Definitions and Concepts for AQA Economics A-level

Paper 1: Microeconomics

Topic 8 – The Market Mechanism, Market Failure and Government Intervention in Markets

---

Ad valorem taxes: Taxes that are a percentage of price.

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

Competition and Markets Authority (CMA): Government department in the UK that aims to reduce anti-competitive strategies.

Competition policy: Government intervention that reduces monopoly power and introduces competition to reduce consumer exploitation.

Complete market failure: Occurs when there is a missing market.

Consumption externality: An externality (which may be positive or negative) generated through consumption of a good or service.

Demerit good: Goods where the social costs in consumption exceed the private costs in consumption.

Department for Business, Innovation and Skills (BIS): An organisation that aims to enhance UK industry performance.

Deregulate: To reduce the amount an industry is regulated.

Economic welfare: Quality of life of a population.

EU directories: Set of checks that EU members must pass, ensuring all members have similar or the same legislation.

EU regulations: Set of laws all EU members must comply with.

Externality: External effects imposed on society derived from the production or consumption of a good or service.

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

Geographical immobility of labour: Occurs where workers find it difficult to relocate to places where jobs exist e.g housing costs.

Government failure: Where government intervention leads to a lessening of economic welfare and a misallocation of resources.

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.

Immobility of labour: The inability of labour to move from one occupation to another. There are two main types, geographical and occupational.

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: Occurs when the market mechanism leads to a misallocation of resources.

Merit good: Goods where the social costs in consumption deceed the private costs in consumption.

Misallocation of resources: Resources are not distributed optimally.

Nationalise: To convert from private ownership to public (government) ownership.

Negative externality: Negative external effects imposed on society derived from the production or consumption of a good or service.

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

Occupational immobility of labour: Occurs where workers find it difficult to transfer between different occupations due to a lack of transferable skills.

Outsourcing: When a private sector firm bids to offer a public service.

Partial market failure: Occurs when the market is producing a good or service, but at the wrong quantity or price.

Penalties: Fines or other forms of punishment that make producing output less profitable.

Positive externality: Positive external effects imposed on society derived from the production or consumption of a good or service.

Price ceiling: A price above which trade is illegal.

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

Price floor: A price below which trade is illegal.

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.

Private good: An excludable, rival good.

Privatise: To convert from public (government) ownership to private ownership.

Production externality: An externality (which may be positive or negative) generated through production of a good or service.

Productivity gap: Difference between productivity of UK labour and other countries' labour.

Property right: Legal ownership of a resource.

Public good: A non-excludable, non-rival good.

Public sector: The part of the government financed by and controlled by the government.

Quasi-public good: A good that is not fully non-rival and/or not fully non-excludable.

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

Rationing: Limiting the amount or quantity of a good.

Regulation: Imposing policies, rules, laws, constraints, etc.

Regulatory capture: Regulatory bodies become dominated by the industries in which they were regulating, leading to a decrease in economic welfare.

Resource misallocation: When resources are allocated in a way that doesn't maximise economic welfare.

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.

Specific taxes: Taxes that are a set price per unit.

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

Subsidy: Payment made by the government (or other authority) to incentivise production of a good.

Tax: Compulsory levy imposed by the government to de-incentivise production of a good.

Unintended consequences: When the actions of people or a government have consequences that were not anticipated.

Vouchers: Allowances to utilise goods or services at a discount rate.