

Bartram Trail AP Economics Vocabulary Database

ID	Unit	Term	Definition
1	1	absolute advantage	being able to produce at a lower cost
2	1	capital	equipment and tools used to produce
3	1	causation fallacy	assuming that because two things are correlated that one caused the other
4	1	ceteris paribus	all things being constant
5	1	comparative advantage	being able to produce at a lower opportunity cost
6	1	composition fallacy	assuming that what is true for the individual is true for the whole
7	1	economics	the study of how people make decisions among trade-offs, or- how they use their limited resources to satisfy their unlimited
8	1	entrepreneurship	organizational skills, motivation and risk taking needed to produce
9	1	labor	the physical and mental effort used to produce
10	1	land	natural resource or material used to produce (may be refined)
11	1	Macroeconomics	the study of the economic behavior of entire economies
12	1	market	any place where consumers and producers meet to exchange
13	1	Microeconomics	the study of the economic behavior of individuals and specific markets
14	1	normative statement	a statement based on opinion or what should be
15	1	opportunity cost	your most valuable trade-off
16	1	positive statement	a statement that can be proven or disproven by facts
17	1	production possibilities curve	an economic model used to illustrate limited resources and trade-offs
18	1	resource (FOP)	inputs needed for production
19	1	scarcity	the idea that products and resources are limited
20	1	secondary effects	any unintended consequence of an economic decision
21	1	specialization	focusing effort into one task
22	1	sunk cost	a cost already incurred that cannot be recovered and is now irrelevant to future decisions
23	1	trade-off	any choice forgone because of a decision
24	1	division of labor	organizing production into separate tasks
25	2	marginal	incremental, one more, or the next one
26	2	complements	products that consumers purchase to go with other purchases; their cross price elasticity is negative
27	2	demand	the amount a consumer is willing and able to purchase at ALL possible prices; the relationship is -
28	2	inferior good	demand decreases as income increases; vice versa
29	2	market demand	the sum of all individual demands in a particular market
30	2	normal good	demand for this good increases as income increases; vice versa
31	2	substitutes in consumption	products that consumers COULD purchase to replace other purchases; their cross price elasticity is positive
32	2	utility	the satisfaction or value of consumption
33	2	diminishing marginal utility	the law that states utility will fall with additional consumption (at one time)
34	2	mu/\$	change in utility/price; bang for your buck
35	2	optimal consumption	max total utility; buy more or less of a product until mu/\$ is the same
36	3	cost	\$ measure of production inputs; supply issue
37	3	marginal cost (MC)	change in TC / change in Q or output; change in VC / MPL
38	3	profit	the payment for entrepreneurial ability; the revenue from sales minus the cost of resources
39	3	market supply	the sum of all individual suppliers in a market
40	3	subsidy	government imposed financial incentive used to encourage behavior
41	3	substitutes in production	alternative products that producers COULD use their resources to make
42	3	supply	quantity a producer is willing and able to produce at ALL possible prices; the relationship is positive
43	3	tax	source of government revenue; government imposed financial incentive used to discourage behavior
44	3	total revenue (TR)	price x quantity; PxQ; total expenditures (TE)
45	3	accounting profit	TR - explicit cost
46	3	avg. fixed cost (AFC)	FC / Q
47	3	avg. total cost (ATC)	TC / Q
48	3	avg. variable cost (AVC)	VC / Q
49	3	increasing marginal returns	Along the production function, when MP of a change in one input is growing (SR)
50	3	constant marginal returns	Along the production function, when MP of a change in one input is the same as the last input (SR)
51	3	diminishing marginal returns	Along the production function, when MP of a change in one input is falling (SR)
52	3	negative marginal returns	Along the production function, when MP of a change in one input is less than zero (SR)
53	3	economic profit	TR - (explicit and implicit costs)
54	3	explicit cost	an actual financial cost that involves laying out money
55	3	fixed input (cost)	an input that is constant in the short run
56	3	implicit cost	a forgone benefit; an opportunity cost
57	3	marginal product (MP of K or L)	change in quantity of output produced by one additional unit of labor
58	3	marginal revenue	the marginal benefit of selling one more output; this is often price
59	3	normal profit	an economic profit equal to zero
60	3	production function	the relationship between outputs and the change in one input (SR)
61	3	total cost (TC)	fixed cost + variable cost (FC+VC)
62	3	variable input (cost)	an input that is able to be changed
63	3	increasing returns to scale	increasing all inputs results in disproportionately more outputs (LR)
64	3	constant returns to scale	increasing all inputs results in a proportionally equal change to outputs (LR)
65	3	decreasing returns to scale	increasing all inputs results in disproportionately less outputs (LR)

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66	3	economies of scale	when LR ATC declines as output increases
67	3	diseconomies of scale	when LR ATC increases as output increases
68	3	productive efficiency	the quantity of output where avg. costs are at their lowest (min. cost output)
69	3	optimal output (profit max)	where $MR = MC$
70	4	product market	market where households purchase goods and services from firms
71	4	market equilibrium (price)	where supply meets demand; the most product is sold; $MC=MB$, prevailing sale amount
72	4	product shortage	not enough product when P is below market equilibrium; $Q_S < Q_D$
73	4	product surplus	excess product when P is above market equilibrium; $Q_S > Q_D$
74	4	cross-price elasticity	measure of sub/comp demand responsiveness to price change of related product
75	4	elastic	relatively responsive to change; >1
76	4	income elasticity	measure of consumers' demand responsiveness to income change; (-) is inferior good
77	4	inelastic	relatively unresponsive to change; <1
78	4	percent change	$(\text{new\#} - \text{old\#}) / \text{old\#}$; it's relative to increases or decreases
79	4	perfectly elastic	flat demand curve; consumers are perfectly price sensitive
80	4	price elasticity of demand	the measure of consumers' responsiveness to price change
81	4	price elasticity of supply	the measure of producers' responsiveness to price change
82	4	unit elastic	elasticity value of exactly 1
83	4	allocative efficiency	optimal distribution of goods and services; accounts for consumer preference and secondary effects
84	4	consumer surplus	the difference between market price and consumer demand
85	4	deadweight loss	net loss to society due to tax, market failure or any market inefficiency (trade restrictions)
86	4	producer surplus	the difference between market price and producer supply
87	4	tax incidence/burden	the share of tax cost
88	4	price ceiling	government imposed maximum price
89	4	price floor	government imposed minimum price
90	5	factor market	market where firms purchase resources (FOPs) from households
91	5	rent	the payment for land, sometimes used to describe payment for capital
92	5	wages	the payment for labor
93	5	cost -minimization rule	hire more or less f factors until $MPL/\$$ or $MPK/\$$ is the same for all factors
94	5	derived demand	demand for resources is derived from the demand for products those resources produce
95	5	marginal factor cost (MFC)	the cost of hiring one more factor as a buyer in a factor market (firms demanding resources)
96	5	marginal revenue product (L/K)	MPL (or K) \times MR , this is the demand for factors, downward sloping
97	5	monopsony	a market in which there is a single buyer (often single wage payer)
98	6	perfect competition	market structure of many producers making indistinguishable products; ex. commodities
99	6	monopoly	market structure of one firm, absent of competition
100	6	natural monopoly	when a monopoly faces natural economies of scale
101	6	patent	legal barrier to competition rewarded to the innovator; 20 year length
102	6	price discrimination	charging consumers different prices for the purpose of increasing profit
103	7	collusion	an agreement among competitors to limit price or divide up the market; this forms a cartel
104	7	dominant-strategy	the outcome when a player's choice does not depend on the other player
105	7	game theory	the study of oligopolistic behavior as a series of strategic decisions
106	7	monopolistic competition	market structure of many firms making differentiated products
107	7	Nash equilibrium	knowing all players choices, each player has no incentive to change their strategy
108	7	oligopoly	market structure of a few firms where competitive decisions interdependent
109	8	common pool problem	consumption of an open access good at a faster rate than it can be replaced; abuse
110	8	exclusive product	a product that you can limit or charge for
111	8	externality	a cost or benefit that falls on a third party
112	8	free rider problem	trying to benefit from a public good without paying for it
113	8	marginal social benefit MSB	marginal private benefit plus marginal external benefit experienced by third parties
114	8	marginal social cost MSC	marginal private cost plus marginal external cost experienced by third parties
115	8	market failure	when a market yields a socially undesirable result
116	8	moral hazard	one party takes risks that will be experienced by a third party; ex. rental car
117	8	open access good	a good that is rival and nonexclusive; free but limited
118	8	private good	a good that is both rival and exclusive
119	8	public good	a good that is both non-rival and non-exclusive
120	8	rival product	a product that can only benefit one consumer at a time
121	8	socially optimal level	$MSC=MSB$
122	9	capital investment (I)	total firm expenditures on capital, net inventories (& new homes); it is based on borrowing
123	9	consumer price index CPI	most common measure of inflation; based on price of a fixed set of goods
124	9	consumption (C)	total household expenditures on new goods and services
125	9	cost push inflation	inflation caused by an increase in overall production costs
126	9	cyclical unemployment	laborers lose jobs during an economic downturn
127	9	deflation	any decrease in the over all price level
128	9	demand pull inflation	inflation caused by too much demand (C,I,G,M)
129	9	depreciation	capital that becomes obsolete during the year; used up stuff
130	9	disinflation	any decrease in inflation
131	9	disposable income	income available to households for spending and saving; AI-NT
132	9	frictional unemployment	when job seekers and employers need time to find each other

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133	9	full/normal employment	when cyclical unemployment is zero; 4-6% unemployment rate
134	9	government spending (G)	total government expenditures on new goods and services; does not include transfer payments
135	9	gross domestic product	total value of final goods and services produced in a year
136	9	hyperinflation	severe inflation
137	9	inflation	any increase in the overall price level
138	9	intermediate good	good that is not final; will become part of another good
139	9	labor force	16yr or older who either are looking for work or employed; about 66% of adults in US
140	9	net domestic product NDP	GDP minus depreciation
141	9	net taxes (NT)	taxes-transfer payments; T-TP
142	9	nominal	not adjusted for inflation
143	9	planned investment spending	demand for borrowed funds for capital investment; non-government D for LFs
144	9	price level	a composite measure of the price of all goods and services in an economy
145	9	real	adjusted for inflation
146	9	recession	economic downturn of a minimum two consecutive decreasing GDP quarters
147	9	savings (financial investment)	household deposits into the financial market; meant for future spending
148	9	structural unemployment	skills of job seekers do not match jobs in their area
149	9	transfer payment (TP)	cash benefit from government to household; ex. Social security, unemployment, income assistance
150	9	unemployment rate	percent of the labor force without a job
151	9	GDP per capita	productivity measurement of GDP/ population
152	9	productivity	production per resource (worker); macro output divided by economic input
153	9	stagflation	unemployment and inflation at the same time
154	10	aggregate expenditure AE	the sum of macro spending; $C+G+I+(x-m)$
155	10	aggregate income AI	the sum of macro earnings; wages+profits+interests+rent
156	10	aggregate demand AD	the sum of all demand in an economy
157	10	aggregate supply AS	the sum of all supply in an economy
158	10	inflationary gap (expansionary)	SR GDP beyond LRAS
159	10	LRAS	potential output in an economy; full employment; 4-6% unemployment, LRPC
160	10	marg. propensity to consume (MPC)	likelihood that households spend their additional earnings
161	10	marg. propensity to save (MPS)	likelihood that households save their additional earnings
162	10	recessionary gap (contractionary)	SR GDP behind LRAS
163	10	spending multiplier	$1/mps$; the factor by which GDP grows as a result of more spending
164	10	taxing multiplier	$1/mps-1$; the factor by which GDP grows as a result of less Net Taxes
165	11	bank balance sheet	T account showing assets and liabilities
166	11	discount rate (window)	the interest rate charged to banks by the FED for short term loans
167	11	federal funds rate	the interest rate charged between banks for short term loans
168	11	financial asset	the representation of future payments; ex. Stock, bond, loan
169	11	interest	the payment for capital
170	11	interest rate	the price of borrowing money(capital); the earnings for saving or lending
171	11	liquid/liquidity	the ability to change an asset to cash
172	11	loanable funds market	the S/D of savings that is able to be borrowed (RIR)
173	11	money market	the S/D of M1 measured in Interest Rate (NIR)
174	11	money multiplier	$1/rr$; the factor by which M1 grows as a result of new money creation (loans)
175	11	money supply	M1; cash + checking accounts + travelers checks
176	11	open market operations (OMOs)	the buying and selling of gov't securities (bonds)
177	11	physical asset	illiquid form of value; ex. Real estate, metals, personal property, commodity
178	11	required reserve ratio	the % of a bank's checkable deposits that must be held at the FED
179	11	The Federal Reserve (FED)	the independent agency that creates monetary policy
180	12	fiscal policy	the use of government spending, transferring, taxing and borrowing to steer the macro economy
181	12	monetary policy	central bank regulation of the money supply to steer the macro economy
182	12	automatic stabilizers	built in fiscal policy tools
183	12	crowding out	G borrowing that competes with capital I borrowing; increases demand of loanable funds
184	12	Phillips curve (SR and LR)	graph showing the trade off between unemployment and inflation
185	12	rational expectations	the theory that individuals and firms make reasonable decisions
186	13	balance of payments	a yearly record of all economic transactions between residents of one country and the ROTW
187	13	capital inflows	foreign savings; proceeds from sales of US assets overseas
188	13	capital outflows	domestic purchases of foreign financial assets; foreign financial investment
189	13	current account	the balance of trade on goods, services, and money transfers
190	13	exchange rate	the price of purchasing foreign currency
191	13	financial account	the balance of international asset purchases
192	13	foreign exchange	foreign money needed to carry out international transactions
193	13	net exports	exports minus imports; X-M