OCR Economics A-Level

Microeconomics

Topic 2 - The Role of Markets

Flashcards

Specialisation

Specialisation

The production of a limited range of goods by a company/country/individual so they aren’t self-sufficient and have to trade with others

Division of labour

Division of labour

When labour becomes specialised during the production process so do a specific task in cooperation with other workers

Demand

Demand

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

Individual demand

Individual demand

Demand of an individual or firm, measured by the quantity bought at a certain price at one point in time

Market demand

Market demand

Sum of all individual demands in a market

Joint demand

Joint demand

When goods are bought together

Competitive demand

Competitive demand

When goods are substitutes, so buying one means you don't buy the other

Composite demand

Composite demand

When the good demanded has more than one use

Supply

Supply

The ability and willingness to provide a particular good/service at a given price at a given moment in time

Individual supply

Individual supply

Supply of a single firm

Market supply

Market supply

Sum of all individual supplies in the market

Competitive supply

Competitive supply

When a business could make more than one good with its resources, and producing one means they can't produce the other

Composite supply

Composite supply

When a good or service can be obtained from different sources

Consumer surplus

Consumer surplus

The difference between the price the consumer is willing to pay and the price they actually pay

Producer surplus

Producer surplus

The difference between the price the producer is willing to charge and the price they actually charge

PMT
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Market

Market

Where demand and supply interact; the collection of many sub-markets

Excess demand

Excess demand

When price is set too low so demand is greater than supply

Excess supply

Excess supply

When price is set too high so supply is greater than demand

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Derived demand

Derived demand

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

Joint supply

Joint supply

Increasing supply of one good causes an increase in the supply of a by-product

Elasticity

Elasticity

How responsive demand or supply is to a change in price

Price elasticity of demand

Price elasticity of demand

The responsiveness of demand to a change in price

Cross elasticity of demand (XED)

Cross elasticity of demand

The responsiveness of demand to one good to a change in price of another good

Income elasticity of demand

Income elasticity of demand (YED)

The responsiveness of demand to a change in income

Price elasticity of supply

Price elasticity of supply

The responsive of supply to a change in price

Perfectly price elastic good

Perfectly price elastic good

PED/PES=Infinity; quantity demanded/supplies falls to 0 when price changes

Perfectly price inelastic good

Perfectly price inelastic good

PED/PES=0; quantity demanded/supplied does not change when price changes

Price elastic good

Price elastic good

When PED/PES>1; demand/supply is relatively responsive to a change in price so a small change in price leads to a large change in quantity demanded/supplied

Price inelastic good

Price inelastic good

When PED/PES<1; demand/supply is relatively unresponsive to a change in price so a large change in price leads to a large change in quantity demanded/supplied

Luxury goods

Luxury goods

YED>1; an increase in income causes an even bigger increase in demand

Normal goods

Normal goods

YED>0; demand increases as income increases

Inferior good

Inferior good

YED<0; goods which see a fall in demand as income increases

Complementary goods

Complementary goods

Negative XED; if good B becomes more expensive, demand for good A falls

Substitutes

Substitutes

Positive XED; if good B becomes more expensive, demand for good A rise

Unrelated goods

Unrelated goods

XED=0; if the price of good B changes, it has no impact on the demand for good A

Margin

Margin

The effect of an additional action

Diminishing marginal utility

Diminishing marginal utility

The extra benefit gained from consumption of a good generally declines as extra units are consumed; explains why the demand curve is downward sloping

Market failure

Market failure

When the free market fails to allocate resources to the best interest of society, so there is an inefficient allocation of scarce resources

Marginal external benefit

Marginal external benefit

The extra benefit to a third party not involved in the economic activity, per unit consumed

Marginal private benefit

Marginal private benefit

The extra benefit to the individual per unit consumed

Marginal external cost

Marginal external cost

The extra cost to a third party not involved in the economic activity, per unit consumed

Marginal social cost

Marginal social cost

The extra cost to society per unit consumed

Marginal private cost

Marginal private cost

The extra cost to the individual per unit consumed

Marginal social benefit

Marginal social benefit

The extra benefit to society per unit consumed

Externalities

Externalities

The cost or benefit a third party receives from an economic transaction outside of the market mechanism

Positive externalities of consumption

Positive externalities of consumption

Where the social benefits of consuming a good are larger than the private benefits of consuming that good

Positive externalities of production

Positive externalities of production

Where the social benefits of producing a good are larger than the private benefits of producing that good

Negative externalities of consumption

Negative externalities of consumption

Where the social costs of consuming a good are greater than the private costs of producing the good

Negative externalities of production

Negative externalities of production

Where the social costs of producing a good are greater than the private costs of producing the good

Information failure

Information failure

When an economic agent lacks the information needed to make a rational, informed decision

Asymmetric information

Asymmetric information

Where one party has more information than the other, leading to market failure

Moral hazard

Moral hazard

Where individuals make decisions in their own best interests knowing there are potential risks for others

Merit goods

Merit goods

Goods with positive externalities

Demerit goods

Demerit goods

Goods with negative externalities

Public good

Public good

Goods that are non-excludable, non-rivalry, non-rejectable and have zero marginal cost

Private good

Private good

Goods that are rival and excludable

Quasi-public good

Quasi-public good

Goods which aren’t perfectly non-rivalry/non-excludable but aren’t perfectly rivalry/excludable

Non-diminishability/non-rivalry

Non-diminishability/non-rivalry

A characteristic of public goods; one person's use of the good does not prevent someone else from using it

Non-excludability

Non-excludability

A characteristic of public goods; someone cannot be prevent from using the good

Non-rejectability

Non-rejectability

A characteristic of public goods; people cannot choose not to consume the good

Free rider problem

Free rider problem

People who do not pay for a public good still receive benefits from it so the private sector will under-provide the good as they cannot make a profit

State provision

State provision

When the government provides public goods or merit goods which are underprovided in the free market

Indirect tax

Indirect tax

Taxes on expenditure which increase production costs and lead to a fall in supply

Subsidy

Subsidy

Government payments to a producer to lower their costs of production and encourage them to produce more

Minimum price

Minimum price

A floor price which a firm cannot charge below

Maximum price

Maximum price

A ceiling price which a firm cannot charge above

Buffer stock schemes

Buffer stock schemes

The introduction of both a maximum and minimum price in the market to prevent large fluctuations in prices

Public/private partnerships

Public/private partnerships

When the government and the private sector work together to build and operate projects

Regulation

Regulation

Laws to address market failure and promote competition between firms

Tradable pollution permits

Tradable pollution permits

Licenses which allow businesses to pollute up to a certain amount. The government controls the number of licenses and so can control the amount of pollution. Businesses are allowed to sell and buy the permits which means there may be incentive to reduce the amount they pollute.

Information provision

Information provision

When the government intervenes to provide information to correct market failure

Competition policy

Competition policy

Government action to increase competition in markets

Government failure

Government failure

When government intervention leads to a net welfare loss in society