AP Microeconomics Vocabulary 2014

This is a list of every microeconomic term that must be known for the exam.

1. **Microeconomics** - The branch of economics that studies the economy of consumers or households or individual firms.

2. **Macroeconomics** - The branch of economics that studies the overall working of a national economy.

3. **Scarcity** - Scarcity is the fundamental economic problem of having seemingly unlimited human needs and wants, in a world of limited resources. It states that society has insufficient productive resources to fulfil all human wants and needs

4. **Economic Efficiency** - The use of resources so as to maximize the production of goods and services.

5. **Economic Equity** - Equity is the concept or idea of fairness.

6. **Opportunity Cost** - The cost of an opportunity forgone (and the loss of the benefits that could be received from that opportunity).

7. **Productivity** - The ratio of the quantity and quality of units produced to the labor per unit of time.

8. **Inflation** - A general and progressive increase in prices.

9. **Philips Curve** - A historical inverse relationship between the rate of unemployment and the rate of inflation in an economy. Stated simply, the lower the unemployment in an economy, the higher the rate of inflation.

10. **Market Power** - The ability of a firm to alter the market price of a good or service. In perfectly competitive markets, market participants have no market power. A firm with market power can raise prices without losing its customers to competitors.

11. **Externality** - A cost or benefit, not transmitted through prices, incurred by a party who did not agree to the action causing the cost or benefit.

12. **Market Failure** - A concept within economic theory wherein the allocation of goods and services by a free market is not efficient.

13. **Market Economy** - A market economy is economy based on the power of division of labor in which the prices of goods and services are determined in a free price system set by supply and demand.

14. **Marginal Change** - A small change in some quantity.

15. **Production Possibilities Frontier** - A graph that shows the different rates of production of two goods and/or services that an economy can produce efficiently during a specified period of time.

16. **Circular-Flow Model** - A simple economic model which describes the reciprocal circulation of income between producers and consumers.

17. **Positive Statement** - A statement about what actually is (was or will be), as opposed to what ought to be. An expression that can be verified by observation.

18. **Normative Statement** - expresses a judgement about whether a situation is desirable or undesirable. "The world would be a better place if the moon were made of green cheese" is a normative statement because it expresses a judgement about what ought to be.

19. **Comparative Advantage** - The ability of a party (an individual, a firm, or a country) to produce a particular good or service at a lower opportunity cost than another party.

20. **Absolute Advantage** - The ability of a party (an individual, or firm, or country) to produce more of a good or service than competitors, using the same amount of resources.

21. **Import** - Commodities (goods or services) bought from a foreign country.

22. **Export** - Commodities (goods or services) sold to a foreign country.

23. **Supply** - Offering goods and services for sale

24. **Demand** - The consumer's willingness and ability to purchase some quantity of a commodity based on the price of that commodity.

25. **Shortage** - A disparity between the amount demanded for a product or service and the amount supplied in a market. Specifically, a shortage occurs when there is excess demand; therefore, it is the opposite of a surplus.

26. **Surplus** - an excess of production or supply over demand.

27. **Equilibrium Price** - The market price at which the quantity supplied of a commodity equals the quantity demanded.

28. **Equilibrium Quantity** - The quantity demanded and supplied at the equilibrium price, where demand equals supply.

29. **Supply Curve** - The graph of quantity supplied as a function of price, normally upward sloping, straight or curved, and drawn with quantity on the horizontal axis and price on the vertical axis.

30. **Supply Schedule** - A table showing for selected values the relationship between the quantity of some product that producers wish to make and sell per period of time and the price of that product, other things being equal.

31. **Law of Supply** - The tendency of suppliers to offer more of a good at a higher price. The relationship between price and quantity supplied is usually a positive relationship. A rise in price is associated with a rise in quantity supplied.

32. **Law of Demand** - Consumers buy more of a good when its price decreases and less when its price increases (ceteris paribus).

33. **Quantity Supplied** - The specific number of units of a product in the economy that is provided by producers at a given price level.

34. **Ceteris Paribus** - Latin phrase meaning, approximately, "holding other things constant." Used as shorthand for indicating the effect of one economic variable on another, holding constant all other variables that may affect the second variable. Contrasts with mutatis mutandis.

35. **Demand Curve** - The graph depicting the relationship between the price of a certain commodity, and the amount of it that consumers are willing and able to purchase at that given price. It is a graphic representation of a demand schedule.

36. **Demand Schedule** - A list of prices and corresponding quantities demanded, or the graph of that information.

37. **Complement Good** - Goods that, "go together." Such as, cookie dough and chocolate chips.

38. **Substitute Good** - Goods which may replace each other in use.

39. **Inferior Good** - A good that decreases in demand when consumer income rises.

40. **Normal Good** - A good that increases in demand when consumer income rises.

41. **Quantity Demanded** - The amount of a product that consumers wish to purchase in some time period.

42. **Competitive Market** - An economic environment where those selling and those buying exchange goods and services at a price controlled by that market. Customers have the option of purchasing their energy from more than one provider.

43. **Market** - A market is any one of a variety of different systems, institutions, procedures, social relations and infrastructures whereby person's trade, and goods and services are exchanged, forming part of the economy. It is an arrangement that allows buyers and sellers to exchange items.

44. **Price Elasticity of Supply** - The sensitivity of supply of a product to changes in its price.

45. **Cross-Price Elasticity of Demand** - Measures the responsiveness of the demand for a good to a change in the price of another good.

46. **Income Elasticity of Demand** - The responsiveness of the demand for a good to a change in the income of the people demanding the good. It is calculated as the ratio of the percentage change in demand to the percentage change in income.

47. **Revenu**e - Income that a company receives from its normal business activities, usually from the sale of goods and services to customers.

48. **Price Elasticity of Demand** - A measure used in economics to show the responsiveness, or elasticity, of the quantity demanded of a good or service to a change in its price.

49. **Elasticity** - The ratio of the percent change in one variable to the percent change in another variable. It is a tool for measuring the responsiveness of a function to changes in parameters in a unit-less way.

50. **Price Ceiling** - A government-imposed limit on the price charged for a product. Governments intend price ceilings to protect consumers from conditions that could make necessary commodities unattainable.

51. **Price Floor** - A government- or group-imposed limit on how low a price can be charged for a product. For a price floor to be effective, it must be greater than the equilibrium price.

52. **Tax Incidence** - The analysis of the effect of a particular tax on the distribution of economic welfare. Tax incidence is said to "fall" upon the group that, at the end of the day, bears the burden of the tax.

53. **Producer Surplus** - The amount that producers benefit by selling at a market price that is higher than the least that they would be willing to sell for.

54. **Cost - T**he total spent for goods or services including money and time and labor.

55. **Consumer Surplus** - The amount that consumers benefit by being able to purchase a product for a price that is less than the most that they would be willing to pay.

56. **Willingness to Pay** - The maximum amount a person would be willing to pay, sacrifice or exchange for a good.

57. **Welfare** - The economic well being of an individual, group, or economy.

58. **Deadweight Loss** - The net loss in economic welfare that is caused by a tariff or other source of distortion, defined as the total losses to those who lose, minus the total gains to those who gain.

59. **Import Quota** - An import quota is a type of protectionist trade restriction that sets a physical limit on the quantity of a good that can be imported into a country in a given period of time.

60. **Tariff** - A system of government-imposed duties levied on imported or exported goods.

61. **World Price** - The price of a good that prevails in the world market for that good.

62. **Internalizing an Externality** - Require the person/entity or group to repair the problem caused by their economic activity.

63. **Coase Theorem** - The economic efficiency of an economic allocation or outcome in the presence of externalities.

64. **Transaction Costs** - A cost incurred in making an economic exchange (restated: the cost of participating in a market).

65. **Pigovian Tax** - A tax levied on a market activity that generates negative externalities. The tax is intended to correct the market outcome.

66. **Tragedy of the Commons** - A dilemma arising from the situation in which multiple individuals, acting independently, and solely and rationally consulting their own self-interest, will ultimately deplete a shared limited resource even when it is clear that it is not in anyone's long-term interest.

67. **Cost-Benefit Analysis** - An analysis of the cost effectiveness of different alternatives in order to see whether the benefits outweigh the costs

68. **Free Rider** - Those who consume more than their fair share of a public resource, or shoulder less than a fair share of the costs of its production.

69. **Common Resource**s - An environmental resource that is owned by many people in common or by no one. A resource that is open to everyone but tends to be destroyed because no one is compelled to preserve it.

70. **Public Goods** - a good that is non-rivalrous and non-excludable. Non-rivalry means that consumption of the good by one individual does not reduce availability of the good for consumption by others; and non-excludability that no one can be effectively excluded from using the good.

71. **Private Goods** - A good exclusively owned that cannot be simultaneously used by others.

72. **Rivalry** - A good is considered either rivalrous (rival) or nonrival. Rival goods are goods whose consumption by one consumer prevents simultaneous consumption by other consumers . Most goods, both durable and nondurable, are rival goods.

73. **Excludability** - A good or service is said to be excludable when it is possible to prevent people who have not paid for it from having access to it, and non-excludable when it is not possible to do so.

74. **Progressive Tax** - Tax collected at increasingly higher rates or percentages as income level increases.

75. **Regressive Tax** - A tax imposed in such a manner that the tax rate decreases as the amount subject to taxation increases.

76. **Proportional Tax** - A proportional tax is a tax imposed so that the tax rate is fixed. The amount of the tax is in proportion to the amount subject to taxation.

77. **Horizontal Equity** - Families/persons with similar financial circumstances should pay the same amount, regardless of how their assets, investments and income are defined.

78. **Vertical Equity** - The concept that people in different income groups should pay different rates of taxes or different percentages of their incomes as taxes.

79. **Ability-To-Pay Principle** - The principle that taxes should vary according to an individual's level of wealth or income.

80. **Benefits Principle** - The idea that people should pay taxes based on the benefits they receive from government services.

81. **Lump-Sum Tax** - A tax that is a fixed amount no matter what the change in circumstance of the taxed entity.

82. **Marginal Tax Rate** - The percentage of tax paid on the next dollar earned.

83. **Average Tax Rate** - The total tax payment divided by total income. The proportion of total income paid in taxes.

84. **Budget Deficit** - A situation that arises when expenses exceed revenues.

85. **Budget Surplus** - The total amount of money in the budget that results when government income is greater than government spending within a given year.

86. **Constant Returns to Scale** - Technological conditions under which the percentage change in a firm' s output is equal to the percentage change in its use of inputs.

87. **Diseconomies of Scale** - The condition in which the costs of production increase faster than the volume of production.

88. **Economy of Scale** - the cost advantages that a business obtains due to expansion. There are factors that cause a producer's average cost per unit to fall as the scale of output is increased.

89. **Efficient Scale** - The quantity of output that minimizes average total cost.

90. **Marginal Cost** - the change in total cost that arises when the quantity produced changes by one unit. That is, it is the cost of producing one more unit of a good.

91. **Average Variable Cost** - a firm's variable costs (labor, electricity, etc.) divided by the quantity (Q) of output produced. Variable costs are those costs which vary with output.

92. **Average Fixed Cost** - fixed costs of production (FC) divided by the quantity (Q) of output produced.

93. **Average Total Cost** - equal to total cost divided by the number of goods produced (the output quantity, Q). It is also equal to the sum of average variable costs (total variable costs divided by Q) plus average fixed costs (total fixed costs divided by Q).

94. **Variable Cost** - expenses that change in proportion to the activity of a business.

95. **Fixed Cost** - Business expenses that are not dependent on the level of goods or services produced by the business they tend to be time-related, such as salaries or rents being paid per month.

96. **Diminishing Marginal Product** - The property whereby the marginal product of an input declines as the quantity of the input increases.

97. **Marginal Product** - the extra output produced by one more unit of an input (for instance, the difference in output when a firm's labour is increased from five to six units).

98. **Production Function** - A function that specifies the output of a firm, an industry, or an entire economy for all combinations of inputs.

99. **Accounting Profit** - The difference between price and the costs of bringing to market whatever it is that is accounted as an enterprise.

100. **Economic Profit** - The difference between a firm's total revenue and its opportunity costs.

101. **Implicit Costs** - Costs which do not involve a direct payment of money to a third party, but which nevertheless involve a sacrifice of some alternative.

102. **Explicit Costs** - An easily accounted cost, such as wage, rent and materials. It can be transacted in the form of money payment and is lost directly, as opposed to monetary implicit costs.

103. **Profit** - Obtain an advantage or benefit

104. **Total Cost** - The total economic cost of production and is made up of variable costs, which vary according to the quantity of a good produced and include inputs such as labor and raw materials, plus fixed costs, which are independent of the quantity of production.

105. **Total Revenue** - The total money received from the sale of any given quantity of output.

106. **Sunk Cost** - Past costs that have already been incurred and cannot be recovered.

107. **Marginal Revenue** - The extra revenue that an additional unit of product will bring. It is the additional income from selling one more unit of a good; sometimes equal to price. It can also be described as the change in total revenue ÷ the change in the number of units sold.

108. **Average Revenue** - Total revenue per unit of output.

109. **Monopoly** - A market in which there are many buyers but only one seller.

110. **Natural Monopoly** - Where the largest supplier in an industry, often the first supplier in a market, has an overwhelming cost advantage over other actual and potential competitors.

111. **Price Discrimination** - Exists when sales of identical goods or services are transacted at different prices from the same provider.

112. **Dominant Strategy** - Occurs when one strategy is better than another strategy for one player, no matter how that player's opponents may play.

113. **Prisoner's Dilemma** - A fundamental problem in game theory that demonstrates why two people might not cooperate even if it is in both their best interests to do so.

114. **Game Theory** - A theory of competition stated in terms of gains and losses among opposing players

115. **Nash Equilibrium** - A stable state of a system that involves several interacting participants in which no participant can gain by a change of strategy as long as all the other participants remain unchanged.

116. **Cartel** - A formal (explicit) agreement among competing firms. It is a formal organization of producers and manufacturers that agree to fix prices, marketing, and production.

117. **Collusion** - An agreement between two or more persons, sometimes illegal and therefore secretive, to limit open competition by deceiving, misleading, or defrauding others of their legal rights, or to obtain an objective forbidden by law typically by defrauding or gaining an unfair advantage.

118. **Monopolistic Competition** - A form of imperfect competition where many competing producers sell products that are differentiated from one another (that is, the products are substitutes, but, with differences such as branding, are not exactly alike).

119. **Oligopoly** - Market form in which a market or industry is dominated by a small number of sellers (oligopolists).

120. **Capital** - Assets available for use in the production of further assets.

121. **Value of the Marginal Product** - The marginal product of an input times the price of the output.

122. **Diminishing Marginal Product** - The property whereby the marginal product of an input declines as the quantity of the input increases.

123. **Marginal Product of Labor** - The change in output from hiring one additional unit of labor. It is the increase in output added by the last unit of labor.

124. **Production Function** - A function that specifies the output of a firm, an industry, or an entire economy for all combinations of inputs.

125. **Factors of Production** - Any commodities or services used to produce goods and services.

126. **Comparable Worth** - The principle that there should be no difference in remuneration between jobs held mostly by women and jobs held mostly by men, when the women's work is comparable in skill, effort, working conditions, and responsibility to the men's work.

127. **Discrimination** - Unfair treatment of a person or group on the basis of prejudice.

128. **Efficiency Wages** - A hypothesis that argues that wages, at least in some markets, are determined by more than simply supply and demand.

129. **Strike** - A refusal to work organized by a body of employees as a form of protest, typically in an attempt to gain a concession or concessions from their employer

130. **Union** - An organized association of workers formed to protect and further their rights and interests.

131. **Human Capital** - The stock of competences, knowledge and personality attributes embodied in the ability to perform labor so as to produce economic value. It is the attributes gained by a worker through education and experience.

132. **Compensating Differential** - A term used in labor economics to analyze the relation between the wage rate and the unpleasantness, risk, or other undesirable attributes of a particular job.

133. **Negative Income Tax** - A progressive income tax system where people earning below a certain amount receive supplemental pay from the government instead of paying taxes to the government.

134. **Libertarianism** - An extreme laissez-faire political philosophy advocating only minimal state intervention in the lives of citizens.

135. **Maximin Criterion** - The claim that the government should aim to maximize the well-being of the worst-off person in society.

136. **Liberalism** - A political orientation that favours social progress by reform and by changing laws rather than by revolution.

137. **Utility** - a measure that is to be maximized in any situation involving choice.

138. **Utilitarianism** - The doctrine that actions are right if they are useful or for the benefit of a majority

139. **Permanent Income** - The maximum amount that a household can consume per year into the indefinite future without reducing its wealth. Also called lifetime income.

140. **Life Cycle** - The entire course of a person’s life – from infancy to old age.

141. **Poverty Line** - The minimum level of income deemed necessary to achieve an adequate standard of living in a given country.

142. **Poverty Rate** - The percentage of the population whose family income falls below an absolute level called the poverty line.

143. **Giffen Good** - Any inferior commodity much cheaper than its superior substitutes, consumed mostly by the poor households as an essential consumer good.

144. **Substitution Effect** - The tendency of people to substitute in favour of cheaper commodities and away from more expensive commodities.

145. **Income Effect** - The change in consumption resulting from a change in real income.

146. **Inferior Good** - A good that decreases in demand when consumer income rises, unlike normal goods, for which the opposite is observed.

147. **Normal Good** - Any goods for which demand increases when income increases and falls when income decreases but price remains constant, i.e. with a positive income elasticity of demand. The term does not necessarily refer to the quality of the good.

148. **Perfect Complements** - A complementary good, in contrast to a substitute good, is a good with a negative cross elasticity of demand. This means a good's demand is increased when the price of another good is decreased.

149. **Perfect Substitutes** - A substitute good, in contrast to a complementary good, is a good with a positive cross elasticity of demand. This means a good's demand is increased when the price of another good is increased. Conversely, the demand for a good is decreased when the price of another good is decreased.

150. **Marginal Rate of Substitution** - The rate at which a consumer is ready to give up one good in exchange for another good while maintaining the same level of satisfaction.

151. **Indifference Curve** - A graph showing different bundles of goods, each measured as to quantity, between which a consumer is indifferent. That is, at each point on the curve, the consumer has no preference for one bundle over another.

152. **Budget Constraint** - the combinations of goods and services that a consumer can purchase given current prices with his or her income. Consumer theory uses the concepts of a budget constraint and a preference map to analyze consumer choices.