SWGS KS5 VOCABULARY LIST: ECONOMICS

This list consolidates key vocabulary in the subject, making it easier for you to know, understand and use it accurately. Your teachers will use this vocabulary frequently, and you will encounter it in reading. You will be expected to learn meanings and spellings.

Theme 3: topic 3.1 Business growth

Principal-agent problem	This is when the shareholders (the principals) have different objectives from the managers (the agents). This is a form of information failure. It is also referred to as "divorce of ownership and control"
Organic growth	This is also called internal growth, and it is when a firm invests in new capacity to increase the business size
Demerger	when a firm splits into separate firms

Theme 3: topic 3.2 Business objectives

Profit maximisation	firm aim to make the maximum profit possible (occurs where MC = MR)
Revenue maximisation	firm aims to maximise total revenue (occurs where MR = 0)
Sales maximisation	firm aims to sell as much as possible without running at a loss (occurs where AC = AR)
Profit satisficing	managers aim to make enough profit to satisfy the shareholders

Theme 3: topic 3.3 Revenues, costs and profits

Marginal revenue	the change in TR when one more unit is sold; MR = change in TR/change in Q
Diminishing marginal productivity	as extra variable factors are added to fixed factors, the fixed factors e.g. capital become increasingly scarce and marginal product falls, causing marginal cost to rise
Economies of scale	cost advantages when operating at a larger scale
Supernormal profit	also called abnormal profit is any profit over and above normal profit

Theme 3: topic 3.4 Market structures

Allocative efficiency	when no one can be made better off without making someone else worse off (AR = MC)
Productive efficiency	when a firm is producing goods or services at the lowest possible average cost, using the fewest possible resources
Dynamic efficiency	efficiency over time
X-inefficiency	when a firm is not operating at its optimal level of efficiency due to internal factors such as poor management, lack of motivation, and bureaucratic inefficiencies.
Perfect competition	Large number of buyers and sellers (firms) with homogenous products, perfect information and no barriers to entry or exit
Monopolistic competition	Large number of buyers and sellers (firms) with differentiated products and low barriers to entry or exit
Oligopoly	Dominated by a small number of large sellers (firms) with a high concentration ratio, differentiated products and high barriers to entry or exit
Monopoly	Single seller with a unique products and high barriers to entry
Monopsony	A single buyer
Contestability	It does not matter how many firms are in the industry, but there must be free/easy entry and exit into and out of the industry. Low barriers to entry & exit and no sunk costs, equal access to technology – existing firms do not have an advantage, no collusion and weak brand loyalty

Theme 3: topic 3.5 Labour market

Geographical mobility	the ability of labour to move around an area, region or country in order to work.
Occupational mobility	the ability of labour to switch between different occupations.

Theme 3: topic 3.6 Government intervention

Government intervention	Actions taken by the government to change decisions made by individuals or firms. It often aims to correct market failure and to improve social welfare
Contestability	A contestable market is where a new market entrant has equal access to all production techniques available to the incumbents and where entry decisions can be reversed without cost
Regulatory capture	This is a form of government failure; it happens when a government agency operates in favour of producers rather than consumers.
Asymmetric information	the industry may have more information than its regulators and use this to reduce regulation
Privatisation	The transfer of state ownership of assets/businesses to the private sector.

Theme 4: topic 4.1 International economics

Globalisation	The deepening of relationships between countries, reflected in an increasing level of cross-border trade and investment and migration
Comparative advantage	when one country can produce a good or service at a lower opportunity cost than another country
Customs unions	free trade between members and a common external tariff (CET) on non-members
Exchange rates	the price of a currency in terms of another.

Theme 4: topic 4.2 Poverty and inequality

Absolute poverty	If income is too low to ensure basic needs (food, shelter, clothing, access to clean water, sanitation facilities, education & information) are met
Relative poverty	Living below a certain threshold in a particular threshold, e.g. in UK, a household on less than 60% of median income is relatively poor
Lorenz curve	A graph showing the actual distribution of income in a country

Theme 4: topic 4.3 Emerging and developing economies

Human Development Index	The Human Development Index (HDI) is a measure of average achievement in key dimensions of human development: life expectancy at birth, mean years of schooling for adults aged 25 and over and GNI per capita
Harrod-Domar model	The Harrod-Domar economic growth model stresses the importance of savings and investment as key determinants of growth

Theme 4: topic 4.4 The financial sector

Moral hazard	moral hazard refers to the tendency of individuals or institutions to take on more risk when they are insulated from the potential consequences of their actions.

Theme 4: topic 4.5 Role of the state in the macroeconomy

Progressive tax	With a progressive tax, the marginal rate of tax rises as income rises. I.e. as people earn more income, the rate of tax on each extra pound goes up. This causes a rise in the average rate of tax
The Laffer curve	The Laffer Curve states that if tax rates are increased above a certain level, then tax revenues can actually fall because higher tax rates discourage people from working.
Fiscal policy	A government's policy regarding taxation and public spending.