|  |  |  |
| --- | --- | --- |
| **Terms** | **Definitions** | **Examples** |
| **Absolute Advantage** | an individual can produce a good or service better than other people | First world countries have an absolute advantage in many industries over third world nations because they have better technology. |
| **Antitrust Policy** | efforts undertaken by the government to prevent oligopolistic industries from becoming or behaving like monopolies | prevents collusion |
| **Average Fixed Cost** | the fixed cost per unit of output | AFC = FC/Q |
| **Average Total Cost** | total cost divided by quantity of output produced | ATC=TC/Q |
| **Average Variable Cost** | variable cost divided by the quantity of output | AVC = VC/Q |
| **Barrier To Entry** | something that prevents other firms from entering an industry | Power companies have barriers to entry because the start-up cost of laying wires to customers is very expensive. |
| **Barter** | an individual directly trades a good or service she has for a good or service he or she wants | Before the invention of cash, people traded goods. |
| **Black Market** | a market in which goods or services are bought and sold illegally—either because it is illegal to sell them at all or because the prices charged are legally prohibited by a price ceiling. | It is tempting to pay extra money past the limit to make sure you get an apartment. |
| **Brand Name** | a name owned by a particular firm that distinguishes its products from those of other firms | Apple, McDonald, Ford |
| **Break-Even Price** | The price at which a price-taking firm earns zero economic profit. | Equal to minimum average total cost |
| **Budget Constraint** | requires that the cost of a consumer's consumption bundle be no more than the consumer's total income | Sammy's budget constraint for clams and potatoes is $20 |
| **Budget Line** | shows the consumption bundles available to a consumer who spends all of his or her income | Sammy's budget line for clams and potatoes crosses the vertical axis at 10 pounds of potatoes and crosses the horizontal axis at 5 pounds of clams. |
| **Cartel** | an agreement among several producers to obey output restrictions in order to increase their joint profits | OPEC |
| **Circular Flow Diagram** | represents the transactions in an economy by flows around a circle of both goods and cash | This model describes where we work at as well as where we shop. |
| **Collusion** | cooperation of sellers to raise joint profits | ADM and Ajinomoto met at a Marriott to talk about collusion |
| **Comparative Advantage** | Comparative advantage the opportunity cost of producing a good or service is lower for an individual than for others. | Third world countries have a comparative advantage in the textile industry because they have little to give up in terms of other jobs. |
| **Compensating Differentials** | Wage differences across jobs that reflect the fact that some jobs are less pleasant than others | attractiveness of job, talent, human capital |
| **Competitive Market** | A market in which there are many buyers and sellers of the same good or service. | An example of a competitive market is food production. There are many farmers. |
| **Complements** | two goods are Complements if a fall in the price of one of the goods makes consumers more willing to buy the other good | Coffee and sugar are complements. |
| **Constant Returns To Scale** | when long-run average total cost is constant as output increases | The LRATC is horizontal line. |
| **Consumer Surplus** | A term often used to refer to both individual and to total consumer surplus. | In this case, the consumer surplus would also be 35 dollars. |
| **Consumption Bundle** | the collections of all the goods and services consumed by that individual | A consumption bundle for Sammy could be 2 pounds of clams and 6 pounds of potatoes. |
| **Consumption Possibilities** | the set of all consumption bundles that can be consumed given the consumer's income and prevailing prices | 10 potatoes and 0 clams, 5 clams and 0 potatoes, and 3 clams and 4 potatoes are all within Sammy's consumption possibilities. |
| **Cross-Price Elasticity Of Demand** | Measures the effect of the change in one good's price on the quantity demanded of the other good. | Burgers and tacos are substitutes so their cross-price elasticity would be positive. |
| **Demand Curve** | A graphical representation of the demand schedule. It shows how much of a good or service consumers want to buy at any given price. | This would graphically represent how many pounds of coffee people are willing to buy at different prices. |
| **Demand Price** | the price at which consumers will demand that quantity | The price riders pay taxi cabs. |
| **Demand Schedule** | shows how much of a good or service consumers will want to buy at different prices | A demand schedule might list how many pounds of coffee people are willing to buy at different prices. |
| **Diminishing Marginal Rate Of Substitution** | the more of good R a person consumes in proportion to good M, the less M he or she is willing to substitute for another unit of R | If Ingrid were to consume 100 rooms, diminishing rate of substitution would suggest that her marginal rate of substitution would be nearly 0. |
| **Diminishing Returns To An Input** | when an increase in the quantity of that input, holding the levels of all other inputs fixed, leads to a decline in the marginal product of that input | As you increase the number of laborers, you decrease output because they start interfering with one another. |
| **Diseconomies Of Scale** | When an increase in output leads to an increase in long-run average costs. | large firms: Coca-Cola |
| **Dominant Strategy** | an action that is the player's best action regardless of the action taken by the other player | In the prisoner's dilemma, the dominant strategy is to confess. |
| **Duopolist** | a firm in a duopoly | ADM in the lysine industry |
| **Duopoly** | an oligopoly consisting of only two firms | The lysine market is a duopoly because the only prominent producers or Ajinomoto and ADM. |
| **Economic Growth** | The growing ability of the economy to produce increasing quantities of goods and services. | Over the centuries, improved technology has resulted in economic growth. |
| **Economics** | The study of economies, at the level both of individuals and of society as a whole. | An understanding of economics is important for the understanding of the fluctuation of costs of goods. |
| **Economies Of Scale** | long-run ATC declines as output increases | Very large start-up cost: oil-company |
| **Economy** | A system for coordinating a society's productive and consumptive activities. | The economy is among one of the top concerns of most Americans. |
| **Efficiency Wage Model** | some employers pay an above average equilibrium wage as an incentive for better performance | Caregivers |
| **Efficient** | When an economy's resources are used in a way that has fully exploited all opportunities to make some people better off without making other people worse off. | A school tries to use as many rooms as possible so no classroom is overcrowded. |
| **Elastic Demand** | The price elasticity of demand is greater than 1. An increase in price reduces total revenue. The quantity effect is stronger than the price effect. | Air travel is elastic. |
| **Equilibrium** | When no individual would be better off doing something different. | If a new lane opens up in a supermarket, the lines will eventually even out again. |
| **Equilibrium Price** | the price that matches the quantity supplied and the quantity demanded | Everyone is happy at this point. |
| **Equilibrium Quantity** | the quantity bought and sold at the equilibrium price | The quantity where all buyers and sellers find a customer. |
| **Equilibrium Value Of The Marginal Product Of Labor** | The additional value produced by the last unit of that factor employed in the factor market as a whole | Equal to the wage of laborer |
| **Equity** | When everyone gets his or her fair share. Since people can disagree about what is fair, equity isn't as well defined a concept as efficiency. | Many products are moving toward fair-trade systems so that the supplier gets better benefits. |
| **Excess Burden/ Dead-Weight Loss** | the extra cost of a tax in the form of inefficiency that results because the tax discourages mutually beneficial transactions | A lot of people don't ride taxis because there's not enough taxis. |
| **Excess Capacity** | producing less than the output at which average total cost is minimized | in the long run monopolistic competition produces here and therefore is inefficient |
| **Excise Tax** | A tax on the sales of a good or service. | There is a tax on everything we buy at the super market. |
| **Factor Distribution Of Income** | division of total income among labor, land, and capital | Wages makes 71% of the total |
| **Factor Markets** | Where firms buy the resources they need to produce goods and services- factors of production. | Factor markets are our employers and where we work. |
| **Factors Of Production** | Land, labor, and capital; the three groups of resources that are used to make all goods and services | Machines are a factor of production. |
| **Firm** | an organization that produces goods and services for sale, and that employs members of households | A banker's firm could be Bank of America or Citi Bank. |
| **Fixed Cost** | a cost that does not depend on the quantity of output produced; the cost of the fixed input | Rent of building |
| **Fixed Input** | an input whose quantity is fixed for a period of time and cannot be varied | # of machines |
| **Forecast** | a simple prediction of the future | Analysts can use forecasts to predict what next year's revue of a firm will be. |
| **Free Entry And Exit** | when new producers can easily enter or leave an industry | The coconut market has free exit and entry because anyone can do it. |
| **Gains From Trade** | people can get more of what they want through trade than they could if they tried to be self-sufficient | A doctor can focus on being a good doctor and still be able to get food and other goods from trade. |
| **Game Theory** | the study of behavior in situations of interdependence | The prisoner's dilemma |
| **Household** | a person or a group of people who share their income | part of circular flow of market |
| **Human Capital** | The improvement in labor created by education and knowledge that is embodied in the workforce | A college graduate has more human capital than a high school dropout |
| **Imperfect Competition** | when no one firm has a monopoly, but producers nonetheless realize they can affect market prices | Competition in cereal market |
| **Incentive** | Anything that offers rewards to people who change their behavior. | Singapore gives drivers monetary incentives for driving smart cars. |
| **Incidence** | A measure of who really pays the tax | In the taxi example, both consumer and seller pay the same incidence. |
| **Income Effect** | the change in the quantity of a good consumed that results from a change in the consumer's purchasing power due to the change in the price of the good | Housing demand can be partially explained by income effect since housing takes up a large share of a family's income. |
| **Income Elasticity Of Demand** | The percent change in the quantity of a good demanded when a consumer's income changes divided by the percent change in the consumer's income. | (% Change in Quantity Demanded)/(% Change in Income) |
| **Income-Elastic** | The income elasticity of demand for a good is greater than 1. | An example is second homes. |
| **Income-Inelastic** | The income elasticity of demand for that good is positive but less than 1. | Examples are necessities like clothes and food. |
| **Indifference Curve** | a line that shows all the consumption bundles that yield the same amount of total utility for an individual | A consumption bundle of 3 rooms and 30 restaurant meals as well as one of 6 rooms and 15 restaurant meals are both on Ingrid's indifference curve. |
| **Indifference Curve Map** | a collection of indifference curves in which each curve corresponds to a different total utility level | This has many levels. For example, 3 rooms and 30 restaurant meals would be on an indifference curve of 450 utils while 10 rooms and 30 restaurant meals would be on an indifference curve of 750 utils |
| **Individual Choice** | The decision by an individual of what to do, which necessarily involves a decision of what not to do. | Every single action we take is an individual choice. |
| **Individual Consumer Surplus** | The net gain to an individual buyer from the purchase of a good. Equal to the difference between the buyer's willingness to pay and the price paid. | If the market price was 20 dollars, Guillermo's individual consumer surplus would be 10 dollars. |
| **Individual Demand Curve** | shows the relationship between quantity demanded and price for an individual consumer | The market demand curve is a horizontal sum of many individual demand curves. |
| **Individual Labor Supply Curve** | Shows how the quantity of labor supplied by an individual depends on that individual's wage rate | Higher the wage, the more leisure consumed |
| **Individual Producer Surplus** | The net gain to an individual seller from selling a good. Equal to the difference between the price received and the seller's cost. | Since the market price is 20 dollars, his individual producer surplus is 10 dollars. |
| **Industry Supply Curve** | shows the relationship between the price of a good and the total output of the industry as a whole | It is the supply and demand curve |
| **Inefficient** | When there are missed opportunities: some people could be made better off without making other people worse off. | Price controls make things worse off for at least one person. |
| **Inefficient Allocation Of Sales Among Sellers** | Those who would be willing to sell the good at the lowest price are not always those who actually manage to sell it. | People who are unemployed and willing to work for less can't find jobs. |
| **Inefficient Allocation To Consumers** | Some people who want the good badly and are willing to pay a high price don't get it, and some who care relatively little about the good and are only willing to pay a low price do get it. | Rent control makes it hard to find apartments for everyone who needs one. |
| **Inefficiently High Quality** | sellers offer high quality goods at a high price, even though buyers would prefer a lower quality at a lower price | Air plane flights offer many necessary luxuries rather than have cheap flight tickets. |
| **Inefficiently Low Quality** | Sellers offer low-quality goods at a low price even though buyers would prefer a higher quality at a higher price. | Rent control apartments are of significantly lower quality than regular apartments. |
| **Inelastic Demand** | The price elasticity of demand is less than 1. A higher price increases total revenue. The price effect is stronger than the quantity effect. | Necessary goods like eggs and bread are inelastic. |
| **Inferior Good** | a good for which demand decreases when income rises | Clothes are inferior goods. As income rises, demand for designer clothes increases while cheap clothes' demand decreases. |
| **Input** | a good that is used to produce another good | The input of a cake includes the cost of flour. |
| **Interaction** | Interaction of choices- my choices affect you choices, and vice versa- is a feature of most economic situations. The result of this interaction is often quite different from what the individuals intend. | In school, students make hundreds of interactions each week. |
| **Interdependence** | when a firm's decision significantly affects the profits of other firms in the industry | If ADM were to increase production, Ajinomoto would gain less profit because the increased supply decreases price. |
| **Invisible Hand** | Refers to the way in which the individual pursuit of self-interest can lead to good results for society as a whole. | This principle demonstrates how the economy improves over time through our interactions. |
| **Kinked Demand Curve** | a demand curve that is very steep on one side and nearly flat on the other | looks like ladder resting on roof |
| **Law Of Demand** | the higher the price for a good or service, other things equal, leads people to demand a smaller quantity of the good | Less people buy expensive coffee than cheap Dunkin' Donuts coffee. |
| **Leisure** | time available for purposes other than earning money to buy marketed goods | hanging out with friends and family |
| **License** | Gives its owner the right to supply a good. | A taxi medallion is a license. |
| **Long Run** | the time period in which all inputs can be varied | In a year I expect to get more machines |
| **Long-Run Average Total Cost Curve** | shows the relationship between output and average total cost when fixed cost has been chosen to minimize average total cost for each level of output | It shows the production for any number of machines |
| **Long-Run Industry Supply Curve** | shows how the quantity supplied responds to the price once producers have had time to enter or exit the industry | It is a horizontal line because over the long run, no matter what, the supply approaches to the price where profit=0. |
| **Long-Run Market Equilibrium** | when the quantity supplied equals the quantity demanded, given that sufficient time has elapsed for entry into and exit from the industry to occur | It is at the break-even point. |
| **Macroeconomics** | The branch of economics that is concerned with ups and downs in the economy. | Macroeconomics is important for the understanding of global trade. |
| **Marginal Analysis** | Analysis that involves comparing marginal benefits and marginal costs. The study of marginal decisions. | Marginal analysis is applied to any "how much" decision. |
| **Marginal Decisions** | decisions about whether to do a bit more or a bit less of an activity; comparing the costs and benefits of doing a little bit more of an activity versus doing a little bit less. | Sometimes I make a marginal decision when I decide to study for one more hour or get another hour's worth of sleep. |
| **Marginal Product** | change in quantity of one output produced by one additional unit of that input | MP= Change in product/ change in input |
| **Marginal Rate Of Substitution** | the ratio of the marginal utility of good R to the marginal utility of M | As one goes down an indifference curve, the marginal rate of substitution always goes down. |
| **Marginal Revenue** | the change in total revenue generated by an additional unit of output | MR= P= D |
| **Marginal Revenue Curve** | shows how marginal revenue varies as output varies | Horizontal line at price for perfect competition. |
| **Marginal Utility** | the change in total utility generated by consuming one additional unit of a good or service | The marginal utility for one more cookie than 1 cookie would be 95 utils. |
| **Marginal Utility Curve** | shows how marginal utility depends on the quantity of a good or service consumed | Approaching 15 cookies, my marginal utility curve would approach 0. |
| **Marginal Utility Per Dollar** | the additional utility from spending one more dollar on that good or service | Sammy's marginal utility per dollar for 1 clam is 3.75 |
| **Market Economy** | An economy in which decisions about production and consumption are made by individual producers and consumers. | The USA is a market economy. |
| **Market Failure** | When the individual pursuit of self-interest leads to bad results for society, there is market failure. | Taxes placed on markets create dead-weight loss and thus lower total surplus and consequently inefficiency. |
| **Market Power** | the ability of a firm to raise prices | Diamonds are expensive because De Beers has raised the prices through making supply low. |
| **Market Share** | the fraction of the total industry output represented by that producer's output | Kellogg’s has nearly one third of the market share of cereals. |
| **Market-Clearing Price** | the price that matches the quantity supplied and the quantity demanded | Everyone finds a buyer and seller. |
| **Markets For Goods And Services** | firms sell goods and services that they produce to households | A supermarket is a market for goods and services. |
| **Microeconomics** | Is the branch of economics that studies how people make decisions and how these decisions interact. | Microeconomics is concerned with many of our daily choices. |
| **Midpoint Method** | A technique for calculating the percent change, a technique for calculating the percent change in which changes in a variable are compared with the average, or midpoint, of the starting and final values. | The difference in quantity demanded over average in quantity demanded divided by difference in price over average in price. |
| **Minimum Wage** | A legal floor on the wage rate, which is the market price of labor. | Many people in our school make minimum wage for their work in the restaurant business. |
| **Minimum-Cost Output** | the quantity of output at which average total cost is lowest - the bottom of the U-shaped average total cost curve | MC=ATC |
| **Model** | Any simplified representation of reality that is used to better understand real-life situations. | The production possibilities frontier model helps us understand our opportunity costs. |
| **Monopolist** | a firm that is the only producer of a good that has no close substitutes | De Beers is a monopoly on diamonds. |
| **Monopolistic Competition** | a market structure in which there are many competing producers in an industry, each producer sells a differentiated product, and there is free entry into and exit from the industry in the long run | Clothing firms: varies in type and quality |
| **Monopoly** | an industry controlled by a monopolist | The diamond industry is a monopoly |
| **Movement Along The Demand Curve** | A change in the quantity demanded of a good that is the result of a change in that good's price. | A lower price would result in a higher quantity of coffee demanded. |
| **Movement Along The Supply Curve** | A change in the quantity supplied of a good that is the result of a change in that good's price | A lower price on the supply curve would result in less quantity supplied. |
| **Nash Equilibrium (Non-Cooperative Equilibrium)** | the result when each player in a game chooses the action that maximizes his or her payoff given the actions of other players, ignoring the effects of his or her action on the payoffs received by those other players | In prisoner's dilemma it would be the result of both people confessing and thus getting a 15 year sentence. |
| **Natural Monopoly** | when increasing returns to scale provide a large cost advantage to a single firm that produces all of an industry's output | Power industry is a natural monopoly. |
| **Non-Cooperative Behavior** | when firms ignore the effects of their actions on each other’s' profits | If either ADM or Ajinomoto tried to produce 40 million pounds of lysine, that would be non-cooperative behavior |
| **Non-Price Competition** | using advertising and other means to try to increase their sales | Coke vs Pepsi advertising |
| **Normal Good** | a good where an increase in income increases demand for the good | Vacation trips are normal goods. |
| **Normative Economics** | makes prescriptions about the way the economy should work | An analyst might use normative economics to analyze what change in policy would be necessary to improve an economic issue. |
| **Oligopolist** | a producer in an oligopoly | AT & T |
| **Oligopoly** | an industry with only a small number of producers | Phone service companies |
| **Opportunity Cost** | The real cost of an item. What you must give up in order to get it. | My opportunity cost of an apple is an orange. |
| **Optimal Consumption Bundle** | the consumption bundle that maximizes a consumer's total utility given his or her budget constraint | Sammy's optimal consumption bundle is 2 clams and 6 potatoes. |
| **Optimal Consumption Rule** | When a consumer maximizes utility, the marginal utility per dollar spent must be the same for all goods and services in the consumption bundle. | At the optimal consumption bundle, Sammy's marginal utility per dollar for both clams and potatoes is 2.50 |
| **Optimal Output Rule** | profit is maximized by producing the quantity of output at which the marginal revenue(market price) of the last unit produced is equal to its marginal cost | Wherever MC crosses price. |
| **Ordinary Goods** | the consumer requires additional units of one good to compensate for less of another good; the consumer experiences a diminishing marginal rate of substitution when substituting one good in place of another | Restaurant meals are an ordinary good. |
| **Other Things Equal Assumption** | All other relevant factors remain unchanged. | By keeping all but one variable constant, Analysts can see the effects of a variable. |
| **Payoff** | the reward received by a player in a game, such as the profit earned by an oligopolist | If ADM were to increase production and Ajinomoto didn't, ADM would increase payoff |
| **Payoff Matrix** | shows how the payoff to each of the participants in a two-player game depends on the actions of both | Used to find dominant strategy |
| **Perfect Complements** | when a consumer wants to consume the goods in the same ratio regardless of their relative price; indifference curves take the form of right angles | Coffee and creamer are perfect compliments. |
| **Perfect Price Discrimination** | a monopolist charges each consumer his or her willingness to pay - the maximum that the consumer is willing to pay | This converts all surpluses to producer surplus. |
| **Perfect Substitutes** | the marginal rate of substitution of one good in place of the other good is constant, regardless of how much of each and individual consumes | Soybean and cottonseed oil in pancake mixes are perfect substitutes. |
| **Perfectly Competitive Industry** | an industry in which producers are price-takers | Any farmer industry of common crops |
| **Perfectly Competitive Market** | a market in which all market participants are price-takers | Organic foods on a farmer market. |
| **Perfectly Elastic** | Any price increase will cause the quantity demanded to drop to zero. The demand curve is a horizontal line. | An example is a specially colored tennis ball. If the price increases above the price of other tennis balls, you won't buy any of it. |
| **Perfectly Elastic Supply** | Even a tiny increase or reduction in the price will lead to very large changes in the quantity supplied, so that the price elasticity of supply is infinite. A perfectly elastic supply curve is a horizontal line. | An example would be pizzas. Below a price, people would not supply pizza due to the expenses. |
| **Perfectly Inelastic** | The quantity demanded does not respond at all to changes in the price. The demand curve is a vertical line. | An example is a vital medicine. You need it to survive so you will buy it no matter the price. |
| **Perfectly Inelastic Supply** | The price elasticity of supply is zero, so that changes in the price of the good have no effect on the quantity supplied. A perfectly inelastic supply curve is a vertical line. | Something that has a fixed quantity like cell phone frequencies. |
| **Physical Capital** | Consists of manufactured resources | buildings and machines |
| **Positive Economics** | the branch of economic analysis that describes the way the economy actually works | An analyst might use positive economics to analyze the tax policy. |
| **Price Ceiling** | maximum price sellers are allowed to charge for a good | An example is rent control. |
| **Price Controls** | Legal restrictions on how high or low a market price may go. | In times of crisis, such as hurricane Sandy, the government sues price controls to ensure prices of goods do not rise too much. |
| **Price Discrimination** | charging different prices to different consumers for the same good | Movie tickets offer different prices for kids, adults, and seniors. |
| **Price Elasticity Of Demand** | the ratio of the percent change in the quantity demanded to the percent change in the price as we move along the demand curve | This is very important for deciding whether or not to raise the price of a good in order to gain more revenue. This is what OPEC used in order to determine whether they should increase the price of oil. |
| **Price Elasticity Of Supply** | A measure of the responsiveness of the quantity of a good supplied to the price of that good. The ratio of the percent change in the quantity supplied to the percent change in the price as we move along the supply curve. | Percent change in quantity supplied divided by percent change in price |
| **Price Floor** | minimum price buyers are required to pay for a good | An example is minimum wage |
| **Price Leadership** | one firm sets its price first, and other firms then follow | General Motors in car industry |
| **Price Regulation** | limiting the price a monopolist may charge | America may do this to prevent monopolies. |
| **Price War** | occurs when tacit collusion breaks down and prices collapse | What would happen when neighboring gas stations lower prices. |
| **Price-Taking Consumer** | a consumer whose actions have no effect on the market price of the good he or she buys | Apple buyers have no effect on price of iPhone. |
| **Price-Taking Producer** | a producer whose actions have no effect on the market price of the good it sells | Wheat farmers |
| **Principle Of Diminishing Marginal Utility** | Each successive unit of a good or service consumed adds less to total utility than does the previous unit | The more cookies I eat, the less utility I would gain from each. |
| **Prisoners' Dilemma** | a game based on two premises; each player has an incentive to choose an action that benefits itself at the other player's expense; when both players act in this way, both are worse off than if they had acted cooperatively | Both prisoners would benefit from not confessing but there is an incentive to confess. |
| **Producer Surplus** | A term often used to refer to both individual and to total producer surplus. | The producer surplus in this case would also be 38 dollars. |
| **Product Differentiation** | an attempt by a firm to convince buyers that its product is different from the products of other firms in the industry' | Advertising of products |
| **Production Function** | The relationship between quantity of inputs used to make a good and the quantity of output of that good | It looks like a supply curve |
| **Production Possibility Frontier** | Illustrates trade-offs facing an economy that produces only two goods. Shows the maximum quantity of one good that can be produced for any given quantity produced of the other. | Producing more of one good, results in the production of less of another good. |
| **Public Ownership** | the good is supplied by the government or by a firm owned by the government | Before 1984, British government owned the telephone industry |
| **Quantity Control/ Quota** | An upper limit on the quantity of some good that can be bought or sold. | There is a quota on the number of taxi cabs in New York City. |
| **Quantity Demanded** | the actual amount consumers are willing to buy at some specific price | In the coffee example this would be how many pounds of coffee people are willing to buy. |
| **Quantity Supplied** | The actual amount of a good or service people are willing to sell at some specific price. | The number of scalped tickets one can buy off of people at different prices. |
| **Quota Limit** | The total amount of the good that can be legally transacted | There are only a couple of thousand taxis in New York. |
| **Quota Rent** | Difference between the demand and supply price at the quota limit. The earnings that accrue to the license-holder from ownership of the right to sell the good. It is equal to the market price of the license when the licenses are traded. | The amount the driver pays the license holder. |
| **Recession** | Is a downturn in the economy. | The recession of 2008 brought hardship nationwide. |
| **Relative Price** | the rate at which one good trades for another in the market | If a potato is $2 and a clam is $4, the relative price of potatoes to clams is $.50 |
| **Relative Price Rule** | at the optimal consumption bundle, the marginal rate of substitution between two goods is equal to their relative price | According to the relative price rule, at the optimal consumption bundle, the marginal rate of substitution between potatoes and clams must be .50 |
| **Rental Rate** | The cost, implicit or explicit, of using a unit of that asset for a given period of time | land or capital |
| **Resource** | Anything that can be used to produce something else. | Oil is a resource used to produce plastic, gasoline, and rubber. |
| **Scarce** | The quantity of resources available isn't large enough to satisfy all productive uses. | Time is one of the scarcest items. |
| **Seller's Cost** | The lowest price at which he or she is willing to sell a good. | Richard's seller's cost may be 10 dollars for his used textbook. |
| **Shift Of The Demand Curve** | a change in the quantity demanded at any given price, represented by the change of the original demand curve to a new position, denoted by a new demand curve | Studies that showed the harmful side effects of coffee would shift the demand curve left. |
| **Shift Of The Supply Curve** | a change in the quantity supplied of a good or service at any given price, represented graphically by the change of the original supply curve to a new position, denoted by a new supply curve. | If it was someone's last performance the supply curve would shift left. |
| **Short Run** | the time period in which at least one input is fixed | Right now, I have 3 machines |
| **Shortage** | When the quantity demanded exceeds the quantity supplied. Shortages occur when the price is below its equilibrium level. | Popular new films are typically sold out on the first day and so they experience a shortage. |
| **Short-Run Individual Supply Curve** | shows how an individual producer's profit-maximizing output quantity depends on the market price, taking fixed cost as given | It is the cost graph |
| **Short-Run Industry Supply Curve** | shows how the quantity supplied by an industry depends on the market price given a fixed number of producers | It is the supply and demand curve |
| **Short-Run Industry Supply Curve** | shows how the quantity supplied by an industry depends on the market price given a fixed number of producers | It is the supply and demand curve |
| **Short-Run Market Equilibrium** | the quantity supplied equals the quantity demanded, taking the number of producers as given | Where supply crosses over demand |
| **Shut-Down Price** | The price at which a firm ceases production in the short run. | Equal to minimum average variable cost |
| **Single-Price Monopolist** | offers its product to all consumers at the same price | Microsoft software may be a single-price monopolist because everyone pays the same price for Windows 8. |
| **Specialization** | The increase in output is due to specialization: each person specializes in the task that he or she is good at performing. | When we go to college we gain an education so that we can specialize in a particular field |
| **Standardized Product** | also known as commodity; when consumers regard the products of different producers as the same good | Wheat is a standardized product because it's all the same. |
| **Standardized Product (Commodity)** | when consumers regard the products of different producers as the same good | Wheat is a standardized product because it's all the same. |
| **Strategic Behavior** | attempting to influence the future behavior of other firms | an example is tit for tat |
| **Substitutes** | two goods are substitutes if a fall in the price of one of the goods makes consumers less willing to buy the other good | Tea and coffee are substitutes. |
| **Substitution Effect** | the change in the quantity of a good consumed as the consumer substitutes the good that has become relatively cheaper in place of the good that has become relatively more expensive | The substitution effect would explain much behind the demand of coffee and tea. |
| **Supply And Demand Model** | A model how a competitive market works. | These are very useful to make sure you don't have a surplus or shortage. |
| **Supply Curve** | shows graphically how much of a good or service people are willing to sell at any given price | How many tickets people are willing to give up at different prices. |
| **Supply Price** | the price at which producers will supply that quantity | The price drivers make from their service. |
| **Supply Schedule** | Shows how much of a good or service would be supplied at different prices. | How many tickets people are willing to give up at different prices offered. |
| **Surplus** | When the quantity supplied exceeds the quantity demanded. Surpluses occur when the price is above equilibrium level. | Students at the holiday bazaar typically have a surplus. |
| **Tacit Collusion** | when firms limit production and raise prices in a way that raises each other’s profits, even though they have not made any formal agreement | in prisoner's dilemma it would be the result of both people not confessing |
| **Tangency Condition** | at the optimal consumption bundle, the budget line just touches (is tangent to) the indifference curve | On perfect compliments, the budget line is tangent to the corner. |
| **The Marginal Productivity Theory Of Income Distribution** | Every factor of production is paid its equilibrium value of the marginal product | W= VMPL |
| **Time Allocation** | How many hours to spend on different activities | spend 7 hours of school per weekday |
| **Tit For Tat** | playing cooperatively at first, then doing whatever the other player did in the previous period | copy catting the opponent |
| **Total Consumer Surplus** | The sum of the individual consumer surpluses of all the buyers of a good. | If Sally was willing to pay 40 dollars and Bob 25, then between the three people (including Guillermo) the total consumer surplus would be 35 dollars. |
| **Total Cost** | the sum of the fixed cost and the variable cost of producing a quantity of output | TC=FC+VC |
| **Total Cost Curve** | shows how total cost depends on the quantity of output | At 10 boots, cost is 1,400 dollars. |
| **Total Producer Surplus** | The sum of the individual producer surpluses of all the sellers of a good. | If Hannah's seller's cost was 5 dollars and Jill's was 7 dollars, then, including Richard, the total producer surplus would be 38 dollars. |
| **Total Product Curve** | shows how the quantity of output depends on the quantity of the variable input, for a given quantity of the fixed input | With 8 laborers I can make 100 bushels of wheat. |
| **Total Revenue** | the total value of sales of a good or service, equal to the price multiplied by the quantity sold | If the price of sneakers was $50 and at that price 100 were sold, the total revenue would be $5000. |
| **Total Surplus** | The total surplus generated in a market is the total net gain to consumers and producers from trading in the market. Equal to the sum of the producer and the consumer surplus. | In this market of used textbooks, the total surplus would be 38 + 35 which equals 73 dollars. |
| **Trade** | Provide goods and services to others and receive goods and services in return. | When one goes to the super market, one exchanges money for food. |
| **Trade-Off** | When you compare the costs with benefits of doing something. | The trade-off of going to school on the bus is waking up early. |
| **Unions** | organizations of workers that try to raise wages and improve working conditions for their members | teacher's union |
| **Unit-Elastic** | The price elasticity of demand is exactly 1. An increase in price does not change total revenue. The quantity effect and the price effect exactly offset each other. | There are no real examples of unit elastic goods. An example could be a theoretical bridge toll where an increase in price would be equally offset by a decrease in customers. |
| **U-Shaped Average Total Cost Curve** | falls at low levels of output, then rises at higher levels | The shape is that of Nike "swoosh" |
| **Util** | unit of utility | A cookie is worth 100 utils for me. |
| **Utility** | a measure of the satisfaction the consumer derives from consumption of goods and services | I would gain more utility from a cookie than a piece of broccoli. |
| **Utility Function** | gives the total utility generated by an individual's consumption bundle | Sammy's utility for such a bundle would be 72 utils. |
| **Value Of The Marginal Product Curve** | shows how the value of the marginal product of that factor depends on the quantity of the factor employed | It is the demand curve for labor |
| **Value Of The Marginal Product(VMPL)** | The value of the additional output generated by employing one more unit of that factor | Price x MPL |
| **Variable Cost** | a cost that depends on the quantity of output produced; the cost of the variable input | Cost for flour used |
| **Variable Input** | an input whose quantity the firm can vary at any time | # of papers to be stapled |
| **Wasted Resources** | People expend money, effort, and time to cope with the shortages caused by the price ceiling. | People spend a lot of time looking for apartments. |
| **Wedge** | Between the demand price and the supply price of a good; that is, the price paid by buyers ends up being higher than that received by sellers. | I pay more for taxis than the driver makes. |
| **Willingness To Pay** | The maximum price at which he or she would buy that good. | Guillermo's willingness to pay for a used textbook may be 30 dollars. |
| **Zero-Profit Equilibrium** | each firm makes zero profit at its profit-maximizing quantity | In the long run each firm approaches this and only on the side of economies of scale. |