Theme 2 – Definitions

→ **Aggregate demand** is the sum total of demand from all sources in the economy.
→ **Aggregate supply** is the total output supplied from all sources in the economy.
→ **Appreciation** occurs when the exchange rate rises, making imports cheaper and raising the price of exports.
→ **Balance of trade** – the difference in value between visible exports and visible imports.
→ **Base rate** is set by the Bank of England and influences interest rates across the economy.
→ **Boom** — a time of rapid growth and expansion in the economy.
→ **BRICS** stands for Brazil, Russia, India, China and (since 2010) South Africa.
→ **Capacity utilisation** — measures actual output as a percentage of the theoretical maximum possible output.
→ **Capital** includes all assets that can generate income and includes premises, equipment and financial assets.
→ **Capital intensive production** uses large amounts of capital and relatively little labour.
→ **Common markets** have completely free trade internally and a common external trade policy covering the rest of the world.
→ **Comparative advantage** refers to the theory that if two countries specialise in the product which for them has the lowest opportunity cost, and then trade, real incomes will increase.
→ **Conglomerate integration** occurs when two businesses that have nothing in common join together.
→ **Constant prices** value every year's output at the price levels of a base year, removing the effects of inflation.
→ **Consumption** is total household spending on goods and services.
→ **Cost-push inflation** is caused by rising costs of production.
→ **Contractionary policies** slow down economic activity by increasing leakages and reducing injections into the circular flow of money.
→ **Cyclical unemployment** is caused by a downturn in the economic cycle. Spending is falling so output falls and fewer employees are needed.
→ **Demand pull inflation** is caused by excess aggregate demand. Quantity demanded exceeds total output.
→ **Depreciation** is a fall in the exchange rate that makes imports dearer and exports cheaper.
→ **Diseconomies of scale** happen when further increases in size begin to increase average costs and inefficiencies develop.
→ **Disposable income** — the amount of income a person can actually spend on goods and services. It measures consumers' spending power after tax.
→ **Downturn** — the stage of the economic cycle when the boom slows and the rate of growth of GDP decreases.
→ **Economic cycle** — the fluctuations in the levels and rates of growth of GDP over a period of time. It is sometimes referred to as the trade or business cycle. Economies of scale lead to a reduction in average cost (AC) brought about by an increase in the size of the business.
→ **Efficiency** means organising production so that waste is minimised and costs are the lowest possible.
→ **Emerging economies** have fast growing manufacturing sectors. Some are still poor but others, e.g. Mexico may soon be described as developed.
→ **Employment** refers to all those people of working age who have jobs.
→ **Expansionary policies** stimulate the level of economic activity by reducing leakages and increasing injections into the circular flow of money.
→ **Extension strategies** are ways of lengthening the maturity stage of the product life cycle.
→ **External economies of scale** reduce production costs for all businesses in the industry.
→ **Fiscal policy** adjusts taxation and government expenditure either to stimulate or to cool down the economy.
→ **Foreign direct investment (FDI)** refers to funds invested in other economies.
→ **Free trade areas** are groups of countries that trade completely freely with each other, with no trade barriers, but each member country retains its own independent trade policies in relation to the rest of the world.
→ **Globalisation** refers to the increasing interdependence of trading economies with increased imports, exports and capital movements.
→ **Horizontal integration** means that two businesses in the same industry have joined together.
→ **Human capital** is the knowledge, experience and skills of individuals or of the workforce.
→ **Income elastic** applies to products for which an income change causes a proportionately bigger change in quantity demanded.
→ **Income inelastic** applies to products for which an income change causes a proportionately smaller change in quantity demanded.
→ **Income elasticity of demand** measures the proportionate change in quantity demanded following a change in income.
→ **Inferior good** — a good or service that sees an increase in demand following a fall in income and a fall in demand following an increase in income.
→ **Inflation** is measured using either the CPI (Consumer Price Index), the headline rate and the basis for the government's inflation target, or the RPI (Retail price index) which includes housing costs e.g. council tax and mortgage interest payments.
→ **Injections** — investment, government expenditure and exports - increase demand for domestically produced goods and services.

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- → **Inorganic growth** — the firm grows by joining with another firm by merger or takeover.
- → **Internal economies of scale** are those that benefit the individual business.
- → **Investment** is spending now on capital assets that will generate income in the future.
- → **Invisible exports and imports** cannot be touched or handled; they are services e.g. insurance, banking or tourism.
- → **Just-in-time (JIT)** is a stock control system that does away with the need to hold large quantities of stocks or component inputs.
- → **Kaizen** — is the Japanese word for continuous improvement. It summarises a whole company approach to quality control.
- → **Labour intensive production** uses large amounts of labour and relatively little capital.
- → **Lead time** — the time taken from having an idea to selling the product to a customer.
- → **Leakages** reduce the demand for domestically produced goods and services by diverting part of people's incomes into savings, taxes and spending on imports.
- → **Lean production** refers to any system of production that minimises costs through eliminating waste.
- → **Long tail** — the mass of niche markets that has vastly extended consumer choice, with many small and larger businesses providing for small groups of consumers.
- → **Market leader** — the business with the most control over prices and output within its market.
- → **Marketing mix** — the range of marketing strategies that businesses use to promote and sell their products or services. It includes pricing, design and all forms of advertising.
- → **Market power** exists when a successful business with a significant market share can influence prices and output in the market.
- → **Mean income** is average income, i.e. total income (GDP) divided by the population.
- → **Median income** is the middle value in all incomes, 50% of incomes are above it, and 50% below it.
- → **Merger** is the joining together of two or more firms into a single business with the approval of the shareholders and management concerned.
- → **Micromarketing** — the marketing of products services designed to meet the needs of a very small section of the market.
- → **Minimum efficient scale** — the lowest point of the average cost curve where all available economies of scale have been put to use.
- → **Monetary policy** uses interest rates to control the level of spending in the economy.
- → **Monopoly** — where there is only one firm in the market and no competition.
- → **Monopoly power** — when a business is big enough to behave like a monopoly and control price or quantity supplied.
- → **Monopsony** — occurs when there is only one buyer of a product or service.
- → **Monopsony power** — occurs when a firm is the only buyer or is big enough to behave like a monopsony. This means that it can drive down the price of inputs simply by refusing to pay more.
- → **Multinational corporations (MNCs)** are businesses that are active in more than one economy.
- → **Nominal value** — means that the value is expressed in numerical terms at current prices.
- → **Normal good** — any good or service for which quantity demanded rises when incomes rise and falls when incomes fall.
- → **Oligopoly** occurs when several large firms dominate the industry.
- → **Organic growth** — the firm grows from within using its own resources to expand output.
- → **Outsourcing** means buying inputs from independent suppliers or locating the whole production process abroad.
- → **Physical capital** — any buildings, tools and equipment that will help to generate output.
- → **Price elastic** — a price change causes a proportionately bigger change in quantity demanded.
- → **Price inelastic** — a price change causes a proportionately smaller change in quantity demanded.
- → **Price elasticity of demand** — measures the extent to which a change in price affects quantity demanded.
- → **Pricing strategy** — the way in which a business decides on the price to charge and the factors that influence that decision.
- → **Productivity** — describes how efficiently resources are actually being used, usually by looking at output per unit of input.
- → **Product innovation** occurs when a completely new or improved product or service is created.
- → **Process innovation** occurs when new or improved production methods are used, enhancing efficiency and reducing costs.
- → **Product life cycle** — the stages a product passes through, from an initial idea to the end of its life.
- → **Promotion** — the use of advertising, branding, and public relations to increase sales.
- → **Public sector deficits** occur when government spending exceeds tax revenue, and it borrows to fund the difference.
- → **Quality control** refers to the traditional method of checking that products are of an adequate standard.
- → **Quality assurance** means ensuring that quality standards are agreed and met throughout the organisation.

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- → **Real value** — means that the effects of inflation have been removed. Real value is nominal value minus the inflation rate.
- → **Recession** — occurs when there are at least two consecutive quarters of negative growth in GDP.
- → **Recovery** follows recession, GDP growth rises slowly at first, then gathers pace. If it then grows faster, it may lead to a boom.
- → **Resources** include land (raw materials and land itself), labour (the human input), capital (anything that is used to produce something else including tools), enterprise (the human spark that combines the factors of production and produces something).
- → **SME** — is the recognised abbreviation for Small and Medium sized Enterprises.
- → **Structural unemployment** — happens when people have the wrong skills for the employment on offer or are located too far from the available jobs.
- → **Supply chain** — the sequence of processes by which a final product is created. Often this involves many different suppliers, perhaps in a range of different locations.
- → **Supply-side policies** are designed to increase the productive capacity of the economy by influencing aggregate supply.
- → **Synergy** — sometimes the combination of two businesses that have merged will yield more than the expected results. Often illustrated as 2 + 2 = 5.
- → **Takeover** – when one firm makes a bid for another and secures over 50% of the shares. That firm effectively swallows up the other one.
- → **Team working** — employees are organised into teams that share responsibility for production.
- → **Total Quality Management (TQM)** refers to employees' being involved in quality control and taking responsibility for the quality of their and their team's work.
- → **Uncertainty** describes a situation where events are unpredictable and beyond the control of the business.
- → **Unemployment** refers to the number of people able and willing to work but not able to find a paying job. The claimant count measures unemployment based on the number of people claiming unemployment benefits. The ILO or LFS measure of unemployment counts all those who are available and looking for work.
- → **Underemployment** refers either to employed people whose work does not make full use of their qualifications or to those forced to take part-time employment.
- → **Vertical integration** means that two businesses in the same industry, but at different stages of the production process or supply chain, have joined together.
- → **Viral marketing** spreads product information from person to person as individuals pass messages on via social media, text or email.

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