

Key Term Glossary

Ability to pay	Where taxes should be set according to how well a person can afford to pay
Ad valorem tax	An indirect tax based on a percentage of the sales price of a good or service
Adam Smith	One of the founding fathers of modern economics. His most famous work was the Wealth of Nations (1776) - a study of the progress of nations where people act according to their own self-interest - which improves the public good. Smith's discussion of the advantages of division of labour remains a potent idea
Adverse selection	Where the expected value of a transaction is known more accurately by the buyer or the seller due to an asymmetry of information; e.g. health insurance
Air passenger duty	APD is a charge on air travel from UK airports. The level of APD depends on the country to which an airline passenger is flying.
Alcohol duties	Excise duties on alcohol are a form of indirect tax and are chargeable on beer, wine and spirits according to their volume and/or alcoholic content
Alienation	A sociological term to describe the estrangement many workers feel from their work, which may reduce their motivation and productivity. It is sometimes argued that alienation is a result of the division of labour because workers are not involved with the satisfaction of producing a finished product, and do not feel part of a team.
Allocative efficiency	Allocative efficiency occurs when the value that consumers place on a good or service (reflected in the price they are willing and able to pay) equals the cost of the resources used up in production (technical definition: price equals marginal cost). Scarce resources are allocated optimally.
Asking price	The price at which a security, commodity or currency is offered for sale on the market - generally the lowest price the seller will accept
Asymmetric information	When somebody knows more than somebody else in the market. Such asymmetric information can make it difficult for the two people to do business together
Automation	Production technique that uses capital machinery / technology to replace or enhance human labour and bring about a rise in productivity
Average cost	Total cost divided by the number of units of the commodity produced
Average fixed cost	Average fixed costs are total fixed costs divided by the number of units of output, that is, fixed cost per unit of output
Barriers to entry	Factors making it expensive for new firms to enter a market. Examples include the effect of patents; brand loyalty among consumers; the high costs of buying capital equipment and the need to win licences to operate in certain markets
Barter	The practice of exchanging one good or service for another, without using money
Basic problem	There are infinite wants but finite (scarce) resources with which to satisfy them
Behavioural economics	Branch of economics that studies the impact of psychological and social factors on economic decision making
Black market	An illegal market in which the market price is higher than a legally imposed price ceiling. Black markets can develop where there is excess demand for a commodity
Bottlenecks	Any factor that causes production to be delayed or stopped – this may reduce the price elasticity of supply of a product

Key Term Glossary

Buffer stock	Buffer stock schemes seek to stabilize the market price of agricultural products by buying up supplies of the product when harvests are plentiful and selling stocks of the product onto the market when supplies are low
Bulk-buying	The purchase by one organisation of large quantities of a product or raw material, which often results in a lower price because of their market power and because it is cheaper to deal with one customer and the deliveries can be on a larger scale.
Buyer's market	A market that favours buyers because supply is plentiful relative to demand and therefore prices are relatively low. The opposite of a seller's market
By-product	Something produced as a consequence of producing another good or service
Capacity utilisation	The extent to which a business is making full use of existing factor resources e.g. 80% capacity utilisation means that 20% of capacity is not being used (spare)
Capital goods	Producer or capital goods such as plant (factories) and machinery and equipment are useful not in themselves but for the goods and services they can help produce in the future.
Capital-intensive	A production technique which uses a high proportion of capital to labour
Capitalist economy	Economic system organised along capitalist lines uses market prices to guide our choices about the production and distribution of goods. One key role for the state is to maintain the rule of law and protect private property
Carbon capture and storage	The process of trapping and storing carbon dioxide produced by burning fossil fuels
Carbon credits	An allowance to a business to generate a specific level of emissions – may be traded in a carbon market
Cartel	A cartel is a formal agreement among firms. Cartel members may agree on prices, total industry output, market shares, allocation of customers, allocation of territories, bid rigging, establishment of common sales agencies, and the division of profits or combination of these. Cartels are illegal under UK and European competition laws
Ceteris paribus	To simplify analysis, economists isolate the relationship between two variables by assuming ceteris paribus - all other influencing factors are held constant
Cigarette duties	UK taxes on cigarettes = 16.5% retail price + £154.95 per thousand cigarettes.
Collusion	Collusion is any agreement between suppliers in a market to avoid competition. The main aim is to reduce market uncertainty and achieve a level of joint profits similar to that which might be achieved by a pure monopolist
Command and control	Laws and regulation backed up by inspection and penalties for non-compliance e.g. regulations on carbon emissions
Command economy	Economic system where resources are allocated by the government
Common resources	Goods or services that have characteristics of rivalry in consumption and non-excludability - grazing land or fish stocks are examples. The over-exploitation of common resources can lead to the "tragedy of the commons"
Competition policy	Government policy directed at encouraging competition in the private sector: e.g. the investigation of takeovers or restrictive practices

Key Term Glossary

Competitive market	A market where no single firm has a dominant position and where the consumer has plenty of choice. There are few barriers to the entry of new firms
Competitive supply	Alternative products a firm could make with its resources. E.g. a farmer can plant potatoes or carrots. An electronics factory can produce VCRs or DVDs
Complements	Two complements are said to be in joint demand
Composite demand	Where goods or services have more than one use so that an increase in the demand for one product leads to a fall in supply of the other. E.g. milk which can be used for cheese, yoghurts, cream, butter. If more milk is used for manufacturing cheese, ceteris paribus there is less available for butter
Congestion charging	A direct charge for use of roads in a defined zone e.g. central London
Conspicuous consumption	Conspicuous consumption is consumption designed to impress others rather than something that is wanted for its own sake
Constraints	Limits to what we can afford to consume – we have to operate within budgets, and make choices from those sets that are feasible/affordable
Consumer durable	A good such as a washing machine or a digital camera that lasts a period of time, during which the consumer can continue getting utility from it
Consumer sovereignty	Consumer sovereignty exists when the economic system allows scarce resources to be allocated to producing goods and services that reflect the wishes of consumers. Sovereignty can be distorted by the effects of persuasive advertising
Consumer surplus	Consumer surplus is the difference between the total amount that consumers are willing and able to pay for a good or service (indicated by the demand curve) and the total amount that they actually pay (the market price)
Consumption	The act of buying and using goods and services to satisfy wants
Contestable market	Market with no entry barriers - firms can enter or leave without significant cost
Cost Benefit Analysis	CBA is a decision making tool which compares the social costs and social benefits of a project, over time, to establish a net present value
Costs	Costs faced by a business when producing a good or service for a market
Cross price elasticity of demand	Responsiveness of demand for good X following a change in the price of good Y (a related good). With cross price elasticity we make a distinction between substitute products and complementary goods and services
Cyclical demand	Demand that change in a regular way over time depending on the part of the economic (business) cycle that a country is in or the time of year
Deadweight loss	The loss in producer and consumer surplus due to an inefficient level of production perhaps resulting from market failure or government failure
Demand	Quantity of a good or service that consumers are willing and able to buy at a given price in a given time period
Demand curve	A demand curve shows the relationship between the price of an item and the quantity demanded over a period of time. For normal goods, more of a product will be demanded as the price falls
De-merit goods	The consumption of de-merit goods can lead to negative externalities which causes a fall in social welfare. The government normally seeks to reduce consumption of de-

AS Economics: Microeconomics

Key Term Glossary

	merit goods. Consumers may be unaware of the negative externalities that these goods create - they have imperfect information
Deregulation	The removal of legally enforced rules that restrict or ban specified activities
Derived demand	Derived demand occurs when the demand for a particular product depends on the demand for another product or activity
Diminishing returns	As more of a variable factor (e.g. labour) is added to a fixed factor (e.g. capital) a firm will reach a point where it has a disproportionate quantity of labour to capital and so the marginal product of labour will fall, thus raising marginal costs
Diseconomies of scale	Disadvantages to the firm, in the form of higher long-run unit costs, from increasing their size of operation
Disequilibrium	A situation where there is a state of imbalance and so a tendency for change
Diversification	The reduction of risk achieved by replacing a single risk with a larger number of smaller unrelated risks
Division of labour	The specialization of labour in specific tasks, intended to increase productivity
Dominant monopoly	A firm with 40% or higher market share
Economic agents	Decision makers e.g. consumers and producers
Economic efficiency	Economic efficiency is about making the best or optimum use of scarce resources among competing ends so that economic and social welfare is maximised over time
Economic growth	An increase in the productive potential of the country – shown by an outward shift of the production possibility frontier
Economy of scale	Benefits, in the form of lower unit costs, from increasing the size of operation.
Economy of scope	Economies of scope occur where it is cheaper to produce a range of products
Effective demand	Demand in economics must be effective. Only when a consumers' desire to buy a product is backed up by an ability to pay for it do we speak of demand
Elastic demand	Demand for which price elasticity is greater than 1
Elastic supply	Where the price elasticity of supply is greater than +1
Elasticity of supply	Price elasticity of supply measures the relationship between change in quantity supplied and a change in price
Emission tax	A charge made to firms that pollute the environment based on the quantity of pollution they emit i.e. the volume of CO2 emissions
Entrepreneur	An individual who seeks to supply products to a market for a rate of return (i.e. a profit). Entrepreneurs will usually invest their own financial capital in a business and take on the risks associated with a business investment.
Equilibrium	Equilibrium means 'at rest' or 'a state of balance' - i.e. a situation where there is no tendency for change. The concept is used in microeconomics (e.g. equilibrium prices) and in macroeconomics (e.g. national income or GDP)
Equity	Fairness; a view on the 'rightness' of an issue based on opinion rather than fact - requires a value judgement
Excess demand	The difference between the quantity supplied and the higher quantity demanded when price is set below the equilibrium price. This will result in queuing and an upward

Key Term Glossary

	pressure on price
Excess supply	When supply is greater than demand and there are unsold goods in the market. Surpluses put downward pressure on the market price
Excise duties	Excise duties are indirect taxes levied on our spending on goods and services such as cigarettes, fuel and alcohol. There are also duties on air travel, car insurance
Excludability	The property of a good whereby a person can be prevented from using it
External cost	External costs are those costs faced by a third party for which no appropriate compensation is forthcoming
Externalities	Externalities are third party effects arising from production and consumption of goods and services for which no appropriate compensation is paid
Extreme poverty	A severe and persistent deprivation of basic human needs
Factor incomes	Factor incomes are the rewards to factors of production. Labour receives wages and salaries, land earns rent, capital earns interest and enterprise earns profit
Finite resources	There are only a finite number of workers, machines, acres of land and reserves of oil and other natural resources. By producing more for an ever-increasing population, we may destroy the natural resources of the planet
Firm	An organisation that hires and organises resources to make products
First mover advantage	The first company to introduce a new product to market, has the opportunity to extract the greatest long term benefit from the product introduction
Fixed costs	Costs that do not vary directly with the level of output. Examples of fixed costs include: rent and business rates, the depreciation in the value of capital equipment (plant and machinery) due to age and marketing and advertising costs
Flexible pricing	A firm varies price by customer to maximise revenue.
Flexible working	A workforce that is multi-skilled and able to work variable hours in response to changing demand
Free market	In a free market, the forces of supply and demand alone determine price and output without any government intervention. Free markets are totally unregulated
Freemium	A business model, especially on the Internet, whereby basic services are provided free of charge while more advanced (premium) features must be paid for
Geographical immobility	People may also experience geographical immobility – meaning that there are barriers to them moving from one area to another to find work
Gini Coefficient	The Gini coefficient measures the extent to which the distribution of income (or consumption expenditures) among individuals or households within an economy deviates from a perfectly equal distribution. The coefficient ranges from 0 - meaning perfect equality - to 1- meaning complete inequality
Globalisation	A process by which economies and cultures have been drawn together through a global network of trade, investment, capital flows, and rapid spread of technology
Goods	Tangible, physical products e.g. cars and computers
Government failure	Policies that cause a deeper market failure. Government failure may range from the trivial, when intervention is merely ineffective, to cases where intervention produces new and more serious problems that did not exist before

Key Term Glossary

Government spending	Government spending is by central and local government on goods and services
Health rationing	Health rationing occurs when the demand for health care services outstrips the available resources leading to waiting lists and delays for health treatment
Hedging	The process of protecting oneself against risk. For example, a company who owes money to an overseas company may want to hedge against the risk that the exchange rate moves against them. They could do this by taking out a future contract for the purchase of foreign exchange at a fixed future rate
Horizontal equity	Horizontal equity requires equals to be treated equally e.g. people in the same income group should be taxed at the same percentage rate
Horizontal integration	Where two firms join at the same stage of production in one industry. For example two car manufacturers may decide to merge
Incentives	Incentives matter! For competitive markets to work efficiently economic agents (i.e. consumers and producers) must respond to price signals in the market
Incidence of a tax	How the final burden of a tax is shared out. If demand for a good is elastic and a tax is imposed then the tax will fall mainly on the producer as they will be unable to put prices up without losing a lot of demand
Income	Income represents a flow of earnings from using factors of production to generate an output of goods and services. For example wages and salaries.
Income elasticity of demand	Measures the relationship between a change in quantity demanded and a change in real income. The formula for income elasticity is: percentage change in quantity demanded divided by the percentage change in income
Income gap	A measure of the gap between the incomes of various groups shown by plotting the average incomes of the between the lowest and highest decile (10% grouping)
Incumbent firm	An incumbent is a business already operating in and established in a market
Independent goods	Two products that have no price-quantity demanded relationship: $XED=0$
Indirect tax	An indirect tax is imposed on producers (suppliers) by the government. Examples include excise duties on cigarettes, alcohol and fuel and also value added tax
Inefficiency	When the best use of resources is not being made
Inelastic demand	When the co-efficient of price elasticity of demand is less than 1
Inelastic supply	When the co-efficient of price elasticity of supply is less than +1
Inferior good	When demand for a product falls as real incomes increases
Information failure	Information failure occurs when people have inaccurate, incomplete, uncertain or misunderstood data and so make potentially 'wrong' choices
Infrastructure	The stock of capital used to support the economic system
Innovation	The commercial development of exploiting new or improved products
Inputs	Labour, capital and other resources used in production
Intellectual property	Legal property rights over creations of the mind, both artistic and commercial, and the corresponding fields of law. Common types of intellectual property include copyrights, trademarks, patents, and trade secrets

AS Economics: Microeconomics

Key Term Glossary

Internalised	Internalising is where any spill-over effects from economic activity are absorbed by the consumer or firm themselves. This may arise for example, where a pollution tax has been charged on the good that makes them pay the external costs themselves
Inventories	Unsold products, finished & unfinished, and raw materials used to make them
Invisible hand	Adam Smith described how the invisible or hidden hand of the market operated in a competitive market through the pursuit of self-interest to allocate resources in society's best interest
Joint supply	Joint supply describes a situation where an increase or decrease in the supply of one good leads to an increase or decrease in supply of another by-product e.g. a contraction in supply of lamb will reduce the supply of wool
Just in time	Production that produces goods to order and where businesses hold few stocks
Land	Quantity and quality of natural resources available in an economy
Latent demand	Latent demand exists when there is willingness to purchase a good or service, but where the consumer lacks the purchasing power to afford the product
Law of demand	The law of demand is that there is an inverse relationship between the price of a good and demand
Living Wage	The living wage is an hourly rate of pay set annually by reference to the basic cost of living in the UK and London. Unlike the National Minimum Wage, employers may choose to pay the living wage on a voluntary basis.
Local monopoly	A monopoly limited to a specific geographical area
Long run	The time period when firms can adjust all factors used in production
Manufacturing	Manufacturing is the use of machines, tools and labour to make things for use or sale. The term may refer to a range of human activity, from handicraft to high tech, but is most commonly applied to industrial production, in which raw materials are transformed into finished goods on a large scale
Marginal benefit	Additional benefits received by those consuming or producing one extra product
Marginal cost	Marginal cost is defined as the change in total costs resulting from increasing output by one unit. Marginal costs relate to variable costs only
Marginal revenue	The increase in revenue resulting from an additional unit of output
Market equilibrium	Equilibrium means a state of equality between demand and supply. Without a shift in demand and/or supply there will be no change in market price. Prices where demand and supply are out of balance are termed points of disequilibrium
Market failure	Market failure exists when the competitive outcome of markets is not efficient from the point of view of the economy as a whole. This is usually because the benefits that the market confers on individuals or firms carrying out a particular activity diverge from the benefits to society as a whole
Market incentives	Market signals that motivate economic actors to change their behaviour (perhaps in the direction of greater economic efficiency)
Market power	Market power refers to the ability of a firm to influence or control the terms and condition on which goods are bought and sold. Monopolies can influence price by varying their output because consumers have limited choice of rival products

Key Term Glossary

Market shortage	Where demand exceeds supply at a given price
Market supply	Market supply is the total amount of an item producers are willing and able to sell at different prices, over a given period of time e.g. one month. Industry, a market supply curve is the horizontal summation of all each individual firm's supply curves
Maximum price	A legally-imposed maximum price in a market that suppliers cannot exceed. To be effective a maximum price has to be set below the free market price
Merit good	A product that society values and judges that everyone should have regardless of whether an individual wants them. In this sense, the government (or state) is acting paternally in providing merit goods and services
Minimum price	A legally imposed price floor below which the normal market price cannot fall. To be effective the minimum price has to be set above the normal equilibrium price. A good example of this is minimum wage
Mixed economy	Where resources are partly allocated by the market and partly by the government
Mixed goods	Products that have the characteristics of both private and public goods
Monopoly	A single seller of a product in a given market or industry
Moral hazard	When people take actions that increase social costs because they are insured against private loss: sometimes it is called hidden action due to the agent's actions being hidden from the principal
Nationalisation	The transfer of ownership of a firm from the private to public sector
Needs	Humans have many different types of wants and needs e.g.: economic, social and psychological. A need is essential for survival e.g. food satisfies hungry people. A want is something desirable but not essential to survival e.g. cola quenches thirst
Negative externality	Negative externalities occur when production and/or consumption impose external costs on third parties outside of the market for which no appropriate compensation is paid. This causes social costs to exceed private costs
Niche market	A specialist section of a larger market e.g. hand-made chocolates
Non price competition	Competing not on the basis of price but by other means, such as the quality of the product, packaging, customer service
Non-renewable resources	Non-renewable resources are resources which are finite and cannot be replaced. Minerals, fossil fuels and so on are all non-renewable resources
Non-rival consumption	Non-rivalry means that the consumption of a good by one person does not reduce the amount available for others
Normal goods	Normal goods have a positive income elasticity of demand. Necessities have an income elasticity of demand of between 0 and +1. Luxuries have income elasticity $> +1$ demand rises more than proportionate to a change in income
Normative statements	Normative statements express an opinion about what ought to be. They are subjective statements - i.e. they carry value judgments
Objectives	A specific target an organisation sets itself to achieve through its activity
Office of Fair Trading	A government agency responsible UK competition policy i.e. making markets work well for consumers

AS Economics: Microeconomics

Key Term Glossary

Off-peak pricing	Charging lower prices outside periods of intensive use
Oligopoly	A market dominated by a few large suppliers. Market concentration is high with typically the leading five firms taking over sixty per cent of total market sales
Opportunity cost	The cost of any choice in terms of the next best alternative foregone.
Optimum output	An efficient level of output which delivers both productive and allocative efficiency
Ostentatious consumption	Some goods are luxurious items where satisfaction comes from knowing both the price of the good and being able to flaunt consumption of it to other people
Out-sourcing	Subcontracting a process, such as design or manufacturing, to another company
Overhead costs	Business costs—such as rent and utilities—that don't directly relate to the production or sale of goods and services
Pareto efficiency	In neoclassical economics, an action done in an economy that harms no one and helps at least one person. A situation is Pareto efficient if the only way to make one person better off is to make another person worse off
Pareto efficiency	When resources cannot be reallocated without making someone else worse off
Paywall	Where access is restricted to users who have paid to subscribe to a website
Peak pricing	When a business raises prices at a time when demand is strongest
Penetration pricing	Where a firm choose to set a low price to gain market share / brand recognition
Persuasive advertising	Manipulating consumer preferences and cause a change in demand
Perverse demand curve	A demand curve which slopes upwards from left to right. An increase in price leads to an increase in demand. This may happen where goods are strongly affected by price expectations or in the case of Giffen goods
Planned economy	In a planned economy, decisions about what to produce, how much to produce and for whom are decided by central planners rather than using the price mechanism
Polluter pays principle	The government may choose to intervene in a market to ensure that the firms and consumers who create negative externalities include them when making decisions
Positional goods	Goods which are at least in part demanded because their possession or consumption implies social or other status of those acquiring them
Positive externalities	Positive externalities exist when third parties benefit from the spill-over effects of production/consumption e.g. the social returns from investment in education & training or the positive benefits from health care and medical research
Positive statement	Objective statements that can be tested or rejected by referring to the available evidence. Positive economics deals with objective explanation
Poverty trap	The poverty trap affects people on low incomes. It creates a disincentive to look for work or work longer hours because of the effects of the tax and benefits system
Preferences	Our tastes, likes, rankings reflected in the choices that people make in markets
Price elasticity of demand	Responsiveness of demand for a product following a change in its own price. Also called own price elasticity of demand.
Price elasticity of	Relationship between change in quantity supplied and a change in the price of a product

Key Term Glossary

supply	
Price mechanism	The means by which decisions of consumers and businesses interact to determine the allocation of resources between different goods and services
Price rigidity	Situation where the price of a product rarely changes
Price signals	Changes in price act as a signal about how resources should be allocated. A rise in price encourages producers to switch into making that good but encourages consumers to use an alternative substitute product (therefore rationing the product)
Private benefit	The rewards to individuals, firms or consumers from consuming or producing goods and services. Also known as internal benefits
Private cost	Costs of an economic activity to individuals and firms. Also known as internal costs
Private goods	Products which are both rival and excludable
Privatisation	Privatisation is where state owned firms are sold to the private sector
Producer surplus	The difference between what producers are willing and able to supply a good for and the price they actually receive
Production function	Relationship between a firm's output and the quantities of factor inputs it employs
Production possibility frontier	A boundary that shows the combinations of two or more goods and services that can be produced using all available factor resources efficiently
Productive efficiency	The output of productive efficiency occurs when a business in a given market or industry reaches the lowest point of its average cost curve implying an efficient use of scarce resources and a high level of factor productivity
Productivity	Efficiency = output per unit of input or output per person employed
Profit	Profits are made when total revenue exceeds total cost. Total profit = total revenue - total cost. Profit per unit supplied = price - average total cost
Property rights	Property rights confer legal control or ownership of a good. For markets to operate efficiently, property rights must be clearly defined and protected - perhaps through government legislation and regulation
Public bads	Public bads include environmental damage and global warming which affects everyone – no one is excluded from the dis-benefits
Public goods	Pure public goods are non-rival – consumption of the good by one person does not reduce the amount available for consumption by another person, and non-excludable – where it is not possible to provide a good or service to one person without it thereby being available for others to enjoy
Public ownership	Public ownership refers to state owned companies e.g. nationalised industries.
Public sector	Government organisations that provide goods and services in the economy - for example through state education and the national health service
Purchasing economies	Purchasing EOS arise when firms gain discounts from bulk buying
Quota	A quota is a limit on the quantity of a product can be supplied to a market
Rational choice	'Rational choice' involves the weighing up of costs and benefits and trying to maximise the surplus of benefits over costs

Key Term Glossary

Redistribution	Measures taken by government to transfer income from some individuals to others
Regressive tax	A tax is said to be regressive when low income earners pay a higher proportion of their income in tax than high income earners
Regulations	Regulations are legally enforced rules that restrict or ban specified activities
Regulator	A government agency that monitors the performance of firms in an industry such as OFCOM or the Office of Rail Regulation
Relative poverty	Relative poverty measures the extent to which a household's financial resources falls below an average income threshold for the economy
Road pricing	A direct charge to road users for their use of a particular road e.g. a motorway toll
Scarcity	Scarce means limited. There is only a limited amount of resources available to produce the unlimited amount of goods and services we desire
Self sufficiency	Where people meet their own wants and needs without producing a surplus to trade
Seller's market	A market where demand exceeds supply, allowing the sellers of a product to have greater control over prices, terms, etc. The opposite of a buyer's market
Shortage	A situation in which quantity demanded is greater than quantity supplied
Signalling	Prices have a signalling function because the price in a market sends important information to producers and consumers
Social benefit	The benefit of production or consumption of a product for society as a whole. Social benefit = private benefit + external benefit
Social cost	The cost of production or consumption of a product for society as a whole. Social cost = private cost + external cost
Social efficiency	The socially efficient output is where Marginal Social Cost (MSC) = Marginal Social Benefit. (MSB)
Social exclusion	When low income groups are denied access to goods and services normally available to members of society e.g. healthcare
Spare capacity	Where a firm or economy can produce more with existing resources. When there is plenty of spare capacity, elasticity of supply tends to be high
Specialisation	A method of production where a business or area focuses on the production of a limited scope of products or services to gain greater productive efficiency
Speculation	Speculation is the activity of buying a good or service in anticipation of a change in the price/market value e.g. currency or stock-market speculation
Spill-over effects	External effects of economic activity, which have an impact on outsiders who are not producing or consuming a product – these can be negative (creating external costs) or positive (creating external benefits)
Stakeholder conflict	When different stakeholders have incompatible objectives
Stakeholders	Groups who have an interest in the activity of a business e.g. shareholders, managers, employees, suppliers, customers, government, local communities. Stakeholders have different objectives e.g. owners want maximum profits, customers low prices and workers high wages and rising living standards
State provision	Government-provided good or services - funded through tax revenue, in order to

Key Term Glossary

	provide goods which have positive externalities or are public goods
Static efficiency	Efficiency occurring in a single time period i.e. efficiency now
Subsidy	Payment to suppliers that reduce their costs. The effect of a subsidy is to increase supply and therefore reduce the market equilibrium price
Substitutes	Goods in competitive demand and act as replacements for another product
Substitutes in production	A substitute in production is a product that could have been produced using the same resources. Take the example of barley. An increase in the price of wheat makes wheat growing more attractive
Substitution effect	When a price fall encourages consumers to buy more of a relatively lower priced product and less of a higher priced substitute
Supply	Quantity of a good or service that a producer is willing and able to supply onto the market at a given price in a given time period
Supply chain	Different stages of making, distributing and selling a good or service from the production of parts, through to distribution and sale of the product
Supply shock	An event that directly alters firms' costs and prices shifting the supply curve either to the right (lower costs) or left (higher costs). E.g. unexpected changes in the global prices of commodities such as oil, gas and metals
Technology	The application of knowledge to production
Time lags	Time lags occur in production, particularly in agriculture, when decisions about the quantity to be produced are made well ahead of the actual sale. Demand and the price may change in the interval, creating a problem for the producer
Total costs	Total Costs (TC) = total fixed costs + total variable costs
Total revenue	Total revenue (TR) is found by multiplying price (P) by the number of units sold (Q). $TR = P \times Q$
Tradeable permits	Government issued licences allowing firms to emit a specified amount of pollutant e.g. CO ₂ . Firms can buy and sell permits in a market.
Trade-off	The process of making a choice between alternatives e.g. deciding if is worth sacrificing a new car for a holiday
Tragedy of the Commons	When no one owns a resource, it gets over-used, for example fish stocks and deforestation - people use and benefit from it without regard to the effect on others
Value judgement	A view of the rightness or wrongness of something, based on a personal view.
Variable cost	Variable costs vary directly with output. I.e. as production rises, a firm will face higher total variable costs. Examples of variable costs include costs of raw materials, labour costs and consumables
Welfare loss	The excess of social cost over social benefit for a given output
Willingness to pay	The maximum price a consumer is prepared pay to obtain a product
Zero Hours Contracts	Under zero-hours contracts employees agree to be available for work as and when it is required