Definitions and Concepts for AQA Economics A-level

# Paper 1: Microeconomics

# Topic 3 - Price Determination in a Competitive Market

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**Competing supply:** When resources can be used to produce one good OR another good, not both.

**Competitive markets:** A market with large numbers of buyers and sellers, with low barriers to entry and exit.

**Complementary goods:** Goods in joint demand; these goods are often bought together, e.g. printers and ink cartridges.

**Composite demand:** Demand for a multi-purpose good.

**Condition of demand:** A determinant of demand other than the good's price, that sets the position of the good's demand curve.

**Condition of supply:** A determinant of supply other than the good's price, that sets the position of the good's supply curve.

**Customer sovereignty:** Consumers can collectively govern production in a market via exercising spending power. Strongest in perfectly competitive markets.

**Cross elasticity of demand (XED):** Measures the responsiveness of a good's demand to a change in the price of a different good.

**Demand:** The quantity of a good or service that a consumer is willing and able to buy at a given price, at a given time.

**Derived demand:** Demand for a good that is the input of another good.

**Disequilibrium:** Excess supply or demand in a market.

**Effective demand:** Desire for a good or service that is backed by the ability to pay for said good or service.

**Elasticity:** The proportionate responsiveness of a second variable to a change in a first variable.

**Equilibrium:** No excess supply or demand in a market; a state of balance between opposing

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forces.

**Equilibrium price:** The price where planned demand matches planned supply.

**Excess demand:** When consumers want to buy more than producers are willing to sell; occurs below equilibrium price.

**Excess supply:** When producers want to sell more than consumers are willing to buy; occurs above equilibrium price.

**Exchange:** Trading objects of value, utilising media of exchange e.g. money.

**Income elasticity of demand (YED):** Measures the responsiveness of a good's demand to a change in the incomes of consumers.

**Inferior good:** A good for which demand rises as incomes fall.

**Joint supply:** When one good is produced, another good is also produced from the same raw materials.

**Normal good:** A good for which demand rises as incomes rise.

**Price elasticity of supply:** Measures the responsiveness of a good's supply to a change in price.

**Producer sovereignty:** Producers determine what is produced and the prices charged.

**Substitute good:** A good in competing demand; a good that can be used in place of another similar good.

**Supply:** The quantity of a good or service that a producer is willing and able to sell at a given price, at a given time