Glossary

A

Accounting profit: the total revenue of a firm less all its explicit costs.

Aggregate: a collection of specific economic units that are treated *as if* they were one unit.

Allocative efficiency: occurs when all available resources are devoted to the combination of goods most wanted by society.

Asset demand for money: the demand for money as a financial asset and store of wealth.

Average product: the total output of a particular good or service per unit of a resource employed.

Average revenue: the total revenue per unit of a product sold.

B

Barriers to entry: any obstacles that prevent the entry of firms into an industry.

Bartering: the exchange of one good or service for another good or service.

Bilateral monopoly: a market in which there is a single seller (pure monopoly) and only one buyer (pure monopsony).

C

Capital: all the manufactured aids to production used to produce goods and services and distribute them to the final consumer without directly satisfying human wants.

Cartels: groups of firms that agree either formally or informally to set prices and output levels of particular products among members.

Collusion: a type of formal or informal arrangement to coordinate pricing strategies or fix prices.

Commodity terms of trade: the rate at which one commodity can be exchanged for another expressed in physical units of each commodity.

Comparative advantage: the ability to produce a commodity at relatively low opportunity cost in terms of the amount of the alternative commodity forgone.

Complementary goods: goods that are used in conjunction with each other; there is an indirect relationship between the price of one good and the demand for another.

Concentration ratios: the percentage of total industry sales accounted for by a given number of the largest firms in each industry.

Consumption loss: a measure of the benefit lost to consumers through the imposition of industry protection that is not captured by other elements of society.

Contestable markets: markets where entry to and exit from the industry can be accomplished at low or very low cost.

Cost ratio: the rate, due to movements in resources between sectors, at which the production of additional units of one commodity reduces the production of another; the opportunity cost of production.

Cross-price elasticity of demand: a measure of how sensitive consumer purchases of one product are to a change in the price of some other product.

D

Deadweight loss: the reduction in the total level of welfare (or real incomes) across society imposed by industry protection.

Dependent variable: variable which changes as a consequence of a change in some other (independent) variable; the 'effect' or outcome.

Direct relationship: where the values of two related variables change in the same direction.

Distribution of income: the allocation of economic welfare between households, individuals, regions or nations.

Dynamic efficiency: the ability to develop the most efficient production techniques over time.

E

Economic costs: payments that are made to obtain and retain the services of a resource.

Economic discrimination: inferior treatment with respect to hiring, occupational access, promotion or wage rates of female or minority workers who have the same abilities, education, training and experience as workers from the dominant ethnic male group in the population.

Economic profit: the total revenue of a firm less all its economic costs (including the cost of entrepreneurial ability).

Economic rent: the price paid for the use of land and other natural resources that are completely fixed in total supply.

Economic resources: all the natural, human and manufactured resources that go into the production of goods and services.

Economics: is concerned with the efficient use of limited productive resources for the purpose of attaining the maximum satisfaction of our material wants.

Economies of scale: the forces that reduce the average cost of producing a product as the firm expands the size of its output in the long run.

Effective rate of assistance (ERA): the percentage increase in the value added per unit of output, brought about by the economy-wide structure of industry assistance.

Efficiency: the result of using or administering scarce resources to produce the maximum amount of desired goods and services, thereby achieving the greatest possible fulfilment of society's wants.

Elasticity of demand: the measure of how responsive consumers' demand quantity is to a change in the price of a product.

Entrepreneurial ability: the human resource which combines the other resources to produce a product, make non-routine decisions, innovate, and bear risk.

Excess capacity: when firms produce at a higher unit cost than minimum ATC at equilibrium.

Exclusion principle: when those who do not pay for a product are excluded from its benefits.

Explicit costs: monetary payments a firm makes to non-owners of the firm who are suppliers of labour, materials, fuel, transport services, etc.

F

Fixed costs: those costs that in total do not vary with changes in output.

Fixed resources: factors of production whose quantity cannot be increased or decreased during a particular period.

Free-rider problem: when people can receive benefits from the consumption of a good or service without contributing directly to its costs.

Full employment: the employment of all available resources.

Full production: the maximum amount of goods and services that can be produced from the employed resources of an economy.

G

Gains from trade: increases in consumption of goods and services allowed through the efficient allocation of resources and international exchange.

'Gentlemen's agreements': a form of collusion whereby groups of firms agree verbally to set prices and output levels of particular products among members; usually made in informal settings such as a golf course.

Gini coefficient: the ratio representing the area between the Lorenz curve and the line of perfect equality relative to the area between the vertical and horizontal axes and the line of perfect equality in the graph of the Lorenz curve.

I

Imperfect competition: a generic term sometimes used to designate all structures that deviate from the purely competitive market model.

Implicit costs: the monetary incomes a firm sacrifices when it employs a resource it owns to produce a product rather than supplying the resource in the market.

Import quotas: restrictions on the amount of foreign product imported over a specific period. A quota of zero indicates a complete prohibition of the importation of a product.

Income effect: the impact of a change in the price of a product on a consumer's real income (purchasing power), and the consequent impact on the quantity demanded of that product.

Independent goods: goods that are not related at all, so that a change in the price of one good will have negligible impact on the demand for the other.

Independent variable: variable which causes a change in some other (dependent) variable.

Inferior goods: commodities whose demand varies inversely with money income.

Interest rate: the price paid for the use of money. It is the amount of money (cents) paid for the use of one dollar for one year.

Inverse relationship: where the values of two related variables move in opposite directions.

Investment: the process of producing and accumulating capital goods.

K

Kinked demand curve: a demand curve for a non-collusive oligopolist based on the assumption that rivals will match price decreases and ignore price increases.

L

Labour: a broad term the economist uses for all human physical and mental talents (excluding entrepreneurial ability) that can be used in producing goods and services.

Labour- (land-, capital-) intensive commodity: a commodity in which the production process uses relatively large amounts of the labour (land, capital) resource compared with the average rate at which this resource is combined with others in the economy's production process.

Land: an economic resource which includes all the natural resources that go into the production of goods and services.

Law of demand: the inverse relationship between the price and the quantity demanded of a good or service during some period of time.

Law of diminishing marginal utility: marginal utility will decline as the consumer acquires additional units of a particular product.

Law of diminishing returns: as successive units of a variable resource are added to a fixed resource, eventually the marginal product attributable to each additional unit of the variable resource will decline.

Law of supply: the direct relationship between the price and the quantity supplied of a good or service during some period of time.

Long run: a period of time in which all necessary adjustments to factors of production can be made.

Long-run ATC curve: shows the lowest per-unit cost at which any output can be produced after the firm has had time to make all appropriate adjustments in its plant size.

Lorenz curve: a graphical depiction of the degree of income inequality in any society produced by plotting the cumulative share of household (or individual) incomes (or wealth) against their cumulative share in the population.

M

Macroeconomics: is concerned either with the economy as a whole or with the basic subdivisions or aggregates that make up the economy.

Marginal cost: the addition to total cost of the production of one additional unit of the product.

Marginal product: the additional output of a particular good or service resulting from the addition of an extra unit of a resource.

Marginal resource cost: the increase in total resource cost resulting from the use of one additional unit of input.

Marginal revenue: the additional revenue received resulting from the sale of an extra unit of output.

Marginal revenue product: the increase in total revenue resulting from the use of one additional unit of input.

Marginal utility: the extra amount of satisfaction an individual derives from consuming one additional unit of a specific good or service.

Market: a mechanism or arrangement that brings buyers ('demanders') and sellers ('suppliers') of a good or service in contact with one another.

Market period: a period of time in which producers of a product are unable to change the quantity produced in response to a change in its price.

Material wants: the desires of consumers to obtain and use various goods and services that give utility.

Maximin strategies: strategies chosen by players in a game to maximise their minimum expected payoff from the game.

Merger: the combining of two or more competing firms, with a resulting increase in size, market share and economic power.

Microeconomics: is concerned with *specific* economic units and a *detailed* consideration of the behaviour of these individual units.

Money: any item which is generally acceptable to buyers and sellers for facilitating the exchange of goods and services.

Monopsonistic competition: a market in which there are a relatively large number of buyers.

Monopsony: a market in which there is only one buyer of the product.

Mutual interdependence: the situation when the fate of one firm lies partially or wholly with the performance or decisions of other firms in the same industry.

N

Natural monopoly: monopoly that occurs where, due to the nature of technology required in the production process and the size of the market, MES extends beyond the market's size; occurs in industries whose technological and economic realities rule out the possibility of competitive markets.

Nominal interest rate: the rate of interest expressed in terms of dollars of current value.

Nominal rate of assistance (NRA): the percentage increase in the producer's return per unit of output relative to the return that would be received in the absence of industry assistance.

Nominal wages: the amount of money received by an individual or group during some period of time.

Non-tariff barriers (NTBs): licensing, standards or procedures designed with the main purpose of protecting local production against foreign competition.

Normal goods: commodities whose demand varies directly with money income; also known as superior goods.

Normal profit: the minimum cost payment that is just sufficient to obtain and retain contributions by the entrepreneur.

O

Oligopoly: the situation when the number of firms in an industry is so small that each must consider the reactions of rivals in formulating its price policy.

Oligopsony: a market in which there are a few buyers of the product.

Opportunity (economic) cost: the amount of other products that must be forgone or sacrificed to obtain a unit of any product.

P

Post-hoc fallacy: a hazard in economic reasoning in which the assumption is made that simply because one event precedes another, the first event is the cause of the second.

Poverty: the state where income is insufficient to meet the minimum needs of the household (or individual).

Price discrimination: when a given product is sold at more than one price and the price differences are not justified by cost differences.

Price leadership: a type of 'gentlemen's agreement' in which oligopolists automatically follow the price initiatives of the dominant firm in an industry.

Price maker: a seller (or buyer) of a commodity that is able to affect the price at which the commodity sells by changing the amount it sells (buys).

Price taker: a seller (or buyer) of a commodity that is unable to affect the price at which a commodity sells by changing the amount it sells (buys).

Principal–agent problems: problems when a group that is supposed to be acting in the interests of another—such as managers for shareholders—has incentives to act in ways that maximise their own welfare rather than that of the group that they are supposed to be representing.

Principle of comparative advantage: that nations should specialise in the production of those goods and services in which they have a comparative advantage, allowing an increase in consumption possibilities through trade and specialisation.

Product differentiation: any tangible or intangible feature of a product that sets it apart from other similar products, resulting in a preference for that product among buyers.

Production loss: a measure of the value of production lost to society through the inefficient allocation of resources encouraged by industry protection.

Productive efficiency: occurs when goods or services are produced using the lowest cost production methods.

Productivity Commission: the authority charged with the responsibility of performance monitoring and benchmarking of economic infrastructure and the efficiency of government provision of services, and with reviewing of the impact and costs of government regulation.

Public goods: goods and services that are not provided by the market system, as they are indivisible and often not bound by the exclusion principle.

Pure public goods: goods and services that are both *indivisible* and *not subject to the exclusion principle*.

Pure rate of interest: the overall interest rate in an economy; approximately equal to the interest paid on long-term 'risk-free' government bonds.

Q

Quintile: a group representing one-fifth of total households. Derived through the division of households into five numerically equal groups following the ranking of all households according to their gross incomes.

R

Rational behaviour: behaviour that involves decisions and actions by individuals in order to achieve the greatest satisfaction or maximum fulfilment of their goals.

Real interest rate: the rate of interest expressed in terms of dollars of constant or inflation-adjusted value.

Real wages: the amount of goods and services an individual or group can purchase with their nominal income during some period of time.

S

Short run: a period of time in which at least one factor of production is fixed.

Spillovers (or externalities): costs or benefits associated with the production or consumption of a good or service that flow on to parties external to the market transaction.

Substitute goods: goods that can be used in place of another good; there is a direct relationship between the price of one good and the demand for another.

Substitution effect: the impact of a change in the price of a product on its relative expense, and the consequent impact on the quantity demanded of that product.

T

Tangency solution: an economic proof used to show that in the long run a monopolistically competitive firm will realise only a normal profit because the profit-maximising output will occur when its demand curve is at a tangent to its ATC curve.

Tariffs: specific taxes imposed on imported products to improve the competitive position of domestic producers of the same or similar products.

Total cost: the sum of fixed and variable costs at each level of output.

Total product: the total output of a particular good or service produced by a firm (or group of firms) as a result of combining resources.

Total revenue: the total number of dollars received by a firm from the sale of a product.

Total utility: the total amount of satisfaction that an individual derives from consuming a specific quantity of a good or service.

Trade-off between equality and efficiency: the recognition that the move towards egalitarianism in the distribution of income will have adverse effects on incentives and hence economic efficiency.

Trading possibilities line: a line showing the rate at which one commodity can be exchanged for another during international trade. The slope reflects the international commodity terms of trade.

Transactions demand for money: the demand for money as a medium of exchange.

U

Utility: the economist's term for pleasure or satisfaction; the satisfaction or pleasure a consumer receives from obtaining a good or service.

V

Variable costs: those costs that in total do vary with changes in output.

Variable resources: factors of production whose quantity can be increased or decreased during a particular period.

Voluntary export restraints (VERs): negotiated restrictions on the level of the competing foreign product exported to the domestic market.

W

Wage rates: the price paid for the use of labour.

X

X-inefficiency: the failure to produce any given output at the lowest average (and total) cost possible.