Business Economics

Part A: Chapter # 1 (Business and the economic environment)

Joint-stock company: A company where ownership is distributed between shareholders.

Limited liability: Where the liability of the owners for the debts of a company is limited to the amount they have invested in it.

U-form business organization: One in which the central organization of the firm (the chief executive or a managerial team) is responsible both for the firm's day-to-day administration and for formulating its business strategy.

M-form business organization: One in which the business is organized into separate departments, such that responsibility for the day-to-day management of the enterprise is separated from the formulation of the business's strategic plan.

Flat organization: One in which technology enables senior managers to communicate directly with those lower in the organizational structure. Middle managers are bypassed.

H-form or holding company: A business organization in which the parent company holds interests in a number of other companies or subsidiaries.

Principal–agent problem: One where people (principals), as a result of lack of knowledge, cannot ensure that their best interests are served by their agents.

Asymmetric information: A situation in which one party in an economic relationship knows more than another.

PEST (or STEEPLE) analysis: Where the political, economic, social and technological factors shaping a business environment are assessed by a business so as to devise future business strategy. STEEPLE analysis also considers ethical, legal and environmental factors.

Globalization: The process whereby the economies of the world are becoming increasingly integrated.

Primary production: The production and extraction of natural resources, plus agriculture.

Secondary production: The production from manufacturing and construction sectors of the economy.

Tertiary production: The production from the service sector of the economy.

Gross domestic product (GDP): The value of output produced within the country over a 12-month period.

Deindustrialization: The decline in the contribution to production of the manufacturing sector of the economy.

Industry: A group of firms producing a particular product or service.

Industrial sector: A grouping of industries producing similar products or services.

Standard Industrial Classification (SIC): The name given to the formal classification of firms into industries used by the government in order to collect data on business and industry trends.

Scarcity: The excess of human wants over what can actually be produced to fulfil these wants.

Consumption: The act of using goods and services to satisfy wants. This will normally involve purchasing the goods and services.

Production: The transformation of inputs into outputs by firms in order to earn profit (or meet some other objective).

Opportunity cost: The cost of any activity measured in terms of the best alternative forgone.

Rational choices: Choices that involve weighing up the benefit of any activity against its opportunity cost.

Marginal costs: The additional cost of doing a little bit more (or 1 unit more if a unit can be measured) of an activity.

Marginal benefits: The additional benefits of doing a little bit more (or 1 unit more if a unit can be measured) of an activity.

Part B: Chapter # 2 (The working of comitative markets)

Free market: One in which there is an absence of government intervention. Individual producers and consumers are free to make their own economic decisions.

Perfectly competitive market: A market in which all producers and consumers of the product are price takers.

Price taker: A person or fi rm with no power to be able to influence the market price.

Price mechanism: The system in a market economy whereby changes in price, in response to changes in demand and supply, have the effect of making demand equal to supply.

Equilibrium price: The price where the quantity demanded equals the quantity supplied; the price where there is no shortage or surplus.

Equilibrium: A position of balance. A position from which there is no inherent tendency to move away.

Law of demand: The quantity of a good demanded per period of time will fall as the price rises and rise as the price falls, other things being equal (ceteris paribus).

Income effect: The effect of a change in price on quantity demanded arising from the consumer becoming better or worse off as a result of the price change.

Substitution effect: The effect of a change in price on quantity demanded arising from the consumer switching to or from alternative (substitute) products.

Quantity demanded: The amount of a good that a consumer is willing and able to buy at a given price over a given period of time.

Substitute goods: A pair of goods which are considered by consumers to be alternatives to each other. As the price of one goes up, the demand for the other rises.

Complementary goods: A pair of goods consumed together. As the price of one goes up, the demand for both goods will fall.

Normal goods: Goods whose demand rises as people's incomes rise.

Inferior goods: Goods whose demand falls as people's incomes rise.

Change in demand: The term used for a shift in the demand curve. It occurs when a determinant of demand other than price changes.

Change in the quantity demanded: The term used for a movement along the demand curve to a new point. It occurs when there is a change in price.

Substitute in supply: These are two goods where an increased production of one means diverting resources away from producing the other.

Goods in joint supply: These are two goods where the production of more of one lead to the production of more of the other.

Change in the quantity supplied: The term used for a movement along the supply curve to a new point. It occurs when there is a change in price.

Change in supply: The term used for a shift in the supply curve. It occurs when a determinant other than price changes.

Price elasticity of demand: A measure of the responsiveness of quantity demanded to a change in price.

Elastic demand: If demand is (price) elastic, then any change in price will cause the quantity demanded to change proportionately more. (Ignoring the negative sign) it will have a value greater than 1.

Inelastic demand: If demand is (price) inelastic, then any change will cause the quantity demanded to change by a proportionately smaller amount. (Ignoring the negative sign) it will have a value less than 1.

Unit elasticity: When the price elasticity of demand is unity, this is where quantity demanded changes by the same proportion as the price. Price elasticity is equal to −1.

Total consumer expenditure (TE) (per period): The price of the product multiplied by the quantity purchased: TE = P x Q

Total revenue (TR) (per period): The total amount received by firms from the sale of a product, before the deduction of taxes or any other costs. The price multiplied by the quantity sold: TR = P x Q

Income elasticity of demand: The responsiveness of demand to a change in consumer incomes: the proportionate change in demand divided by the proportionate change in income.

Cross-price elasticity of demand: The responsiveness of demand for one good to a change in the price of another: the proportionate change in demand for one good divided by the proportionate change in price of the other.

Normal goods: Goods whose demand increases as consumer incomes increase. They have a positive income elasticity of demand. Luxury goods will have a higher income elasticity of demand than more basic goods.

Inferior goods: Goods whose demand decreases as consumer incomes increase. Such goods have a negative income elasticity of demand.

Price elasticity of supply: The responsiveness of quantity supplied to a change in price: the proportionate change in quantity supplied divided by the proportionate change in price.

Minimum price: A price floor set by the government or some other agency. The price is not allowed to fall below this level (although it is allowed to rise above it).

Maximum price: A price ceiling set by the government or some other agency. The price is not allowed to rise above this level (although it is allowed to fall below it).

Buffer stocks: Stocks of a product used to stabilize its price. In years of abundance, the stocks are built up. In years of low supply, stocks are released onto the market.