Definitions and Concepts for AQA Economics AS-level

Paper 1: Microeconomics

Topic 5 – The Market Mechanism, Market Failure and Government Intervention in Markets

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Administrative costs: Costs that are not directly related to a business operation e.g paperwork

Asymmetric information: When one party knows more or has better information than the other party in a transaction e.g a patient and doctor.

Complete market failure: Occurs where the market is missing

Demerit good: A good where production or consumption has a negative impact on the consumer.

Economic welfare: Quality of life of the population.

Free-rider problem: Once a public good is produced, there is no way to control who benefits from it.

Government intervention: When a government actively intervenes and affects market operation.

Immobility of factors of production: When it is hard for factors of production to move across different areas within the economy.

Imperfect information: When an economic agent does not hold all the necessary information to make an informed decision about a product.

Incentive: Something that motivates an agent in the economy.

Income Inequality: Differences in size of earnings between households/individuals.

Market distortions: Where interference in a market affects behaviour and prices/output.

Market economy: Where output and prices are determined by the workings of supply and demand.

Market failure: Where a market leads to a misallocation of resources.

Merit good: A good where production or consumption creates external benefits.

Misallocation of resources: Resources are not distributed optimally.

Monopoly power: The ability of a firm to be a price maker rather than a price taker; the ability to set prices.

Monopoly: Market with only one supplier/ one dominant supplier.

Negative externality: Where external costs are passed onto third parties through consumption/production of a good

Non-excludable: A good or service where you are unable to prevent non-paying consumers from benefiting or using the good.

Non-rival: Where one person's consumption of a good or service does not decrease the amount available for consumption by another consumer.

Partial market failure: This is where a market exists but contributes to resource misallocation.

Positive externality: Where a good has positive third-party effects when consumed or produced.

Price controls: Government controls on prices e.g maximum or minimum prices.

Price mechanism: The way in which prices are determined through forces of supply and demand.

Private benefit: Benefits incurred to the individual through consumption or production.

Private cost: Costs incurred to the individual through consumption or production.

Public goods: Goods that benefit and can be used by all members of society.

Quasi-public goods: Goods that have characteristics of both public and private goods.

Rationing: Limiting the amount or quantity of a good available.

Regulations: Laws or rules made by the government and other authorities

Signalling: Where a change in the price of goods or services that show that supply or demand should be adjusted.

Social benefits: The sum of private benefits and external benefits.

Social cost: The sum of private costs and external costs.

State provision: Where the government provides a good or service.

Subsidies: Where the government gives money directly to firms so that firms can continue production.

Unintended consequences: Actions of people or governments that have consequences which were not anticipated.