AQA
Questions matter

Subject specific vocabulary

The following subject specific vocabulary provides a selection of definitions of key terms used in our A-level Economics 7136 specification. This document does not attempt to define all the terms in the specification or every economic term that students should know.

Your students should be familiar with, and gain understanding from all these terms.

The key terms included in this document are generally listed in the order in which they appear in the specification.

4.1 Individuals, firms, markets and market failure

Positive statement

A statement that does not include a value judgement and can be tested against the facts or evidence.

Normative statement

A statement that includes a value judgement and cannot be refuted just by looking at data or evidence.

Value judgement

A view about what is right or wrong, good or bad in a moral sense. Statements that include value judgements often, but not always, contain the words 'should' or 'ought'.

Economic activity

The production, consumption, exchange and distribution of goods and services.

Economic resources (factors of production)

The inputs into the production process that are needed to produce the goods and services that satisfy people's wants. They are usually classified as land, labour, capital and enterprise.

Land
The factor of production that includes all the natural resources that are available on the earth. It includes the land and sea.

Capital
The human-made factor of production. Examples of capital include machines, tools, lorries and buildings.

Labour
The human resource. The contribution made by people to the production of goods and services.

Entrepreneur
The person or group of people who organise the other economic resources to allow goods and services to be produced.

Enterprise
Enterprise involves making decisions and taking risks.

Scarce resource
A factor of production that is limited in supply. There are not enough available to satisfy. people's needs and wants.

Scarcity
The fundamental economic problem that results from limited resources and unlimited wants. It means that choices have to be made which have an opportunity cost.

Opportunity cost
The next best alternative foregone when a choice is made.

Production possibility diagram
Shows the quantities of two goods or services that can be produced with the available resources, given the current state of technology.

Production possibility boundary (PPB)
The PPB is also known as the production possibility curve (PPC) and the production possibility frontier (PPF). It shows the various quantities of two goods or services that can be produced, with the current state of technology, when all the available resources are fully employed.

Resource allocation

How the available factors of production are used to produce different goods and services. The allocation of resources involves determining what is produced, how it is produced and for whom it is produced.

Rational economic decision making

Using all the available information to select the best option to maximise the welfare of the decision maker. A rational consumer chooses to buy the goods and services that, given their limited income, will maximise their total utility.

Utility

The satisfaction that is derived from consuming a good or service.

Marginal utility

The change in total utility that results from the consumption of one more, or one fewer, goods or services.

Hypothesis of diminishing marginal utility

The proposition that as more of a product is consumed, the additional satisfaction gained from each extra unit declines.

Imperfect information

When an economic agent does not have all the information needed to make a rational decision, or the information is distorted in some way.

Asymmetric information

A type of imperfect information where one party to an economic transaction has more information than the other party.

Behavioural economics

A branch of economics that includes elements of psychology to improve our understanding of how people's decision making is influenced by biases and emotional factors.

Bounded rationality

The idea that human limitations mean that people's decision making is not completely rational. Bounded rationality means that when an individual makes a decision, they choose an option that is satisfactory rather than optimal.

Bounded self-control

The idea that people do not have sufficient willpower or self-discipline to resist choices that may be tempting but are not in their self-interest.

Rules of thumb

Mental shortcuts, based on experience, that enable individuals to make decisions more quickly and easily.

Anchoring

The idea that when making decisions, people rely too heavily on one particular piece of information, the anchor. The anchor is often the first piece of information they encounter.

Availability bias

When people's decision making is unduly influenced by recent events or how easily an event comes to mind.

Social norms

Behaviours that are consistent with what is generally considered acceptable by society at the present time.

Choice architecture

The way or framework in which choices are presented to people.

Nudge

Something that encourages a particular decision or behaviour without removing freedom of choice.

Default choice

An option that has been pre-selected for an individual but the individual is able to select a different option if they want to.

Restricted choice

Where the number of choices made available to an individual is limited. This type of choice architecture is often adopted when there is a large number of choices available which makes it hard for individuals to decide which is the best option.

Mandated choice

A form of choice architecture where the individual must make a decision. Mandated choices are usually required by law.

Demand curve
The relationship between the price and quantity demanded of a good or service, in a given period of time, when other things that affect demand are held constant.

Price elasticity of demand
A measure of the extent to which the quantity demanded of a product changes in response to a change in the price of the product.

Income elasticity of demand
A measure of the extent to which the quantity demanded of a product changes in response to a change in income.

Cross elasticity of demand
A measure of the extent to which the quantity demanded of a product changes in response to a change in the price of a different product.

Normal good
A product where there is a positive relationship between income and the quantity demanded of the product, eg a rise in income leads to a rise in the quantity demanded.

Inferior good
A product where there is an inverse relationship between income and the quantity demanded of the product, eg a rise in income leads to a fall in the quantity demanded.

Supply curve
The relationship between the price and quantity supplied of a good or service, in a given period of time, when other things that affect supply are held constant.

Price elasticity of supply
A measure of the extent to which the quantity supplied of a product changes in response to a change in the price of the product.

Equilibrium market price
The price at which the quantity demanded equals the quantity supplied and there is no tendency for the price to change.

Disequilibrium price
A price at which there is either excess demand, and a tendency for the price to rise, or there is excess supply, and a tendency for the price to fall.

Excess demand

The amount by which the quantity demanded exceeds the quantity supplied at the current price.

Excess supply

The amount by which the quantity supplied exceeds the quantity demanded at the current price.

Joint demand

When two products are demanded together so that the demand for one product is directly related to the demand for the other product. Complementary goods such as printers and printer cartridges are in joint demand.

Competitive demand

When the demand for one product increases the demand for another product decreases. Substitute goods such as butter and margarine are in competitive demand.

Composite demand

When a product has more than one use so that an increase in the demand for one use leads to a fall in the supply of the product that is available to use elsewhere. For example, milk is used to produce cream and cheese.

Derived demand

When the demand for a product, or factor of production, is determined by the demand for a different product. For example, the demand for steel is derived from the demand for cars, and a number of other products.

Joint supply

When the output of one product also results in the output of a different product. For example, sheep farming can lead to the supply of both meat and wool.

Production

The process of using factors of production to create goods and services.

Productivity

A measure of how much a factor of production can produce in a given period of time. For example, the productivity of land might be measured by output per hectare per year. It is a measure of efficiency.

Labour productivity

A measure of how much a worker can produce in a given period of time. For example, output per person per hour.

Specialisation

Where firms, regions, countries or factors of production concentrate on producing a particular good or service, or carrying out a particular task.

Division of labour

When the production of a good is broken down into many separate tasks and each worker performs one task, or a narrow range of tasks, as part of the production process.

Short run

The time period when there is at least one fixed factor of production.

Long run

The time period when all factors of production are variable.

The law of diminishing returns

The law states that as more of a variable factor of production is used in combination with a fixed factor of production, both the marginal and average returns to the variable factor of production will initially increase but will eventually decrease.

Returns

The amount produced, ie the output of a good or service.

Marginal returns

The change in total output that results from employing one more unit of a variable factor of production when the amount employed of all other factors of production is unchanged.

Average returns

Average returns to a variable factor of production is calculated by dividing total output by the number of units of the variable factor that are employed.

Total returns

Total output.

Returns to scale

The effect on total output when all factors of production are changed. It relates to the long run when all factors of production are variable.

Increasing returns to scale

When a given percentage increase in all factor inputs leads to a greater percentage increase in output.

Constant returns to scale

When a given percentage increase in all factor inputs leads to the same percentage increase in output.

Decreasing returns to scale

When a given percentage increase in all factor inputs leads to a smaller percentage increase in output.

Fixed costs

Costs that do not change when output changes.

Variable costs

Costs that change when output changes.

Marginal cost

The change in total cost when one more or one fewer unit of output is produced.

Average cost

Total cost divided by output.

Total cost

Total fixed cost plus total variable cost.

Internal economies of scale

When the growth of a firm results in the firm's long-run average cost falling.

External economies of scale

When the growth of an industry leads to lower average cost for firms in that industry.

Diseconomies of scale

When the growth of a firm results in the firm's long-run average cost increasing.

Long-run average cost curve (LRAC)

Shows the minimum average costs of producing any given level of output when all factors of production are variable but technology has not changed.

Minimum efficient scale of production
The lowest level of output at which a firm's long-run average cost is minimised.

Total revenue
The total amount of money a firm receives from selling its output. It is usually calculated by multiplying the price of the product by the quantity sold.

TR = P x Q

Marginal revenue
The change in total revenue when one more or one fewer unit of output is sold.

Average revenue
Total revenue divided by the quantity sold.

TR ÷ Q

Profit
The difference between a firm's total revenue and total cost (TR – TC). The firm makes a profit when TR > TC. It is the reward for the factor of production enterprise.

Normal profit
The minimum amount of profit that is required to keep the entrepreneur in business in the long run. It is the opportunity cost of the entrepreneur. If the cost of enterprise is included as one of the firm's costs of production, normal profit is earned when total revenue equals total cost.

TR = TC

Abnormal profit (supernormal profit)
When total profit is greater than normal profit.

Subnormal profit
When total profit is less than normal profit.

Technological change
The discovery and use of new and improved methods of producing goods and services. The introduction of new, more efficient technologies shifts the LRAC downwards.

Invention
The discovery of something new. It might, for example, be a new product, process or method of production.

Innovation
The process of introducing and developing a new product, service or method of production.

Market structure
The classification of an industry, or market, in respect of its key characteristics including: the number of firms, the nature of the product and ease of entry.

Divorce of ownership from control
When the people who own a business are not the same set of people who manage, or control, the business.

Satisficing
A decision-making strategy where people/managers aim to achieve an acceptable, or satisfactory, outcome rather than the optimal outcome. For example, managers might aim to achieve a minimum target level of profit rather than to maximise profit.

Market share
The percentage of total sales in a given market that is accounted for by a particular firm or product.

Perfect competition
A market structure that comprises a large number of small firms selling a homogeneous (identical) product to a large number of buyers, none of whom are able to influence the market price. There is perfect knowledge and freedom of entry into the market.

Homogeneous products
Products that are identical to each other, they are perfect substitutes.

Price taker
A firm that is unable to influence the price of the product it sells. When a firm is a price taker, the price is usually determined by market forces, ie the interaction of demand and supply.

Monopolistic competition
A market structure that comprises a large number of small firms selling differentiated products to a large number of buyers. There is freedom of entry into the market.

Differentiated products

Products that are similar but not identical to each other. They are close but not perfect substitutes. Products can, for example, be differentiated by the use of brand names, advertising, design, colour and after-sales service. These are types of non-price competition that firms use to differentiate their products and increase their monopoly power.

Price maker

A firm that is able to set the price of the product it sells.

Oligopoly

Oligopoly is a market structure that is often defined as 'competition amongst the few'. It is not a clearly defined market structure, but a few large firms dominate the market and compete with each other. The market may also contain some small and medium-sized firms. Firms in oligopolistic markets usually produce differentiated products and there are barriers to entry, although the extent to which entry is restricted varies.

Concentration ratio

A measure of the combined market share of the largest firms in an industry, usually expressed as a percentage. For example, a three-firm concentration ratio could be calculated as follows: combined sales of the three largest firms ÷ total sales in the market x 100.

Collusion

Where rival firms work together for their mutual benefit often to the detriment of consumers.

Collusive oligopoly

Where some or all of the large firms in the market work together to increase their monopoly power.

Competitive (non-collusive) oligopoly

Where the firms in the market act individually in their self-interest and use various means to compete with each other.

Kinked demand curve model

A model of oligopolistic behaviour that assumes that if one firm reduces its price others will follow, but if a firm raises its price other firms will not raise their prices. The model attempts to explain why prices are relatively stable and non-price competition usually prevails in oligopolistic markets.

Cartel
A formal agreement between firms to protect their mutual interest and increase their monopoly power. The agreement may involve, for example, fixing prices, restricting output and dividing the market between the firms.

Price leadership
Where one firm changes its price and then other firms in the market follow, making similar price changes.

Price agreements
Where firms cooperate to decide and then fix the prices they will charge for different products and to different consumers.

Price wars
Where firms cut prices aggressively to increase their market share and force other firms out of business. A price cut by one firm, trying to increase its market share, may persuade other firms to cut their prices and start a price war.

Barriers to entry
Factors that make it difficult for new firms to join a market.

Monopoly
Pure monopoly is where a single firm supplies 100% of a market.

Monopoly power
The ability of a firm to affect the price of a product. Firms with monopoly power are price makers and not price takers.

Price discrimination
When a firm charges different prices to different consumers for the same product for reasons other than differences in cost.

Creative destruction
The replacement of existing products, markets and firms with new ones as an inevitable consequence of technological change.

Contestable market
A market in which there are few, if any, barriers to entry or exit, or sunk costs.

Sunk cost

Costs that have been incurred but cannot be recovered if a firm leaves a market. Sunk costs create a barrier to firms leaving an industry.

Hit-and-run competition

When a firm enters a market to take advantage of the abnormal profits being earned by existing firms (incumbents) and leaves the market when the abnormal profits have been competed away.

Static efficiency

The most efficient allocation of existing resources at a point in time. Static efficiency requires both productive and allocative efficiency.

Dynamic efficiency

The ability of firms and/or an economy to adapt and improve over a period of time. Dynamic efficiency depends on investment, innovation and improved methods of production. It is related to the introduction of new and improved products as well as increases in productivity.

Productive efficiency

Where it is not possible to produce more of one good or service without producing less of another good or service. All points on a production possibility boundary are productively efficient. An individual firm is productively efficient when it is producing at the lowest point on its average total cost curve.

Allocative efficiency

When an economy is producing the combination of goods and services that best satisfies people's preferences. Whilst all points on a production possibility boundary are productively efficient there might be only one point on the boundary that is allocatively efficient. An individual firm is allocatively efficient when it is producing an output at which price equals marginal cost.

Consumer surplus

The difference between the price a consumer has to pay for a product (usually the market price) and the price the consumer would be willing to pay for a product.

Producer surplus

The difference between the price a firm actually receives for a product (usually the market price) and the price they would be willing and able to supply the product for.

Deadweight loss

The value of producer and consumer surplus that is lost when resources are not allocated efficiently, for example, when a market is not in equilibrium.

Demand curve for labour

The relationship between the wage rate and the number of workers firms wish to employ when other things that affect the demand for labour are held constant.

Marginal physical product of labour

The increase in total output that results from employing one more worker when the amount employed of all other factors of production are unchanged. It is the same as the marginal returns to labour.

Marginal revenue product of labour

The change in total revenue that results from selling the extra output produced by employing one more worker when the amount employed of all other factors of production is unchanged.

Elasticity of demand for labour

A measure of the extent to which the number of workers demanded changes in response to a change in the wage rate.

Supply curve for labour

The relationship between the wage rate and the number of workers willing to work in an occupation when other things that affect the supply of labour are held constant.

Perfectly competitive labour market

A labour market in which there are large numbers of buyers (small firms) and sellers (individual workers) of labour, none of whom can influence the market wage rate. Workers are homogenous/identical, there is perfect information.

Imperfectly competitive labour market

A labour market in which firms have monopsony power and/or there are trade unions that affect the supply of labour and/or there is imperfect information.

Monopsony

A sole buyer of a product or factor of production.

Trade union

An organisation of workers that aims to protect and promote the rights and interests of its members. A trade union may be able to affect the supply of labour to a particular occupation and exert some monopoly power.

National minimum wage

The lowest wage rate that a firm is legally allowed to pay.

Wage discrimination

When different groups of workers are paid a different wage rate for the same or equivalent work, for reasons other than differences in their marginal revenue product.

Income

The flow of money received by an economic agent over a period of time. Income can be either earned (through employment) or unearned. Unearned income includes interest from savings, dividends, share ownership and rent from property.

Wealth

The value of the stock of assets owned by an economic agent at a point in time.

Equality and inequality

The extent to which income and wealth are distributed evenly. The degree of equality/inequality can be measured, for example, using the Gini coefficient.

Equity

Related to fairness and justice, it is a normative concept. An equal distribution of income and wealth is not necessarily equitable. What people judge to be equitable will vary.

The Lorenz curve

A graphical representation of the distribution of income or wealth.

Gini coefficient

A numerical measure of the degree of inequality in the distribution of income or wealth.

Absolute poverty

Where an individual does not have enough income to satisfy their basic human needs.

Relative poverty

Where an individual does not have enough income to enjoy the standard of living that is enjoyed by most people in the society in which they live. Generally, people who have less than 60%, or sometimes 50%, of median income are considered to be in relative poverty.

Rationing function of the price mechanism

When there is excess demand for products and/or factor services, prices rise to reduce demand. When there is excess supply, prices fall to increase demand. Rationing through the price mechanism depends on people's ability to pay and the strength of their preferences.

Incentive function of the price mechanism

When an increase in price encourages producers, and those providing factor services, to supply more, and a fall in price leads to a reduction in the supply of products and factor services.

Signalling function of the price mechanism

A change in price conveys information to economic agents about changing market conditions in a simple, convenient manner, helping producers and consumers make informed decisions.

Market failure

When markets operating without government intervention result in a misallocation of resources.

Complete market failure

When the market mechanism does not supply a product even though it would satisfy people's needs and wants. There is a missing market.

Partial market failure

When a market exists and the product is supplied but not at the socially optimal level, too much or too little is supplied.

Public good

A product that is non-rival and non-excludable.

Private good

A product that is both rival and excludable.

Quasi-public good

A product that has some but not all of the features of a public good, for example, it might be non-rival but excludable.

Non-excludable
When no one can be prevented from consuming the product.

Non-rival
When the consumption of the product by one or more individuals does not reduce the amount available for others to consume.

Free rider
When an individual is able to consume a product without paying for it. For example, the non-excludability characteristic of public goods means that public goods are subject to the free-rider problem.

Tragedy of the commons
Where individuals, acting in their self-interest, overuse a shared resource with the result that it is depleted (used up) and degraded (damaged).

Externality
The effects that producing and/or consuming a product have on third parties. When the private cost does not equal the social cost, or when the private benefit does not equal the social benefit of production and/or consumption.

Negative externality
When the social cost is greater than the private cost of production, or when the private benefit is greater than the social benefit of consumption.

Positive externality
When the social cost of production is less than the private cost, or when the social benefit of consumption is greater than the private benefit.

Social cost
The sum of the private cost and the external cost.

Social benefit
The sum of the private benefit and the external benefit.

Property rights
Conveyed through the ownership of a resource/product, giving the owner the authority to decide how it is used.

Merit good
A product that society judges to be especially worthwhile and is likely to be underconsumed because the benefits are not always fully appreciated.

Demerit good
A product that society judges to be undesirable and is likely to be overconsumed because the costs are not always fully recognised.

Immobility of factors of production
When there are barriers that restrict the ability of factors of production to move to a different location (geographical immobility) or to change the type of employment (occupational immobility).

Competition policy
Measures adopted by a government to control the activities of firms to protect consumers, make markets more competitive and encourage an efficient use of resources. It includes the investigation of large firms, the adoption of measures to prevent the abuse of monopoly power, reviewing possible mergers, making markets more contestable and outlawing restrictive practices.

Public ownership
When a firm or industry is owned and controlled by the government. Nationalisation results in the public ownership of firms that were previously in the private sector.

Privatisation
The transfer/sale of state-owned enterprises and other assets from the public sector to the private sector.

Regulation
Laws and government-imposed rules that limit and control the behaviour of firms and individuals.

Deregulation
The removal of rules that restrict the behaviour of firms and individuals, particularly those that limit competition.

Regulatory capture
When organisations regulating industries are excessively sympathetic to the interests of the firms that they are supposed to be regulating. They make decisions that favour the firms they are supposed to be controlling rather than acting in the public interest.

Pollution permits

Licences that are sold or allocated by a government that allow firms to emit a set amount of pollution in a given time period. Permits can be sold to other firms. Pollution permit schemes provide a market-based incentive for firms to reduce pollution.

Subsidy

A payment to producers to reduce costs and increase supply.

Price control

A government regulation that sets a maximum or minimum price that can be charged for a product.

Government failure

When government intervention, with the intention of reducing market failure, leads to a worse allocation of resources than if the government had not intervened. When government intervention reduces economic welfare.

Unintended consequences

The unexpected outcomes that result from the decisions, policies and actions of the government or other economic agents.

4.2 The national and international economy

National income

The monetary value of all the goods and services that are produced by an economy in a given period of time. It is also equal to total expenditure (C + I + G + X - M) and total factor incomes.

GDP (gross domestic product)

A measure of national income. The monetary value of the total output of an economy over a given period of time, for example, one year.

Real GDP

The monetary value of the total output of an economy with the effects of inflation removed.

Nominal (money) GDP

The monetary value of the total output of an economy that has not been adjusted for the effects of inflation.

Real GDP per capita

The average, or mean, real GDP per person. Calculated by dividing a country's real GDP by its population.

Index number

A statistic, with a base value of 100, used to measure changes in a selection of related variables.

Base year

The starting point for an index where its value is 100.

Weight

Used to reflect the relative importance of each item in an index.

Consumer prices index (CPI)

A measure of the price level and inflation based on a weighted basket of goods and services.

Standard of living

The ability of people to satisfy their needs and wants, including health care and education.

Purchasing power parity (PPP) exchange rate

An exchange rate that reflects what the two currencies are able to buy in their domestic economies.

Circular flow of income

A model of the economy that shows how money, goods and services flow between different sectors of an economy, including households, firms, the government and the foreign trade sector.

Injections

Types of expenditure that add to and increase the circular flow of income in an economy. Injections are investment, government spending and exports.

Withdrawals (leakages)

The part of household income that is not spent on goods and services produced by the economy. It is income that is not passed on around the circular flow of income. Withdrawals are saving, taxation and imports.

Aggregate demand

Total planned spending on goods and services produced in the domestic economy, aggregate demand.

$AD = C + I + G + (X - M)$

Aggregate demand curve (AD)

The relationship between the price level and total planned spending when other things that affect aggregate demand are held constant.

Aggregate supply curve (AS)

The relationship between the price level and the total amount of goods and services firms are willing to produce when other things that affect aggregate supply are held constant.

Macroeconomic equilibrium

The level of real GDP and price level when the planned level of aggregate demand equals aggregate supply.

Demand-side shock

An event that leads to a sudden or unexpected change in aggregate demand.

Supply-side shock

An event that leads to a sudden or unexpected change in aggregate supply.

Consumption

Spending by households on goods and services to satisfy needs and wants.

Investment

Spending that leads to an increase in the capital stock. Investment is an injection into the circular flow of income.

Exports

Goods and services sold to other countries. Exports are an injection into the circular flow of income.

Saving

Income that is not spent. Saving is a withdrawal from the circular flow of income.

Taxation

Money that individuals and firms must pay to the government. Taxation helps to finance government sending and is a withdrawal from the circular flow of income.

Imports

Goods and services bought from other countries. Imports are a withdrawal from the circular flow of income.

Accelerator process

A theory that says investment depends on the rate of change in national income. The theory asserts that an increase in the rate of economic growth (national income) will lead to a proportionately larger increase in investment.

Multiplier

The extent to which a change in injections or withdrawals affects national income. For example, if injections into the circular flow of income increase by £100 million and this leads to a £250 million increase in national income, the multiplier is 2.5.

Marginal propensity to consume (MPC)

A measure of how a change in income affects consumption. The MPC is calculated by dividing the change in consumption (ΔC) by the change in income (ΔY) that caused the change in consumption.

$MPC = \Delta C \div \Delta Y$

Normal capacity level of output

The maximum output that an economy can continue to produce in the long run. In the short run an economy may produce less than this level of output but can also produce more than its normal capacity level of output. Economic growth will lead to an increase in an economy's normal capacity level of output.

Short-run economic growth

The rate at which the total output of the economy is increasing, usually measured by the annual percentage change in real GDP. Short-run economic growth is greater than long-run economic growth when the amount of spare capacity is falling, and is below long-run economic growth when spare capacity is increasing.

Long-run economic growth

The rate at which the productive capacity of the economy is increasing. Long-run economic growth is determined primarily by supply-side factors.

Long-run (underlying) trend rate of economic growth

The average rate at which the productive capacity of the economy is increasing over a number of years, usually 10 or more years.

The economic cycle

The fluctuations in economic activity around an economy's long-run trend rate of economic growth. The main phases of the economic cycle are: recovery, boom, recession and depression (or slump).

Positive output gap

When a country's equilibrium level of national income is greater than its normal capacity level of national income.

Negative output gap

When a country's equilibrium level of national income is below its normal capacity level of national income.

Employment

The number of people who are working, usually in exchange for a wage or salary.

Unemployment

The number of people who are willing and able to work but cannot find a job.

Claimant count measure of unemployment

The number of people who are out of work and claiming Job Seekers Allowance.

Labour Force Survey measure of unemployment

A measure of unemployment that is based on a sample of households, conducted by the Labour Force Survey. An individual is counted as unemployed if:

- They do not have a job, they want to work, have actively sought work in the last four weeks, and are able to start work within the next two weeks.
- They are out of work, have found a job, and are waiting to start it in the next two weeks.

Voluntary unemployment

There are jobs available but the individual is not willing to work at current market wage rates.

Involuntary unemployment

When an individual is willing and able to work at current market wage rates but is unable to find employment.

Seasonal unemployment

When people are unemployed at particular times of the year, for example, construction workers are more likely to be unemployed when the weather is bad during the winter.

Frictional unemployment

Short-term unemployment when people are between jobs.

Structural unemployment

Long-term unemployment that occurs when the skills and location of the unemployed workers do not match the jobs available. Structural unemployment persists due to the occupational and geographical immobility of labour.

Cyclical unemployment

Occurs when an economy goes into a recession and people cannot find work because aggregate demand is too low.

Real wage unemployment

Unemployment that results when the wage rate in some labour markets is set above the equilibrium wage rate, for example, as a consequence of a legal minimum wage or a high wage that is the outcome of collective bargaining and trade union power.

Natural rate of unemployment

It is the rate of unemployment that exists when the labour market is in equilibrium. It includes frictional, structural and real wage unemployment.

Price level

The average price of all goods and services in an economy.

Inflation

Occurs when the price level is rising.

Deflation

Occurs when the price level is falling.

Disinflation

When an economy is experiencing inflation but the rate of inflation is falling, for example, when the rate of inflation falls from 5% to 3%.

Demand-pull inflation

When the rise in the price level is caused by increasing aggregate demand.

Cost-push inflation

When the rise in the price level is caused by increasing costs of production.

Short-run Phillips curve

A model of the economy that maintains there is an inverse relationship between unemployment and inflation.

Long-run (L-shaped or vertical) Phillips curve

A model of the economy that maintains that the inverse relationship between unemployment and inflation only exists in the short-run and that if the economy is at the natural rate of unemployment, the rate of inflation will be stable. The model also maintains that if unemployment is above the natural rate, the rate of inflation will fall and if unemployment is below the natural rate, inflation will accelerate.

Short-run Phillips curve

A model of the economy that maintains there is an inverse relationship between unemployment and inflation.

Money

Primarily a medium of exchange or means of payment, but also a store of value.

Money supply

The stock of money that exists in an economy at a point in time.

Narrow money

Comprises those assets that are generally accepted as a medium of exchange. Narrow money includes cash, commercial banks' balances at the central bank and demand deposits in the banking system (eg current account deposits).

Broad money

Includes narrow money and some less liquid assets that can be converted easily into assets that are generally accepted as a medium of exchange, for example, deposits in savings accounts that have a notice of withdrawal. Broad definitions of the money supply include narrow money and some assets that are money substitutes.

Financial markets

Where economic agents borrow and lend money, and where they buy and sell financial assets such as shares, bonds, foreign currencies and commodities.

Money market

The market that provides funds to economic agents who require short-term finance.

Capital market

The market that provides medium-term and long-term finance for individuals, firms and governments.

Foreign exchange market

Where currencies are bought and sold and their prices determined.

Debt

Funds raised by borrowing. Debt finance includes bonds and other types of loan.

Equity

Funds provided by the owners of a business, for example, shares.

Shares

Securities that represent the ownership of part of a business. Shares pay dividends to the holders that depend on the amount of profit made by the business. Shares are not usually redeemed (repaid) by the business.

Bonds
Securities that represent a loan to the government or organisation that issued the bonds. Bonds pay interest to the holder and are usually redeemed at a specified date in the future.

Coupon
The interest paid on a bond, expressed as a percentage of the face value of the bond.

Yield
For an irredeemable bond, the yield is the coupon expressed as a percentage of the market price of the bond. It represents the rate of return a buyer will earn on the bond.

Maturity date
When the loan is due to be repaid.

Commercial bank
A commercial bank, also known as a high street bank, is a financial institution that accepts deposits, provides loans and a variety of other financial services to individuals and businesses.

Investment bank
A financial institution that helps businesses, and sometimes governments, carry out complex financial transactions such as issuing new shares or assisting with mergers.

Central bank
A financial institution that is responsible for monetary policy and maintaining a stable financial system. The central bank is often regarded as the government's bank but is independent of the government in many countries.

Monetary policy
The use of interest rates, the supply of money and credit, and the exchange rate to influence the economy and help the government achieve its objectives.

Bank rate
The base rate of interest set by the Monetary Policy Committee of the Bank of England. It affects the rate of interest the Bank of England will charge when lending to other banks and thereby the level of interest rates in the UK economy.

Monetary policy transmission mechanism
Ways in which monetary policy affects aggregate demand, economic activity, inflation and the other objectives of government macroeconomic policy.

Quantitative easing

When the central bank makes large-scale purchases of government and/or corporate bonds.

Quantitative tightening

When the central bank sells its holdings of government and/or corporate bonds.

Liquid assets

Cash or other assets that can be converted into cash easily.

Liquidity ratio

A bank's liquid assets as a proportion of its customer deposits and other short-term liabilities.

Capital ratio

A bank's capital (share capital and retained profit) as a proportion of its assets, weighted according to their riskiness. It is a measure of a bank's financial strength and ability to absorb losses.

Moral hazard

When an economic agent has an incentive to take more risks because they do not bear the full cost of the risks.

Systemic risk

The possibility that the failure of a large financial institution, or other large organisation, could have a very damaging effect on other financial institutions and/or the real economy.

Fiscal policy

The use of government spending and taxation to influence the economy and help the government achieve its economic policy objectives.

Budget balance

The difference between government expenditure and taxation.

Budget deficit

When government expenditure is greater than the revenue the government receives from taxation and other sources.

Budget surplus

When government expenditure is less than the revenue the government receives from taxation and other sources.

Pattern of economic activity

How an economy's factors of production are allocated between different uses, reflecting the types of goods and services produced.

Public expenditure

Spending by central and local government on goods, services and debt interest.

Direct tax

A tax levied on income and wealth. The burden of a direct tax cannot be passed on to someone else.

Indirect tax

A tax levied on spending. The burden of an indirect tax can be passed on to someone else, for example, by raising the price of the product on which the tax is levied.

Progressive tax

Where the percentage of income paid in tax increases as income increases. The marginal rate of tax is higher than the average rate.

Proportional tax

Where the percentage of income paid in tax is the same at all levels of income. The marginal rate of tax is the same as the average rate.

Regressive tax

Where the percentage of income paid in tax falls as income increases.

National debt

The accumulated total of past government borrowing. The total amount of money that the government owes at a point in time.

Cyclical budget deficit

A budget deficit that is caused by a fall in economic activity and the economy going into recession.

Cyclical budget surplus

A budget surplus that is caused by a rise in economic activity leading to higher tax revenues and a fall in government spending on welfare.

Structural budget balance
The underlying budget deficit or surplus after the effects of cyclical fluctuations in economic activity upon government spending and taxation have been removed.

Supply-side policies
Policies introduced by the government to increase economic incentives, make markets work better and increase the productive capacity of the economy, shifting the long-run aggregate supply curve to the right.

Supply-side improvements
Increases in productivity and efficiency that lead to reductions in costs, increase productive capacity and improve competitiveness. Supply-side improvements often result from individuals and firms acting independently of the government.

Free-market supply-side policies
Measures to make markets work better and increase incentives to work and enterprise by reducing government involvement in the economy. Such measures include: cutting taxes, reducing spending on welfare, privatisation and deregulation.

Interventionist supply-side policies
Measures taken by the government to compensate for weaknesses in the market mechanism and correct market failures that may reduce the underlying rate of growth of the economy. Such measures include: industrial policy, spending on education and training, subsidising research and development.

Globalisation
The process through which the economies of different countries become increasingly integrated and interdependent, as reflected in the growth in international trade, capital flows, international migration and multinational corporations.

Multinational corporation (MNC)
An enterprise that owns assets, produces and sells goods and/or services in more than one country. Also known as a transnational corporation (TNC).

Comparative advantage
When a country (region or individual) has a lower opportunity cost of producing a good or service than another country (region or individual).

Absolute advantage

When a country (region or individual) can produce a given amount of a good or service with fewer resources than another country (region or individual). Or, when a country can produce more of a good or service than another country with the same amount of resources.

Terms of trade

The rate at which one product is exchanged for another product, for example, one mango is traded for two apples.

Protectionist policies

Adopting measures to restrict imports and artificially promote exports. Examples of protectionist policies include: tariffs, quotas and export subsidies.

Tariff

An indirect tax on imports.

Quota

A limit on the quantity, or value, of a product that can be imported.

Customs union

A trading bloc where member countries do not have any restrictions on trade with each other and where each member has the same restrictions on trade with non-member countries.

Single European Market (SEM)

The SEM comprises mainly of the 27 members of the European Union (EU). The market has four freedoms that allow: free movement of goods, free movement of capital, freedom to provide services and the free movement of people.

The balance of payments

A record of a country's financial transactions with the rest of the world.

The current account of the balance of payments

A record of a country's trade in goods, trade in services, income flows (primary income) and transfers (secondary income).

Deficit on the current account of the balance of payments

When the imports of goods and services plus outflows of investment income and transfers are greater than exports of goods and services plus inflows of investment income and transfers.

Surplus on the current account of the balance of payments

When the exports of goods and services plus inflows of investment income and transfers are greater than imports of goods and services plus outflows of investment income and transfers.

Expenditure-switching policy

Measures that change the relative prices of exports and imports to persuade people to buy fewer imports and to make exports more attractive to people abroad.

Expenditure-reducing policy

Measures to reduce aggregate demand to reduce spending on imports and hence reduce a deficit on the current account of the balance of payments. Also known as expenditure-dampening policy.

Exchange rate

The price of one currency in terms of another currency, for example, £1 = $1.15 means the price of £1 is $1.15.

Freely floating exchange rate system

Where the price of a currency is determined by the demand for and supply of the currency on the foreign exchange market, without any government intervention.

Managed floating exchange rate system

An exchange rate system where central banks intervene in the foreign exchange market to influence the value of their country's currency.

Fixed exchange rate system

Where country's peg (fix) the value of their currency against another currency or against a basket of other currencies or perhaps gold. Central banks intervene in the foreign exchange market to maintain the value of the currency, usually within a narrow pre-declared band.

Currency union

Where a group of countries share the same currency. For example, many of the countries who are members of the European Union have adopted the euro as their currency.

Economic development

Where there is a sustained improvement in the economic wellbeing and quality of life of people.

Human development index (HDI)

A measure of economic development that is based on life expectancy, indicators of educational attainment and the level income per capita.

Infrastructure

The physical structures and assets needed to support the efficient operation of an economy and society. It includes transport, energy, water and digital communication systems as well as social infrastructure, such as the housing stock and the capital assets used to provide education and health care.

Human capital

The knowledge, skills and experience of people.

Overseas (foreign) aid

The assistance given by more economically developed countries (MEDCs) to less economically developed countries (LEDCs). The donors include governments, various non-governmental and international organisations. Aid can take many forms, for example, it can include grants, loans, training and gifts of food.