

Bartram Trail AP Economics Vocabulary Database

ID	Unit	Term	Definition
1	1	absolute advantage	being able to produce at a lower cost
2	1	allocative efficiency	optimal distribution of goods and services; accounts for consumer preference and secondary effects
3	1	capital	equipment and tools used to produce
4	1	causation fallacy	assuming that because two things are correlated that one caused the other
5	1	ceteris paribus	all things being constant
6	1	comparative advantage	being able to produce at a lower opportunity cost
7	1	composition fallacy	assuming that what is true for the individual is true for the whole
8	1	division of labor	organizing production into separate tasks
9	1	economics	the study of how people make decisions among trade-offs, or- how they use their limited resources to satisfy their unlimited wants.
10	1	entrepreneurship	organizational skills, motivation and risk taking needed to produce
11	1	labor	the physical and mental effort used to produce
12	1	land	natural resource or material used to produce (may be refined)
13	1	Macroeconomics	the study of the economic behavior of entire economies
14	1	market	any place where consumers and producers meet to exchange
15	1	Microeconomics	the study of the economic behavior of individuals and specific markets
16	1	normative statement	a statement based on opinion or what should be
17	1	opportunity cost	your most valuable trade-off
18	1	optimal output (profit max)	where MR = MC
19	1	percent change	$(\text{new\#} - \text{old\#}) / \text{old\#}$ ; it's relative to increases or decreases
20	1	positive statement	a statement that can be proven or disproven by facts
21	1	production possibilities curve	an economic model used to illustrate limited resources and trade-offs
22	1	resource (FOP)	inputs needed for production
23	1	scarcity	the idea that products and resources are limited
24	1	secondary effects	any unintended consequence of an economic decision
25	1	specialization	focusing effort into one task
26	1	sunk cost	a cost already incurred that cannot be recovered and is now irrelevant to future decisions
27	1	trade-off	any choice forgone because of a decision
28	2	complements	products that consumers purchase to go with other purchases; their cross price elasticity is negative
29	2	constant marginal returns	Along the production function, when MP of a change in one input is the same as the last input (SR)
30	2	demand	the amount a consumer is willing and able to purchase at <b>ALL</b> possible prices; the relationship is -
31	2	diminishing marginal returns	Along the production function, when MP of a change in one input is falling (SR)
32	2	diminishing marginal utility	the law that states utility will fall with additional consumption (at one time)
33	2	increasing marginal returns	Along the production function, when MP of a change in one input is growing (SR)
34	2	inferior good	demand decreases as income increases; vice versa
35	2	marginal	incremental, one more, or the next one
36	2	market demand	the sum of all individual demands in a particular market
37	2	market equilibrium (price)	where supply meets demand; the most product is sold; MC=MB, prevailing sale amount
38	2	market supply	the sum of all individual suppliers in a market
39	2	mu/\$	change in utility/price; bang for your buck
40	2	negative marginal returns	Along the production function, when MP of a change in one input is less than zero (SR)
41	2	normal good	demand for this good increases as income increases; vice versa
42	2	optimal consumption	max total utility; buy more or less of a product until mu/\$ is the same
43	2	product market	market where households purchase goods and services from firms
44	2	product shortage	not enough product when P is below market equilibrium; QS<QD
45	2	product surplus	excess product when P is above market equilibrium; QS>QD
46	2	production function	the relationship between outputs and the change in one input (SR)
47	2	subsidy	government imposed financial incentive used to encourage behavior
48	2	substitutes in consumption	products that consumers COULD purchase to replace other purchases; their cross price elasticity is positive
49	2	substitutes in production	alternative products that producers COULD use their resources to make
50	2	supply	quantity a producer is willing and able to produce at <b>ALL</b> possible prices; the relationship is positive
51	2	tax	source of government revenue; government imposed financial incentive used to discourage behavior
52	2	utility	the satisfaction or value of consumption
53	3	consumer surplus	the difference between market price and consumer demand
54	3	cross-price elasticity	measure of sub/comp demand responsiveness to price change of related product
55	3	deadweight loss	net loss to society due to tax, market failure or any market inefficiency (trade restrictions)
56	3	elastic	relatively responsive to change; >1
57	3	income elasticity	measure of consumers' demand responsiveness to income change; (-) is inferior good
58	3	inelastic	relatively unresponsive to change; <1
59	3	perfectly elastic	flat demand curve; consumers are perfectly price sensitive
60	3	price ceiling	government imposed maximum price
61	3	price elasticity of demand	the measure of <u>consumers'</u> responsiveness to price change
62	3	price elasticity of supply	the measure of <u>producers'</u> responsiveness to price change
63	3	price floor	government imposed minimum price
64	3	producer surplus	the difference between market price and producer supply
65	3	tax incidence/burden	the share of tax cost

Bartram Trail AP Economics Vocabulary Database

66	3	unit elastic	elasticity value of exactly 1
67	4	accounting profit	TR - explicit cost
68	4	avg. fixed cost (AFC)	FC / Q
69	4	avg. total cost (ATC)	TC / Q
70	4	avg. variable cost (AVC)	VC / Q
71	4	constant returns to scale	increasing all inputs results in a proportionally equal change to outputs (LR)
72	4	cost	\$ measure of production inputs; supply issue
73	4	decreasing returns to scale	increasing all inputs results in disproportionately less outputs (LR)
74	4	diseconomies of scale	when LR ATC increases as output increases
75	4	economic profit	TR - (explicit and implicit costs)
76	4	economies of scale	when LR ATC declines as output increases
77	4	explicit cost	an actual financial cost that involves laying out money
78	4	fixed input (cost)	an input that is constant in the short run
79	4	implicit cost	a forgone benefit; an opportunity cost
80	4	increasing returns to scale	increasing all inputs results in disproportionately more outputs (LR)
81	4	marginal cost (MC)	change in TC / change in Q or output; change in VC / MPL
82	4	marginal product (MP of K or L)	change in quantity of output produced by one additional unit of labor
83	4	marginal revenue	the marginal benefit of selling one more output; this is often price
84	4	normal profit	an economic profit equal to zero
85	4	productive efficiency	the quantity of output where avg. costs are at their lowest (min. cost output)
86	4	profit	the payment for entrepreneurial ability; the revenue from sales minus the cost of resources
87	4	total cost (TC)	fixed cost + variable cost (FC+VC)
88	4	total revenue (TR)	price x quantity; PxQ; total expenditures (TE)
89	4	variable input (cost)	an input that is able to be changed
90	5	cost -minimization rule	hire more or less factors until MPL/\$ or MPK/\$ is the same for all factors
91	5	derived demand	demand for resources is derived from the demand for products those resources produce
92	5	factor market	market where firms purchase resources (FOPs) from households
93	5	marginal factor cost (MFC)	the cost of hiring one more factor as a buyer in a factor market (firms demanding resources)
94	5	marginal revenue product (L/K)	MPL (orK) x MR, this is the demand for factors, downward sloping
95	5	monopsony	a market in which there is a single buyer (often single wage payer)
96	5	rent	the payment for land, sometimes used to describe payment for capital
97	5	wages	the payment for labor
98	6	monopoly	market structure of one firm, absent of competition
99	6	natural monopoly	when a monopoly faces natural economies of scale
100	6	patent	legal barrier to competition rewarded to the innovator; 20 year length
101	6	perfect competition	market structure of many producers making indistinguishable products; ex. commodities
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

Bartram Trail AP Economics Vocabulary Database

133	9	full/normal employment	when cyclical unemployment is zero; 4-6% unemployment rate
134	9	GDP per capita	productivity measurement of GDP/ population
135	9	government spending (G)	total government expenditures on new goods and services; does not include transfer payments
136	9	gross domestic product	total value of final goods and services produced in a year
137	9	hyperinflation	severe inflation
138	9	inflation	any increase in the overall price level
139	9	intermediate good	good that is not final; will become part of another good
140	9	labor force	16yr or older who either are looking for work or employed; about 66% of adults in US
141	9	net domestic product NDP	GDP minus depreciation
142	9	net taxes (NT)	taxes-transfer payments; T-TP
143	9	nominal	not adjusted for inflation
144	9	planned investment spending	demand for borrowed funds for capital investment; non-government D for LFs
145	9	price level	a composite measure of the price of all goods and services in an economy
146	9	productivity	production per resource (worker); macro output divided by economic input
147	9	real	adjusted for inflation
148	9	recession	economic downturn of a minimum two consecutive decreasing GDP quarters
149	9	savings (financial investment)	household deposits into the financial market; meant for future spending
150	9	stagflation	unemployment and inflation at the same time
151	9	structural unemployment	skills of job seekers do not match jobs in their area
152	9	transfer payment (TP)	cash benefit from government to household; ex. Social security, unemployment, income assistance
153	9	unemployment rate	percent of the labor force without a job
154	10	aggregate demand AD	the sum of all demand in an economy
155	10	aggregate expenditure AE	the sum of macro spending; $C+G+(X-m)$
156	10	aggregate income AI	the sum of macro earnings; wages+profits+interests+rent
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	automatic stabilizers	built in fiscal policy tools
181	12	crowding out	G borrowing that competes with capital I borrowing; increases demand of loanable funds
182	12	fiscal policy	the use of government spending, transferring, taxing and borrowing to steer the macro economy
183	12	monetary policy	central bank regulation of the money supply to steer the macro economy
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