EXAM PAPERS PRACTICE

Theme 4 – Definitions

- → **Absolute poverty** means not having enough income to provide basic necessities and survive.
- → **Allocation of resources** — how factors of production are used to create goods and services.
- → **Allocative efficiency** is achieved when resources are used to yield the maximum benefit to everyone. It is impossible to redistribute them without making someone worse off.
- → **Anti-competitive practices** aim to reduce competition; they include price fixing and collusion.
- → **Asymmetric information** occurs when one party knows more about the product than the other.
- → **Austerity** refers to cuts in public expenditure and tax increases that reduce public borrowing.
- → **Balance of payments**: the set of accounts that show export revenue and import costs, capital movements and any other international transactions.
- → **Bank of England** is the UK's central bank; it controls monetary policy.
- → **Barriers to entry** occur when start-up costs make it difficult for new businesses to enter the industry.
- → **A cartel** is any agreement between businesses to reduce competition or not to compete with each other. The agreement is usually secret and may be implemented in various ways.
- → **The Competition and Markets Authority (CMA)** investigates UK market behaviour to ensure that all businesses are acting in line with competition policy requirements.
- → **Consumer protection** refers to regulations that protect consumers from unsafe or fraudulent purchases.
- → **Contestable markets** are characterised by easy entry, i.e. new firms can set up in business easily.
- → **The current account** is the part of the balance of payments that covers imports and exports.
- → **Demand-side policies** affect the economy by increasing or reducing aggregate demand.
- → **De-merit goods** are over-produced by the free market, in quantities that are greater than the optimal level for society. They are generally thought to be bad for society as a whole.
- → **De-regulation** means reducing the number of regulations that affect businesses.
- → **A direct tax** is taken at source and goes directly to the government, e.g. Income Tax and National Insurance Contributions.
- → **Entry and exit** refer to new businesses entering a particular market and existing businesses leaving.
- → **EU competition policy** keeps markets competitive wherever there is trade between EU member countries.
- → **Explicit collusion** occurs when there is a meeting or actual agreement between businesses to avoid competing vigorously and follow a joint strategy.
- → **External benefits** are benefits or positive side-effects imposed on 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 of the product.
- → **Financial crisis** — the period in 2007-2009 when banks were endangered by excessive lending.
- → **Fiscal policy** involves changes in the levels of taxation and/or government expenditure in order to affect the level of output.
- → **Free market policies** avoid government intervention, functioning on the basis of supply and demand.
- → **Free rider problem** occurs when public goods are under-provided or not provided at all because individuals are able to consume the good by paying little or nothing towards the cost.
- → **Full capacity output** is the most that the economy can produce without an increase in the factors of production.
- → **Geographic immobility** occurs when unemployed people cannot move to places where there are job vacancies.
- → **The Gini coefficient** measures income inequality. A coefficient of O would mean income is shared equally between all individuals, whilst a coefficient of 1 would mean one person within the population has all the income and everyone else none. The higher the Gini coefficient, the higher the level of inequality.
- → **Government failure** occurs when government intervention makes the situation worse rather than better. In solving one problem another is created.
- → **Imperfect markets** are distorted in ways that reduce competition. They include oligopoly and imperfect competition.
- → **Incentives** — (in economics) are payments or rewards that enable or motivate a particular course of action, or count as a reason for preferring one choice to the alternatives.
- → **Indirect taxes** are added onto prices and go indirectly to the government from the seller. Examples include VAT and Excise duty.
- → **Inequality** occurs where there are large differences in incomes and wealth within the society.
- → **Innovation** refers to the development of new ideas or techniques.
- → **Intellectual property rights** are ideas or inventions that are protected by patents or copyright.
- → **Interventionist policies** are designed to control market forces, usually for political reasons.
- → **Marginal cost (MC)** is the cost for producing one more unit of output.
- → **Marginal revenue (MR)** is the extra revenue that comes from selling one more unit of output.
- → **Market** — any medium in which buyers and sellers interact and agree to trade at a price.

Theme 4 – Definitions

- **Market failure** happens when a market does not efficiently allocate resources to achieve the greatest possible consumer satisfaction. The allocation of resources is such that a reallocation would make some people better off. (Allocative efficiency has not been reached.)
- **Merit goods** can be provided by the private sector and often are, but the quantity that the free market provides is lower than the optimum level for society. They are under-provided by the market mechanism. Public sector activity can create an optimum level of output.
- **Monetary policy** uses interest rates to vary the costs of borrowing and influence the level of aggregate demand.
- **The Monetary Policy Committee (MPC)** sets interest rates and seeks to prevent inflation from changing significantly.
- **Moral hazard** means that people take bigger risks when they know they will not personally have to cover the cost of a mistake.
- **A natural monopoly** occurs when the most efficient scale of production is a monopoly. More than one producer or supplier would involve wasteful duplication of resources.
- **Non excludable** means that it is impossible to prevent people who have not paid for a good from consuming it.
- **Non rivalrous** means that if one person consumes a good it does not affect or reduce the amount left for someone else to consume.
- **Normal profit** means just enough profit to enable a business to keep going.
- **Occupational immobility** occurs when unemployed people lack the skills needed to do the jobs that are available.
- **Overheating** occurs when aggregate demand exceeds aggregate supply and inflation is accelerating due to shortages.
- **Perfect competition** is a model that describes markets where all products are identical (i.e. homogeneous) with no differentiation and there are many competing businesses. Only normal profit can be obtained, and everyone will have perfect knowledge of the market.
- **The poverty trap** is a situation in which an unemployed person would be even poorer or not much richer in work because they would no longer receive unemployment benefit.
- **Price discrimination** means charging a higher price to people whose price elasticity of demand is low. The seller must be able to identify the groups of people who are more sensitive to prices.
- **Privatisation** means transferring production out of the public sector and into the private sector.
- **Productive (or technical) efficiency** maximises the effective use of resources. (See also productivity).
- **Profit signalling mechanism** — how resources are allocated. The presence of profit in a market attracts more resources and creates more output. Losses drive resources away.
- **A progressive tax** is one that takes a greater percentage of income from richer people than poorer people.
- **The Prudential Regulation Authority (PRA)** is part of the Bank of England and supervises banks, building societies and insurance companies.
- **A public sector deficit** occurs when public expenditure is greater than tax revenue; the deficit is covered by borrowing.
- **A public good** is one that the free market will not provide at all. There is no incentive for a producer to supply it, it is impossible to charge for it and make a profit and it is impossible to prevent anyone else from consuming it for free.
- **The public interest** is a loose term but means the welfare or wellbeing of the public in general, as opposed to the selfish interests of individuals, groups and businesses. In the context of this course, it means the interests of consumers in general rather than businesses.
- **Redistribution** refers to the use of tax revenue to raise the standard of living of poorer people.
- **Regulations** are legal and other rules that apply to businesses. They may come from governments, the EU or trade associations.
- **A regulatory body** is a public authority or government agency responsible for enforcing government regulations.
- **Regulatory capture** happens when the regulator is more influenced by the industry's point of view than the consumer's.
- **Relative poverty** exists when someone does not have enough income to participate fully in the society in which they live.
- **Research and development (R&D)** helps to develop products or processes that are new, better or cheaper.
- **Restrictive practices** include any action that a business uses to limit competition.
- **Shocks** are unexpected events that affect the economy and often come from outside it. They are not predictable.
- **Social benefits** are the total benefits of producing goods and services and are calculated by adding together the private and external benefits.
- **Social costs** are the total costs of producing goods and services and are calculated by adding together the private and external costs.
- **Supply-side policies** include all measures designed to increase the productive capacity of the economy They influence aggregate supply rather than aggregate demand.
- **Tacit collusion (or tacit agreement)** occurs when competing firms appear to follow a similar strategy to reach the same aim, such as avoiding price cutting, but without meeting or having any kind of agreement.
- **Trade (X-M)** is the difference between exports, which are part of the overall demand for UK produced products, and imports which are not produced in the UK.

Theme 4 – Definitions

→ **Tradable pollution permits** allow some businesses to pollute the atmosphere up to a certain level but no more. The total allowed can be reduced over time, allowing businesses to reduce their polluting processes gradually. If the business cuts pollution faster than it needs to, it can sell its unused permits to another business. This creates an incentive to reduce pollution.

→ **Trade-offs** occur when two objectives cannot both be achieved. The more you have of one variable the less you have of the other.

→ **Vacancies** are unfilled jobs; when they increase it is likely that there are skill shortages.

© 2024 Exams Papers Practice. All Rights Reserved