

## Definition (1)

1. **opportunity cost** is cost of the next best opportunity forgone when making a decision.
2. The **production possibility curve(ppc)** represents the maximum combination of goods and services which can be produced in an economy, i.e. the productive capacity of the economy.
3. The **PPC diagram** is a graphical representation of the maximum combination of the amounts of goods and services that can be produced in an economy per period of time.
4. **Microeconomics** is the study of particular markets and sections of the economy, rather than the economy as a whole.
5. **Macroeconomics** is the study of economic behaviour and decision making in the whole economy, rather than individual markets.
6. The **market system** refers to the method of allocating scarce resources through the market forces of demand and supply.

**Market equilibrium** exists when the demand for a product matches the supply, so there is no excess demand

(shortage) or excess supply (surplus)

**Market disequilibrium** exists if the price for a product is too high (resulting in excess supply, or a surplus) or too low (resulting in excess demand, or a shortage ).

7. The **price mechanism** refers to the system of relying on the market forces of demand and supply to allocate resources.
8. **Demand** refers to the willingness and the ability of customers to pay a given price to buy a good or service. The higher the price of a product, the lower its demand tends to be.
9. **Substitutes** are goods or services that can be used instead of each other, e. g. tea or coffee.  
**Complements** are products that are jointly demanded, e. g. tennis balls and tennis racquets.

10. **A contraction in demand** means a fall in the quantity demanded for a product following an increase in its price.  
**An extension in demand** means an increase in the quantity demanded for a product following a fall in its price.

**The market demand** is the sum of all individual demand for a particular product.

11. **Supply** is the ability and willingness of firms to provide goods and services at given price levels.