation

The removal of regulations or restrictions on a particular business or industry.

Developed countries

A country with a relatively high level of economic growth and mature institutions and infrastructure.

Direct taxation

Taxes based on income such as income tax or national insurance contributions.

Diseconomies of scale

Where an increase in a firm's output results in an increase in its average costs.

Division of labour

When production of a good or service is split into a number of smaller tasks and employees then specialise in completing each of these tasks with the intention of increasing productivity.

Economic activity

The making, producing, buying, selling or consuming products or services.

Economic resource

Resources which are scarce. Due to them being limited decisions will have to be made about how they are used within an economy.

Economies of scale

Where an increase in a firm's output results in a fall in average costs. Note there is not requirement for students to know the relevant diagram for Economies of scale but teachers may choose to use this in order to aid teaching.

Enterprise/entrepreneurship

Individuals who take the factors of production and convert them into goods and services which can be sold for profit. The payment for enterprise is profit.

Equilibrium price

When demand for a good or service is equal to supply. When a market is in equilibrium then the price is likely to be stable.

EU single market

Refers to the European Union (EU) as one territory without any internal borders or other regulatory obstacles to the free movement of goods and services.

Excess demand

Where quantity demanded of a good or service exceeds supply, resulting in shortages and higher prices.

Excess supply

Where quantity supplied of a good or service exceeds demand, resulting in shortages and higher prices.

Exchange

Where buyers and sellers come together in a market place to negotiate prices.

Exchanges rates

The value of a currency in terms of another. For example, £1 = $1.2

Exports

Goods which are produced within a country and then sold abroad.

Factor markets

The market for the factors of production; land, labour and capital.

Financial economies of scale

Firms being able to take advantage of lower interest rates as a result of their increased size. (Large firms can often borrow at a lower interest rate than smaller firms as they are considered a lower risk for lenders.)

Fiscal policy

The use of government spending and taxation in order to influences the level of demand within the Economy.

Fixed costs

Costs which do not change with output for example rent for a shop would be the same regardless of how many shoes it sold over the course of the month.

Free trade

Trade that takes place without tariffs or other barriers.

Frictional unemployment

This is caused by imperfect information where workers are unable to find work for their skill set.

Full employment

When all those who are fit, able and willing to work in the next two weeks are employed.

Geographical immobility

When workers are unable to move to new locations for work.

Globalisation

The process of growing economic integration between the world's economies. Goods can be produced anywhere, sold anywhere and the profits stored anywhere globally.

Goods

Tangible or physical products.

Government

The organisation regulating consumers and producers.

Government intervention

When government attempts to influence markets in order to correct market failure.

Government provision

Where the government choses to provide a good or service for free. For example, healthcare in the UK.

Gross domestic product

The value of all goods and services produced within an economy within one year

Gross domestic product per capita

The value of goods and services produced within and an economy within one year divided by the country's population.

RGDP = RGDP per capita
Population

Gross pay

The pay given to an employee before taxes are deducted. It is the sum of all pay.

Imports

Goods which are produced abroad and then purchased in this country.

Income inequality

An unequal distribution of income across the economy.

Incomes

A flow of money. These can be from salaries, interest of dividends.

Indirect taxation

Taxes on spending, examples of these would be excise duty and value added tax.

Inequality

The differences between those with higher levels of wealth/income and those with lower.

Inflation

The natural tendency for the average price level within the economy to rise over time.

Interest rates

The cost of money which are set via the base rate by the Monetary Policy Committee of the Bank of England. Also the reward for saving.

Interdependence

The reliance of countries on each other resulting from specialization and free trade.

Labour

The human elements involved in the production of goods and services. For example, a mechanic. The payment for labour is wages or salary.

Labour force survey

A survey conducted in order to measure unemployment. It asks if individuals without work, actively seeking work and would be available to start in the next two week.

Land

The natural resources available to an economy. It includes both the physical space which production may take place on (such as the site of a factory) or the resources that come from the land such as Timber or coal. The payment for land is rent.

Less developed countries

A country that has lower economic growth and income and weaker institutions and infrastructure.

Managerial economies of scale

Firms benefiting from greater use of division of labour and specialisation with managers employed to increase the efficiency of each stage (or department) within the production process.

Markets

A place where consumers and producers meet to exchanges goods and services. Buys and sellers will interact with each other in order to establish the price of goods and services. It does not need to be a physical location.

Market failure

Where the market system fails to allocate resources efficiently.

Market structures

How markets operate to enable buyers and sellers to come together.

Medium of exchange

Usually money that is used to exchange goods and services.

Merits goods

Goods which are better for then consumer than they perceive and so there is under consumption within the market. An example of this would be eating health food or exercise.

Misallocation of resources

When there is an incorrect resource allocation to the creation of a good or service that results in welfare loss to society.

Monetary policy

The use of interest rates and other monetary tools to influence the level of demand within and economy.

Money

An asset that can be used as a medium of exchange.

Monopoly

Where a single firm dominates the market. A firm is said to have a legal monopoly if it has more than 25% of the market share.

Multinational companies

Have operations in at least one country other than its home country.

Needs

A need is an item which is essential for survival. For example, water or food.

Negative externality

A cost to a third party outside of an economic transaction. For example, the cost of cleaning up rubbish outside of a fast food restaurant would not be paid by the customer (creating the litter) or the restaurant (selling the produce).

Net pay

The pay given to an individual after tax has been deducted.

It is calculated by: gross pay - tax

Occupational immobility

Where workers are unable or unwilling to develop the skills to switch to a new industry to find employment.

Oligopoly

Where a small number of firms dominate the market.

Opportunity cost

The next best alternative foregone when an economic decision is made. For example if you choose to buy an apple you may not have enough money to buy a banana. The opportunity cost of buying the apple is not buying the banana.

Positive externality

A benefit to a third party outside of an economic transaction. For example, a pensioner pays for a gardener to maintain their front garden. The neighbours have the benefit of enjoying the flowers that grow. This is a benefit to them that they do not pay for.

Price elastic demand

PED greater than -1. This means that the % change in quantity sold will be greater than the percentage change in price.

Price elastic supply (PES)

Goods which have a PES value of 1 or greater are consider to have price elastic supply. The % change in price will be less than the % change in quantity.

Price elasticity of demand (PED)

How responsive a quantity sold is to a change in the price of that good. It is calculated by:

% change in quantity sold
% change in price

Price elasticity of supply

How responsive a quantity supplied is to a change in price. It is calculated by:

% change in quantity supplied
% change in price

Price inelastic demand

A PED value between 0 and -1. This means that the % change in price will be greater than the % change in quantity.

Price inelastic supply

Price inelasticity supply means that the % change in price will be greater than the % change in quantity supplied. It will have a value of between 0 and 1.

Price stability

Where inflation is within the government's target of 1% to 3%.

Primary sector

The sector of the economy which focuses on the extraction of raw materials such as coal or timber.

Private benefit

The benefit to a consumer of using a good.

Private costs

The cost to the producer or the consumer of the creation and consumption of a good.

Privatisation

The process of transferring public sector organisations to the private sector.

Producer

A person or company that supplies goods or services for sale.

Product differentiation

How firms make a product or service different to those of its competitors.

Product markets

The market for final goods and services.

Production

The processes used to convert inputs into goods or services.

Productivity

<u>Output</u>
Input

This could be used to measure the output in relation to the number of workers that a firm employed in a given time period (boxes made/workers employed).

Profits

Profit: total revenue – total costs = profit

Profit is the reward for entrepreneurship.

Progressive taxation

Taxation which increases as a proportion of the citizens total income as their income increases. Regressive tax.

Purchasing economies of scale

Using bulk discounts and increased purchasing power to reduce costs as output increases.

Rate of inflation

The increase in the average price level within the economy expressed as a % rate.

Real gross domestic product

The value of all goods and services produced within an economy within one year taking into account inflation.

Revenue

The inflow of cash from the sale of a product. It is calculated by: price x quantity.

Risk bearing economies of scale

Larger firms can reduce the risks that they carry by selling variety of goods or selling to a variety of markets (perhaps internationally). This makes them less vulnerable to changes in demand and supply.

Scarcity

Scarce means limited. As resources in economics are often limited decisions must be made by economic agents on how they are used.

Seasonal unemployment

Unemployment caused by changes in the demand for seasonal workers.

Secondary sector

The sector of the economy which focuses on turning raw materials into finished products.

Services

Intangible or none physical products which are bought and sold.

Social benefit

The benefit to society of a good being created and consumed. This includes the private benefit and the external benefit.

Social costs

The costs to society of producing a good. It includes the private costs and the external costs.

Specialisation

When a person, business or country focuses on the production of a limited number of products or focuses on a small number of tasks in order to gain greater efficiency.

Store of value

The function of an asset that can be saved, retrieved and exchanged at a later time.

Substitute goods

Goods or services that can be used to replace one another.

Supply

The amount of a product that firms are willing to produce and sell at a particular price during a specific time period.

Supply curve

A curve showing the amount of a good that a firm with willing to supply at any given price level.

Supply-side policies

Government policies used to enable an increase the supply of goods and services within the economy.

Sustainability

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Sustainable economic growth

Economic growth that does not compromise the economic growth of future generations.

Structural unemployment

Unemployment that is caused by changes in the structure of an economy. It means that the skills which workers possess are no longer in demand.

Technical economies of scale

Cost saving generated through changes in the productive process' as the scale of production and output increase. These could include better technology and capital being more cost effective as output increases.

Tertiary sector

The sector of the economy focused on providing services or none tangible goods.

The Bank of England

The institution that implements monetary policy on behalf of the government.

The basic economic problem

How best to satisfy unlimited wants with only limited resources.

The financial sector

Firms that provide financial services to customers, these include banks and insurance companies.

The current account on the balance of payments

The record of all of a countries exports and imports of goods and services with the rest of the world.

Total costs

The sum of all costs for the business (fixed + variable costs).

Total revenue

The sum of all revenue coming into the business.

Trade unions

An organised association of workers formed to protect and further their rights and welfare.

Unit of account

Unit by which value of a good or service is accounted and compared.

Unemployment

Those who are willing, able and activity seeking work but are without employment in the next two weeks.

Variable costs

Cost which change with output. For example, a shoe producer would have to spend more on shoe boxes and leather for every shoe sold.

Wants

Items which are desirable but not essential. For example, a television.

Wealth

A stock of money these can include cash in a bank account or valuable assets such as a house.

Wealth inequality

An unequal distribution of assets across the economy.

World Trade Organisation (WTO)

Deals with the global rules of trade between nations. Its main function is to ensure that trade flows smoothly, predictably and freely as possible.