Definitions and Concepts for AQA Economics A-level

Paper 1: Microeconomics

Topic 5 - Perfect Competition, Imperfectly Competitive Markets and Monopoly

---

Anti-competitive behaviour: Business strategies employed to deliberately limit contestability within markets

Artificial barrier to entry: Barriers to market entry that are man-made, i.e., non-natural.

Break even: The same as normal profit

Cartel: Formed by groups of producers when they illegally decide to collude and not compete

Collective bargaining: When the members of a union act as a unit to increase bargaining power when negotiating with employers

Collusion: Illegal cooperation between multiple firms, forming a cartel..

Concentrated market: A market with very few (in its most extreme cases, 1) firms.

Concentration ratio: The total market share of the leading firms in an industry; these firms' output as a percentage of total output.

Consumer surplus: Difference between the prices consumers are willing to pay and the prices they actually pay

Contestability: Ease with which competitors can enter a market

Deadweight loss: Loss of social welfare derived from economic activity

Demerger: When a firm sells parts of its business to create separate smaller firms

Divorce of ownership and control: The process in which owners become increasingly separated from those managing the business

Duopoly: Any market that is dominated by two organisations

Duopsony: Two major buyers of a good or service in a market

This work by PMT Education is licensed under CC BY-NC-ND 4.0

Dynamic efficiency: Improvements to efficiency in the long run, brought about by investment into research and development

Entry barrier: Make it impossible/more difficult for firms to enter a market.

Exit barrier: Make it impossible/more difficult for firms to exit a market.

Game theory: Where there are two or more interacting decision makers and different (groups of) decisions lead to differing outcomes

Hit and run: Firms enter a market, make supernormal profits, then leave; possible due to low barriers to entry and exit

Imperfect competition: Any market structure between the extremes of perfect competition and a pure monopoly.

Innovation: Improving upon an existing product or process.

Interdependence: Where the actions of one firm influence the actions of other firms in the market

Invention: Creation of a new product or process.

Kinked demand curve: Assumes a business may face a dual demand curve for its product based on the oligopoly market structure

Limit pricing: Lowering the price of a good or service to around average cost, creating an artificial barrier to entry.

Market share maximisation: When a firm maximises their percentage share of the market in which it sells its product.

Market structure: The characteristics of a market.

Merger: Multiple firms uniting to form one larger firm

Monopoly: Market with only one supplier/ one dominant supplier

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

Monopsony: Market with only one consumer/ one dominant consumer

Natural barrier to entry: Barriers to market entry that are not man-made.

Natural monopoly: When the ideal number of firms in an industry is 1.

CC BY NC ND

Oligopoly: Market dominated by a few firms.

Patent: Government legislation protecting a firm's right to be the sole producer of a good.

Predatory pricing: Temporarily lowering a good's price below average cost, creating an artificial barrier to entry.

Price competition: Reducing the price of a product, thus stripping demand from competitors.

Price discrimination: When a firm charges different prices to different groups of consumers for the same good

Price leadership: The dominant firm in the market sets the price and less dominant firms alter their prices accordingly

Price maker: A firm with monopoly power; the ability to set prices.

Price taker: A firm that passively accepts the market price, set by forces beyond the firm's control.

Price war: Where multiple firms cut prices, each firm trying to undercut its competitors and gain market demand

Principal-agent problem: Where those in control of a firm (agents), act in their own best interest, rather than that of the owners (principals)

Producer surplus: Difference between the prices producers are willing to accept and the prices they actually accept

Product differentiation: Differences between multiple similar goods and services.

Profit maximisation: Occurs where the positive difference between total revenue and total costs is at its highest.

Pure monopoly: Only one firm in a market.

Sales maximisation: When sales revenue is at its highest.

Satisficing: Due to conflicts of interests, managers often run films to make the minimum level of acceptable profit (as specified by owners)

Shareholder: Economic agents concerned on the growth of the firm for monetary reasons

Stakeholder: Economic agents concerned on the growth of the firm for not necessarily monetary reasons

Static efficiency: Efficiency in the short run

Takeover: When a firm buys another firm, with the latter becoming a part of the former