Module 2 Summary

Microeconomics

Key definitions for Module 2

These definitions of key concepts are used in Module 2 and throughout the book

Chapter 5	Price elasticity
Cross price elasticity of demand	The responsiveness of the change in the quantity demanded of one good to the change in the price of another
Elasticity	A measure of the responsiveness or sensitivity of the change in one variable to a change in another
Income elasticity of demand	The responsiveness of the change in the quantity demanded to a change in the consumer's income
Inferior goods	When an increase in income results in a decrease in demand; negative income elasticity of demand
Marginal utility	The extra satisfaction that a person gains from consuming an additional unit of the good or service
Normal goods	When an increase in income results in an increase in demand and vice versa. Positive income elasticity of demand
Price elasticity of demand	The responsiveness or sensitivity of the change in the quantity demanded of a good by consumers if a change in the price of the good occurs
Price elasticity of supply	The responsiveness of the quantity supplied of a product to a change in its price
Superior good	A good that has an inferior substitute
Chapter 6	**Relationship between markets**
Absolute price	The price that consumers pay for a good or service
Cartel	A number of firms that get together and formally agree to fix prices and /or divide up the market in order to maximise their profits
Imperfect market	Any market that does not have the all the characteristics of a perfect market
Market structure	The conditions under which producers and consumers trade goods and services
Monopolistic competition	The same characteristics as the perfect market, except that the many firms produce a similar but different product
Monopoly	A market with one seller and many buyers
Perfectly competitive market	A market on which the output is being produced at the lowest possible average cost and consumers are paying the lowest possible price for the product. A market that is made up of many buyers and many sellers
Oligopoly	This market structure is made up of a few firms, each producing a similar but slightly different product
Price taker	Firms that must accept the market price for their products
Price maker	Firms that cannot influence the market price by changing the quantity they supply
Relative price	The price of one good as compared with another
Chapter 7	**Effects of cost and revenue**
Accounting profit	The business' total revenue (TR) minus the total costs
Economic profit	The difference between a firm's total revenue and its explicit costs which includes the opportunity costs of using the factors of production
Implicit costs	The opportunity costs that result from using the factors of production rather than employing them from an outside source
Explicit costs	A business expense that is easily identified and accounted for
Short run	The period of time for which at least the quantity of one input is fixed
Long run	The period of time in which the firm can change the quantity of all its inputs when it wants to change the quantity of output it produces
Marginal product	The amount of output produced by the last worker employed
Law of diminishing marginal returns to labour	Each additional worker employed adds less to the total product
Production function	The relationship between different quantities of inputs and the amount of output that the firm can produce
Total product	The total amount that is produced for each level of employment
Total cost	The cost of producing the total output
Total fixed cost	The cost of the fixed inputs (usually capital) and total variable cost which is the cost of the variable inputs (usually labour)
Economies of scale	When long-run average cost is falling as the firm produces more output
Diseconomies of scale	When the long-run average cost is rising as the firm produces more output
Profit maximising output	The one level of output that enables the firm to maximise its profit or minimise its losses
Chapter 8	**Wealth creation and economic growth**
Economic growth	The increase in the productive capacity of the economy over a certain period of time so that a greater value of goods and services is produced
Gini coefficient	A statistic that is used to measure the degree of inequality in the distribution of income and wealth among households in a country and between countries
Income	An amount of money that people receive from the employment of their factors of production
Lorenz curve	A curve that shows how uneven the distribution of income or wealth is between households
Quintile	A fifth (20%) of the population
Standard of living	A general measure of the quantity of goods and services (output) available to the population of a country on average
Unequal distribution of income and wealth	When there is a big difference between the incomes and level of wealth of the richest and the poorest households or between rich and poor countries
Wealth	The stock of factors of production, goods and other assets such as of a business that have been collected over time and measured at a certain point in time