Edexcel (A) Economics A-level

Theme 3: Business Behaviour and the Labour Market

Flashcards

Allocative efficiency

Allocative efficiency

When resources are allocated to the best interests of society, where there is maximum social welfare and maximum utility; P=MC

Asymmetric information

Asymmetric information

Where one party has more information than the other, leading to market failure and causing problems for regulators

Average cost/average total cost (AC/ATC)

Average cost/average total cost (AC/ATC)

The cost of production per unit

Average revenue

Average revenue

The price each unit is sold for

Bilateral monopoly

Bilateral monopoly

Where there is only one buyer and one seller in the market

Cartels

Cartels

A formal collusive agreement where firms enter into an agreement to mutually set prices

Collusion

Collusion

Occurs when firms agree to work together, for example by setting a price or fixing the quantity they produce

Competition policy

Competition policy

Government action to increase competition in markets

Competitive tendering

Competitive tendering

When the government contracts out the provision of a good or service and invites firms to bid for the contract

Conglomerate integration

Conglomerate integration

The merger of firms with no common connection

Constant returns to scale

Constant returns to scale

Output increases by the same proportion that the inputs increase by

Contestable market

Contestable market

When there is the threat of new entrants into the market, forcing firms to be efficient

Decreasing returns to scale

Decreasing returns to scale

An increase in inputs by a certain proportion will lead to output increasing by a smaller proportion

Demergers

Demergers

A single business is broken into two or more businesses to operate on their own, to be sold or to be dissolved

Deregulation

Deregulation

The removal of legal barriers to allow private enterprises to compete in a previously protected market

Derived demand

Derived demand

The demand for one good is linked to the demand for a related good

Diminishing marginal productivity

Diminishing marginal productivity

If a variable factor is increased when another factor is fixed, there will come a point when each extra unit of the variable factor will produce less extra output than the previous unit; after a certain point, marginal output falls

Diseconomies of scale

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Diseconomies of scale

The disadvantages that arise in large businesses that reduce efficiency and cause average costs to rise

Divorce of ownership from control

Divorce of ownership from control

Firms are owned by shareholders, who have little say in the day to day running of the business, and controlled by managers; this leads to the principal-agent problem

Dynamic efficiency

Dynamic efficiency

Efficiency in the long run; concerned with new technology and increases in productivity which causes efficiency to increase over a period of time

Economies of scale

Economies of scale

The advantages of large scale production that enable a large business to produce at a lower average cost than a smaller business

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External economies of scale

External economies of scale

An advantage which arises from the growth of the industry within which the firm operates, independent of the firm itself

Fixed cost

Fixed cost

Costs which do not vary with output

For profit businesses

For profit businesses

A business whose main aim is to make money

Game theory

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Game theory

Used to predict the outcome of a decision made by one firm, which has incomplete information about the other firm

Geographical mobility of labour

Geographical mobility of labour

The ease and speed at which labour can move from one area to another

Horizontal integration

Horizontal integration

The merger of firms in the same industry at the same stage of production

Increasing returns to scale

Increasing returns to scale

An increase in inputs by a certain proportion will lead to an increase in output by a larger proportion

Interdependent

Interdependent

The actions of one firm directly affects another firm

Internal economies of scale

Internal economies of scale

An advantage that a firm is able to enjoy because of growth in the firm, independent of anything happening to other firms or the industry in general

Limit pricing

Limit pricing

When firms set prices low in order to prevent new entrants; used in contestable markets

Loss

Loss

When revenue does not cover costs

Marginal cost

Marginal cost

The additional cost of producing one extra unit of good

Marginal revenue

Marginal revenue

The additional revenue gained by selling one extra unit of good

Maximum wage

Maximum wage

A ceiling wage which people cannot earn above

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Minimum efficient scale

Minimum efficient scale

The lowest level of output necessary to fully exploit economies of scale

Minimum wage

Minimum wage

A floor wage which people cannot earn below

Monopolistic competition

Monopolistic competition

Where there are a large number of buyers and sellers who are relatively small and act independently, selling non-homogenous goods

Monopoly

Monopoly

A single seller in the market

Monopsony

Monopsony

A single buyer in the market

N-firm concentration ratio

N-firm concentration ratio

The percentage of market share held by the ‘n’ biggest firms

Nationalisation

Nationalisation

When a private sector company or industry is brought under state control, to be owned and managed by the government

Natural monopoly

Natural monopoly

Where economies of scale are so large that not even a single producer is able to fully exploit them; it is more efficient for there to be a monopoly than many sellers

Non-collusive oligopoly

Non-collusive oligopoly

When firms in an oligopoly compete against each other, rather than making agreements to reduce competition

Non-price competition

Non-price competition

When firms compete on factors other than price, for example customer service or quality; they aim to increase the loyalty to the brand which makes demand more inelastic

Normal profit

Normal profit

The minimum reward required to keep entrepreneurs supplying their enterprise, the return sufficient to keep the factors of production committed to the business; TC=TR

Not-for-profit business

Not-for-profit business

Where firms are run in order to maximise social welfare and help individuals and groups; any profit they do make is used to support their aims

Occupational mobility of labour

Occupational mobility of labour

The ease and speed at which labour can move from one type of job to another

Oligopoly

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Oligopoly

Where a few firms dominate the market and have the majority of market share, they act interdependently

Organic growth

Organic growth

When firms grow by increasing their output

Overt collusion

Overt collusion

Collusion where firms come to a formal agreement, for example a cartel

Perfect competition

Perfect competition

A market with many buyers and sellers selling homogenous goods with perfect information and freedom of entry and exit

Perfectly contestable market

Perfectly contestable market

A market with no barriers to entry, where a new firm can easily enter and compete against incumbent firms completely equally

Predatory pricing

Predatory pricing

When a large, established firm is threatened by new entrants so sets such a low price that other firms make losses and are driven out the market

Price leadership

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Price leadership

Where one firm sets prices and other firms tend to follow this firm as they are fearful of engaging in a price war

Price wars

Price wars

When firms continuously drive prices down to the point where they are frequently making losses and firms are forced to leave

Principal-agent problem

Principal-agent problem

Where the agent makes decisions on behalf of the principal; the agent should maximise the benefits of the principal but have the temptation of maximising their own benefits

Private sector

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Private sector

The part of the economy that is owned and run by individuals or groups of individuals

Privatisation

Privatisation

The sale of government equity in nationalised industries or other firms to private investors

Productive efficiency

Productive efficiency

When resources are used to give the maximum possible output at the lowest possible cost; MC=AC

Profit maximisation

Profit maximisation

When firms produce at a point which derives the greatest profit; MC=MR

Profit satisficing

Profit satisficing

When a firm earn just enough profit to keep its shareholders happy

Public sector

Public sector

The part of the economy that is owned and controlled by local or central government

Regulatory capture

Regulatory capture

When regulators become more empathetic and are able to ‘see things from the firm’s perspective’, which removes impartiality and weakens their ability to regulate

Revenue maximisation

Revenue maximisation

When firms produce at a point which derives the greatest revenue; MR=0

Sales maximisation

Sales maximisation

When firms produce at a point where they sell as many of their goods and services as possible without making a loss; AR=AC

Static efficiency

Static efficiency

The level of efficiency at one point in time

Sunk costs

Sunk costs

Costs that can’t be recovered once they have been spent

Supernormal profit

Supernormal profit

The profit above normal profit, TR>TC

Tacit collusion

Tacit collusion

Collusion where there is no formal agreement, such as price leadership

Third degree price discrimination

Third degree price discrimination

When monopolists charge different prices to different groups for the same good or service

Total cost (TC)

Total cost

The cost to produce a given level of output

Total revenue (TR)

Total revenue

Revenue generated from the sale of a given level of output

Variable costs

Variable costs

Costs which change with output

Vertical integration

Vertical integration

When a firm merges or takes over another firm in the same industry, but at a different stage of production

X-inefficiency

X-inefficiency

When firms produce at a cost above the AC curve