*Unit 1.1 Competitive Markets*

**Demand** refers to the quantities of a product that consumers are willing and able to buy at various prices in a given time period, ceteris paribus.

**Supply** refers to quantities of a product that suppliers are willing and able to sell at various prices in a given time period, ceteris paribus.

**Price Mechanism** allocates resources to their best possible use through the interaction of prices and the profit motive of producers.

**Complements** are products used jointly together to satisfy a want or need.

**Substitutes** are products that can be used in place of others to satisfy a want or need.

**Derived Demand** is when a demand for a commodity/service is a consequence of the demand for another good

**Goods in Competitive Supply** are goods that are produced with the same resources such that resources used in one good cannot be used to produce the other.

**Free Market** refers to an economy that relies totally on market forces of demand and supply for allocation of resources, with all economic decisions made without central government planning.

**Consumer Surplus** is the difference between what consumers are willing and able to pay for a unit of good and what they actually pay for that unit of good.

**Producer Surplus** is the difference between the revenue the producers receive from the sale of a unit of good and the price at which the producers are willing to make that unit of the good available for sale.

**Land** refers to gifts of nature used to produce goods and services.

**Labour** refers to the time and effort devoted to producing goods and services.

**Capital** refers to assets created for use in production of other goods.

*Unit 1.2 Elasticities*

**Price Elasticity of Demand (PED)** measures the responsiveness of the quantity demanded of a good to changes in its price, ceteris paribus.

**Cross Elasticity of Demand (XED)** measures the responsiveness of the demand for a good to changes in the price of another good, ceteris paribus.

**Income Elasticity of Demand** **(YED)** measures the responsiveness of demand for a good to a change in income, ceteris paribus.

**Price Elasticity of Supply (PES)** measures the responsiveness of quantity supplied of a good to a change in its price, ceteris paribus.

**Price Elastic** is when a change in price leads to a more than proportionate change in another variable.

**Income Elastic** is when a change in income leads to a more than proportionate change in demand.

*Unit 1.3 Government Intervention*

**Infrastructure** refers to large scale public systems of a country necessary for economic activity, adds to capital stock of a nation and usually supplied by the government.

**Indirect Taxes** are legal payments levied on goods and services paid to the government by firms to reduce output of a demerit good or generate tax revenue.

**Subsidies** are grants from government to firms aiming at lowering production costs to increase producer revenue or increase output of a merit good.

**Price Ceiling** refers to the legal maximum price that is set below the market equilibrium price to be effective.

**Price Floor** refers to the legal minimum price that is set above the market equilibrium price to be effective.

*Unit 1.4 Market Failure*

**Market Failure** is defined as the failure of the market to achieve efficiency in the allocation of society’s resources, resulting in an over- or under-allocation of resources in the absence of government intervention.

**Externalities** refer to spillover effects of production or consumption experienced by third parties not involved in consumption or production of the good, for which there is no compensation.

**Allocative Efficiency** refers to firms producing the particular combination and quantities of goods and services that consumers most desire. (MPB=MPC)

**Marginal Private Benefit (MPB)** refers to the benefit/satisfaction/utility to private individuals of an extra unit of good consumed.

**Marginal Private Cost (MPC)** refers to the cost to producers of an extra unit of good produced.

**Marginal Social Benefit (MSB)** refers to the true benefit to society of an extra unit of good consumed.

**Marginal Social Cost (MSC)** refers to the true cost to society of an extra unit of good produced.

**External Benefit of Consumption** refers to the positive spillover effects gained by third parties not directly involved in the consumption of the good.

**Merit Goods** refer to goods or services deemed socially desirable by the government, whose consumption causes external benefits.

**Non-excludability** means it is impossible or extremely costly to exclude any individual from the benefit of the good.

**Non-rivalry** means the consumption of the product by one additional person does not diminish another person’s ability to consume the product.

**Common Access Resources** are typically gifts of nature such as fishing grounds which are rivalrous in consumption and has no ownership.

**Sustainability** exists when the consumption needs of the present generation are met without reducing the ability to meet the needs of future generations.

*Unit 2.1 Level of Overall Economic Activity*

**Gross Domestic Product (GDP)** is the total value of final goods and services produced within the geographical boundaries of the country, within a year.

**GDP/capita** is the GDP divided by total population.

**Nominal GDP** is measured in monetary units and the effect of inflation has not been accounted for.

**Real GDP** measures the volume of output produced in an economy over a year, ie the GDP after adjusting for inflation.

**Purchasing-Power Parity (PPP)** is the rate of currency conversion that measures the quantity of goods and services an individual can buy with his income at domestic price levels.

**Gross National Product (GNI/GNP)** is the total value of final goods and services produced by residents of the country, within a year, regardless of geographical location.

**Recession** is defined as 2 consecutive quarters of negative growth in real GDP.

*Unit 2.2 Aggregate Demand and Aggregate Supply*

**Aggregate Demand (AD)** is the total desired expenditure on domestically produced final goods and services in an economy over a period of time

**Aggregate Supply (AS)** is the total possible amount (quantity) of goods and services produced in an economy (real GDP) at different price levels over a particular time period.

**Interest Rate** is defined as cost of borrowing (opportunity cost of spending).

**Consumption** is the spending by households on durable and non-durable goods and services per period of time.

**Investments** are additions to the capital stock of the country or expenditure by firms on capital.

**Capital Goods** refer to goods such as machinery and equipment which are used to produce consumer goods and other capital goods.

**Consumer Goods** refer to goods consumed by households to yield satisfaction such as clothing and cars.

*Unit 2.3.1 Macroeconomic Objectives – Low Unemployment*

**Unemployed** refers to people without a job but willing and able to work and actively seeking employment.

**Natural Rate of Unemployment** is the unemployment that exists when economy is producing at full employment level of output.

**Frictional Unemployment / Search Unemployment** occurs when workers are between jobs, in search of better jobs or waiting to begin a new job.

**Seasonal Unemployment** occurs when demand for certain types of labour fluctuates on a seasonal basis because of variations in need

**Structural Unemployment** occurs when there is a mismatch between the skills of workers, to that of jobs available.

*Unit 2.3.2 Macroeconomic Objectives – Low and Stable Inflation*

**Inflation** is a period of sustained increase in general price level in an economy, over a period of time.

**Disinflation** is a fall in the rate of inflation, over a period of time.

**Deflation** is a period of sustained decrease in general price level in an economy, over a period of time.

**Inflationary Gap** exists when actual output exceeds full employment output.

**Deflationary Gap** exists when actual equilibrium output is below the full employment output.

**Consumer Price Index** **(CPI)** measures changes in price of basket of goods and services consumed by average household.

**Producer Price Index (PPI)** measures price level changes from the point of view of producers rather than consumers.

*Unit 2.3.3 Macroeconomic Objectives – Economic Growth*

**Economic Growth** refers to an increase in real GDP (actual) or increase in full employment output (potential) over a period of time.

**Multiplier Effect** is the Keynesian idea that rise in injections (G, I, X) will lead to a greater increase in national income.

*Unit 2.3.4 Macroeconomic Objectives – Equity in Distribution of Income*

**Gini Ratio** is a measure of income inequality where zero represents perfect equality and one represents complete inequality.

**Direct Tax** refers to legal payments levied on income and wealth paid to the government by consumers.

**Equity** is fairness in distribution of income

**Progressive Tax** is when higher-income households pay proportionately more than a lower-income household.

**Regressive Tax** is when lower-income households pay proportionately more than a higher-income household,

**Absolute Poverty** is living on less than $1.90 (PPP) a day as of 2015, which is insufficient to meet basic human needs.

**Relative Poverty** is lacking the minimum amount of income needed in order to maintain the average standard of living in the society in which they live.

**Transfer Payments** is defined as payments of income which are not a return for the provision of current factor services

**Poverty Cycle** is a vicious cycle in which low incomes lead to low savings which can only finance low investments, and hence low income levels.

*Unit 2.4 Fiscal Policy*

**Fiscal Policy** involves changing government expenditure and/or direct taxes to manipulate aggregate demand.

**Budget Deficit** is where government spending on public/merit goods is greater than the government revenue

*Unit 2.5 Monetary Policy*

**Monetary Policy** involves changing money supply or interest rates directly to manipulate aggregate demand.

**Central Banks** regulate commercial banks and conduct monetary policy.

*Unit 2.6 Supply-Side Policies*

**Interventionist Supply-Side Policies** is the increase in government intervention to stimulate potential growth.

**Market-Oriented Policies** involve reduction of government intervention in order to increase competition and thus efficiency levels.

*3.1 International Trade*

**Free Trade** refers to exchange of capital, goods, and services across international borders without any trade barriers such as tariffs or quotas.

**Comparative Advantage** (in the production of the good) refers to when a country can produce a particular good at a lower opportunity cost than another country.

**Tariffs** are taxes imposed on imports.

**Dumping** is when a firm sells abroad at a price below unit average costs or below its domestic price.

**Quotas** are restrictions on the maximum quantity of imports.

**Administrative Trade Barriers** are government requirements including product, sanitary and pollution standards that result in lower level of imports into a country.

*3.2 Exchange Rates*

**Exchange Rate** is the price of one currency in terms of another currency, measuring the external value of a currency.

**Floating Exchange Rate System** is where the exchange rate is determined solely through interaction of demand and supply for the currency with no government intervention.

**Fixed Exchange Rate System** is where exchange rate is set at a level by the government and maintained through central bank intervention.

**Appreciation** is an increase in value of one currency in terms of another currency in a floating exchange rate system.

**Depreciation** is a decrease in value of one currency in terms of another currency in a floating exchange rate system.

**Devaluation** is a deliberate attempt by a government to reduce the external value of its currency to lower deficit in Balance of Payments.

**Revaluation** is a deliberate attempt by a government to increase the external value of its currency to lower surplus in Balance of Payments.

*3.3 The Balance of Payments*

**Budget** is an annual financial statement presenting government’s proposed revenues and spending for a financial year.

**Balance of Payments** is a summary statement of monetary value of all economic transactions that have taken place over a period of time between residents of a country and residents of all other countries, consisting of current, capital and financial accounts.

**Debits** are all payments made by a country to other countries.

**Credits** are all payments received from other countries.

**Current Account** is a measure of the net flows of funds from trade in goods and services, income and transfers.

**Capital Account** is composed of inflows minus inflows of funds for unilateral transfers and transactions in non-produced, non-financial assets.

**Financial Account** is composed of inflows minus outflows of funds for short-term flows (hot money), long-term flows (portfolio and direct investments) and transactions in reserve assets.

**Portfolio Investments** refer to acquisition of stocks, bonds and other financial assets by foreign investors which does not provide them with ownership.

**Foreign Direct Investments** (FDI) are long term investments by multinational corporations (MNCs) in another country in the form of physical assets.

**Reserve Assets/Foreign Reserves** are foreign currency reserves that the central bank of a country can buy or sell to influence the value of a country’s currency.

**Capital Flight** is when financial capital exits a country, flowing into safer and more profitable financial centres.

*3.4 Economic Integration*

**Preferential Trade Agreements (PTA)** is an agreement that gives preferential access to certain products from certain countries by reducing or eliminating tariffs, or by other trade-related agreements.

**Bilateral Trade Agreement** is an agreement between two countries.

**Multilateral Trade Agreement** involves agreement between many countries.

**Trading Blocs** are groups of countries that join together in agreement to increase trade between them and/or gain economic benefits from cooperation on some level.

**Free Trade Area** consists of a group of countries that agree to gradually eliminate trade barriers between themselves.

**Customs Union** consists of a group of countries that remove trade barriers between themselves and adopt common external tariffs and quotas with non-member countries.

**Common Market** is a type of trading bloc where there are no trade barriers between member countries, and there is free movement of factors of production within them.

**Monetary Union** is a form of economic integration with a common market, common currency and common central bank.

**Price Transparency** is the ability of consumers and firms to compare prices in all countries that have adopted a common currency without having to make exchange rate calculations and conversions.

**Inward Investment** refers to investment from outsiders towards member countries with a common currency.

**Trade Diversion** is the shifting of trade away from low cost producers outside the free trade area to high cost producers within the trade area.

*4.1 Economic Development*

**Economic Development** is an increase in material and non-material welfare.

**Material Well-Being** of an individual is determined by the quantity of consumption goods and services enjoyed by the individual.

**Non-Material Well-Being** is the quality of life and is influenced by both social and economic factors.

**Informal Sector** lies outside the formal economy, referring to economic activities that are unregistered and legally unregulated.

**Privatization** is whereby the government sells state-owned enterprises to the private sector.

*4.3 Role of Domestic Factors*

**Micro-Credit Scheme** is a programme providing small loans to poor people to learn a skill and/or start a business.

*4.5 Role of International Trade*

**Diversification** is a policy initiative to move away from commodity concentration of exports, towards a bigger variety of goods and services.

*4.5 Role of Foreign Direct Investment*

**Foreign Direct Investment** is the purchase of productive assets by a multi-national corporation based in another country.

**Multinational Corporations** are companies that have productive assets in more than one country.

*4.6 Role of Foreign Aid and Multilateral Development Assistance*

**Official Developmental Assistance** is help a country receives from governments, to support economic development.

**Concessional Long-term Loans** are loans at a very low or no rate of interest, with repayment stretched over a long period of time (25 - 40 years) and may include a grace period.

*4.7 Role of International Debt*

**Foreign Debt** refers to the total amount of public and private debt incurred by borrowing from foreign creditors.

**Public Debt** is a government’s accumulation of budget deficits minus budget surpluses; the total amount owed by the government to all creditors.

*4.8 The Balance of Markets and Intervention*

**Market-Oriented Strategies** are policies aimed at increasing free operation of demand and supply in the market to improve resource allocation and promoting long-term growth.

**Interventionist Strategies** are policies aimed at promoting potential growth and economic development via active role of the government.