Theme 1 – Definitions

- → **Added value** is the difference between the price of a good or service and the cost of its material inputs.
- → **Allocation of resources** refers to the way resources are used and shared out (i.e. distributed) within the economic system
- → **Assets** – anything of value that can be made to yield benefits. Business assets can be physical such as buildings, machines etc. or they can be intangible such as a brand name or the skills of the workforce, or they may be purely financial.
- → **Bank loan** – a fixed sum of money borrowed from a bank and repaid with regular monthly repayments plus interest over a fixed period.
- → **Bank of England** — the central bank of the UK, responsible for monetary policy and regulation of the banking system.
- → **Banks** channel funds from savers to borrowers and operate a payments system.
- → **Brand** – the name or symbol that is closely associated with a product or service. Brands add value, increase consumer loyalty and may attract a higher price.
- → **Break-even point** – the level of output where neither a profit nor a loss is being made. The point at which total revenue equals total costs.
- → **Cash flow** — the movement of cash into (cash inflow) and out of (cash outflow) a business.
- → **Cash flow forecasts** project expected flows of cash income and cash expenditure month by month.
- → **Ceteris paribus** means all other things being equal, an approach which enables economists to consider the impact of one change at a time.
- → **Collateral** — anything of value that can be seized by a lender if a loan is not repaid. Collateral is often property. (Sometimes called security.)
- → **Competition** causes businesses to strive for improvements that will allow them to increase sales. This leads to an efficient allocation or resources.
- → **Competitive advantage** — any feature of a business that enables it to compete effectively. It may be based on price, quality, service, reputation, or innovation.
- → **Competitive pricing** — a pricing strategy that consists of matching your competitor's prices or slightly undercutting them.
- → **Complements** — goods and services that are bought together e.g. cars and petrol, DVDs and DVD players.
- → **Consumer sovereignty** describes the role of the consumer in determining the allocation of resources. By buying what they want most, consumers send a signal to producers about their preferences.
- → **Contribution** — price minus variable cost (P — VC). This can be used to calculate the break-even point.
- → **Corporate culture** is the set of important assumptions that are shared by people working in a particular business and influence the ways in which decisions are taken there.
- → **Corporate social responsibility (CSR)** means taking decisions in a way that takes into account all stakeholders' interests.
- → **Cost of sales** — another way of describing variable costs or direct costs, they are subtracted from turnover to give gross profit.
- → **Creative destruction** occurs when new technologies lead to new or improved products that drive competitors out of business.
- → **Creditor**— a person or company that the business owes money to, usually in exchange for materials or services.
- → **Demand** — the quantity of a good or service that consumers are willing and able to buy, at a given price and at a given time.
- → **Demand curve** — a graphical representation of the relationship between price and quantity demanded.
- → **Division of labour** — involves individuals in specialising in one particular type of activity in the workplace. Each employee has a specific task; repetition helps them to do it well.
- → **Economic agents** include all those who take decisions to buy, spend, produce, sell, or in any way affect how resources are used.
- → **Efficiency** means using resources in the most economical way possible.
- → **Entry** refers to the way profit in a growing market attracts businesses to produce for it. Profit acts as an incentive to enter the market.
- → **Entrepreneurs** take the risk of setting up, organising and operating a business venture.
- → **Equilibrium price** — the price at which quantity demanded is the same as quantity supplied, sometimes called the market clearing price.
- → **Excess demand** occurs when the quantity demanded outstrips the quantity supplied. Some people who want to buy at the current price will be unable to do so. The price is too low for the market to clear.
- → **Excess supply** occurs when the quantity supplied is greater than the quantity demanded. Some suppliers will be unable to sell their goods at the current price. The price is too high for the market to clear.
- → **Exchange rate** — the price of one currency expressed in terms of another. It is determined by the interaction of demand for and supply of the currency.
- → **Exit** from the market means closing down production because of losses or low profits.
- → **Exports** are goods and services produced domestically and sold in a foreign economy.
- → **External benefits** are benefits or positive side-effects that benefit a third party who is neither the producer nor the consumer.
- → **External** costs are costs or negative side-effects imposed on a third party who is neither the producer nor the consumer.
- → **Externalities** — positive or negative side-effects caused by a product that affects third parties who are neither buyers nor sellers of the product.

Theme 1 – Definitions

- **Factors of production** are the inputs: land, labour, capital and enterprise.
- **Fixed costs** do not change with the level of output of the business. Examples include rent, interest payments, managers' salaries and business rates.
- **A free-market economy** is one where there is no interference from outside agencies, such as the government.
- **Government expenditure** — the money spent in the economy over a period of time on publicly provided goods and services such as education, healthcare, social welfare and the civil service.
- **Government failure** occurs when governments try to deal with market failure, but in so doing create other problems.
- **Gross Domestic Product (GDP)** — a measure of the total value of all goods and services produced, i.e. total income created within the economy in one year.
- **Gross profit** — turnover minus cost of sales. Overheads (fixed costs), interest and tax have not yet been taken into account.
- **Gross profit margin** — a measure of profitability. Gross profit is shown as a percentage of turnover.
- **Imports** — goods and services bought by buyers in one country from sellers in other countries.
- **Inferior goods** sell better when incomes are falling. Their income elasticity of demand is negative.
- **Inflation** — a sustained rise in the general price level or a fall in the value of money.
- **Infrastructure** includes transport facilities, communications, and access to energy and water.
- **Interest rate** – a payment in percentage terms for the use of a sum of borrowed money. It can be seen as the price of money.
- **Leasing** — a long term rental agreement that allows businesses to use assets without having to pay for them outright, thereby freeing up funds for other uses. Often used for vehicles, machinery, etc.
- **Liability** means responsibility for the financial debts of the business. A liability is a legal claim for payment.
- **Limited liability** — in the event of financial problems and the closure of a business, the responsibility for any outstanding debts is limited to the owner(s)' original investment.
- **Loan** — the use of someone else's money for a period of time. Usually involves regular repayments and payment of interest.
- **Margin of safety** — the difference between the actual level of output and the break-even level of output.
- **Market** — any medium in which buyers and sellers interact and agree to trade at a price.
- **Market clearing** means there is no excess supply and no excess demand.
- **Market failure** occurs when social costs exceed social benefits. This frequently happens when there are negative externalities.
- **Market forces** are the forces of demand and supply as they operate freely and interact to determine the allocation of resources.
- **Market growth** — an expansion of the market based on increased sales.
- **Market mapping** — using a grid showing two features of a market, e.g. price and consumer age. Individual brands are added to the grid to show potential niches or gaps in the market.
- **Market niche** — a small part of an overall market which has certain special characteristics.
- **Market orientation** — where the needs of the customer are the overriding priority in the production and marketing of products and services.
- **Market positioning** shows how individual products or brands are seen in relation to their competitors by consumers.
- **Market research** is any kind of activity that gives a business information about its product or service, its customers, its competitors or the market it operates in.
- **Market segmentation** — the splitting up of the market into groups of consumers with similar characteristics. Products and services can be designed specifically for, and targeted at, a particular segment.
- **Market share** is the percentage of the total market buying one firm's product.
- **Mass market** — a large market which includes the majority of the relevant population.
- **Negative externalities** are external costs that have a detrimental effect on the lives of people who neither bought nor sold the product.
- **Niche market** — a small part of the overall market that has certain special characteristics.
- **Normal goods** sell better when incomes are rising; they have positive income elasticity of demand.
- **Operating profit** — the most commonly used measure of business profit, calculated by subtracting all overheads (fixed costs) from gross profit.
- **Operating profit margin** — operating profit shown as a percentage of turnover.
- **Opportunity cost** represents cost in terms of an alternative to the item actively chosen. Every spending decision has an opportunity cost, which is what was foregone to get the preferred product.
- **Ordinary share capital** — the money raised by selling the ordinary shares of a plc business. These are stakes in the business; shareholders will receive a dividend (if the business is profitable).
- **Over-consumption** occurs when social costs are greater than private costs because of negative externalities.

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Theme 1 – Definitions

- → **Overdraft** — a facility that allows a business (or an individual) to borrow up to an agreed limit. A flexible and useful form of finance, it is particularly suited to dealing with cash flow problems.
- → **Positive externalities** are external benefits that are experienced by third parties but paid for by someone else.
- → **PLC** – stands for Public Limited Company. This is a form of company organisation with limited liability, but its shares are available to the public and are quoted on the stock exchange.
- → **Primary research** — gathering original information about the market from first hand sources Sometimes called field research.
- → **Private limited companies** have limited liability but cannot raise share capital from the public.
- → **Private sector** — that part of the economy which is run for private profit and is not controlled by the state. It is owned by individuals.
- → **Product differentiation** means giving each product specific design features that will distinguish it from competing products. Branding can be an important part of this.
- → **Profit** — the difference between total sales revenue and total costs.
- → **Profit margin** is profit as a percentage of turnover.
- → **Profit maximisation** is an important business objective but more important to sone than to others.
- → **Profit-signalling mechanism** — the means by which the incentive of profit induces businesses to produce what consumers want.
- → **Public limited companies (PLCs)** have limited liability and can raise finance by selling shares to anyone.
- → **Public sector** — industries or services provided or funded by the government and not owned by private individuals.
- → **Qualitative research** — a market research method that involves finding out about the motivation and preferences of consumers.
- → **Quantitative research** — a market research method that involves numerical measurement.
- → **Retained profit** — an important source of finance for business expansion. It is the profit left after interest, tax and dividends have been deducted from operating profit.
- → **Revenue** — the income of a business raised by selling its goods or services.
- → **Risk** measures the likelihood that a particular event may or may not occur.
- → **Sales maximisation** means selling as much as possible.
- → **Sampling** - during market research, a small section or sample of the market is chosen as being representative of the whole.
- → **Satisficing** occurs when a business earns enough profit to keep the owners happy but no attempt is made to maximise profits.
- → **Scarcity** describes the way people's wants and needs always exceed the resources available to satisfy them.
- → **Secondary research** — the use of information about the market that already exists. Sometimes called desk research.
- → **Shareholders** are part-owners of the business. They may have played a part in financing the business directly or have bought shares from someone else or on the Stock Exchange.
- → **Skill shortages** occur when demand for people with scarce skills exceeds the supply of people who have them.
- → **Social benefits** are the total benefits of producing goods and services, calculated by adding together the private and external costs.
- → **Social costs** are the total costs of producing goods and services, calculated by adding together the private and external costs.
- → **Sole trader** — the simplest form of business organisation that is owned and operated by an individual. The owner has unlimited liability.
- → **Specialisation** refers to the way in which people, organisations and economies concentrate on specific economic activities, often because they have some advantage in that field.
- → **Stakeholder** — any individual or group with an interest in the actions of a business. Stakeholders include: employees, owners and shareholders, customers, suppliers and the local community.
- → **Statement of comprehensive income** — shows a company's net profit or loss, over a given time period.
- → **Structural change** — when patterns of demand change, some industries grow while others shrink, and some businesses will exit the market.
- → **Substitute** — a good or a service that can be used in place of another, e.g. different brands of washing powder or makes of television.
- → **Supply** — the amount of a good or service that producers are willing and able to provide, at a given price and at a given time.
- → **Supply curve** — a graphical representation of the relationship between price and quantity supplied.
- → **Taxation** — payments made to the government by individuals and businesses, to provide revenue for government spending. Commonly used taxes include: income tax, VAT, corporation tax and excise duty.
- → **Trade credit** — the time allowed by a supplier before a business must make payment. Commonly 30-60 days, it helps the customers cash flow at the expense of the that of the seller
- → **Trade-off** — a situation where having more of one thing leads to less of another. It is linked to the concept of opportunity cost.

Theme 1 – Definitions

- → **Turnover** — sales revenue, i.e. total income generated by a business selling its goods and services over a period of time.
- → **Unemployment** occurs when people who are able and willing to work cannot find a paying job.
- → **Under-consumption** occurs when products that are socially desirable are too expensive for everyone to cover the costs themselves.
- → **Unique Selling Point (USP)** — a single feature that is noticeably different from those of all competing products.
- → **Unlimited liability** — the owner of a business is responsible for all the debts of the business should it fail. This applies to sole traders and partnerships.
- → **Variable costs** — costs of production that vary with the level of output e.g. raw materials and distribution costs.
- → **Venture capital** — A form of business finance, unsecured funding provided by individuals or specialist firms in return for a proportion of the company's shares.
- → **Working capital** is finance to cover business costs when sales revenue is slow to come in.

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