Economics Key Words:

Demand	Relationship between price and quantity required by consumers. An inverse relationship (negative correlation). "want and the ability to pay"
supply	Relationship between price and quantity firms are willing and able to supply (a positive correlation)
Producer surplus	Firms charge market price but many could produce for less. This difference is called producer surplus.
Consumer surplus	Consumers pay market price but many would be willing and able to pay more. This difference is called consumer surplus.
Excess demand	Where quantity demanded is higher than price (price must therefore rise)
Excess supply (glut)	Where quantity supplied is higher than price (price must therefore fall)
Cost push inflation	Suppliers respond to rising input prices by raising there prices (e.g. in response to increase in price of oil)
Demand pull	Consumers demand creates excess demand (housing bubble)
elasticity	The relationship between price and quantity. Calculated by dividing percentage change in quantity demanded by percentage change in price. Graphically, in simple terms' the 'steepness of the line'. Values less than 1 (ie decimals) show inelastic relationship, values above 1 show elastic
Elastic	An increase in price has a disproportional effect on quantity demanded. "A 5% change in price causes a 20% change in quantity". A luxury good.
Inelastic	An increase in price has a less than proportional effect on quantity demanded. "A 20% change in price causes a 5% change in quantity". A necessity.
Cross price elasticity	Relationship between two products (see substitutes and complimentary products)
Substitute	Not an industry competitor but a product or service that satisfies the same need in a different way. Air travel versus train travel.
Compliment	A product or service needed in order to get full benefit. Mobile phone and network provider; laptop and internet service provider
Spectrum of competition	Market types
Monopoly	A firm able to act in an unconstrained way. Able to make monopoly or super normal profits. Often described as a market type with only one firm. Defined by Competition Commission as a market with a firm who has more than 25% market share. A market that is contestable is not a monopoly. Contestable markets are ones who have relatively low barriers to entry
Barriers to entry/exit	Cost that make it difficult for a firm to enter or leave a market thus giving the existing firms some degree of protection. May be due to brand strength, patents, cost of set up (e.g blast furnace or car plant), cost of decommissioning (e.g. nuclear reactor), planning regulation (e.g. changes in environmental laws make it harder to start new business in some areas)
Oligopoly	A market dominated by 'a few' firms. Firms often avoid price competition. Use of game theory. Kinked demand curve.
Monopolistic competition	Many firms selling heterogeneous products. Differentiated by brand each firm has a monopoly other its own brand. Firms compete on marketing and brand building.
Perfect competition	Many firms selling exactly same product (heterogeneous). Examples include raw materials and investments (it matters not whose currency you buy as long as it is dollars, Euros, etc.)

GDP	Gross domestic product. A measure of a country's output. Often expressed as GDP per capita. GDP per capita divides total GDP by population.
Real	Prices or values adjusted for inflation. Real wages is wages after removing inflation. Real GDP is GDP allowing for inflation
Nominal	Also called money values. The amount as it would be expressed on an invoice or cheque before being adjusted for inflation. The nominal price of a house in 1962 is what the purchaser paid, adjusted for inflation the real price would be closer to current market prices.
Fiscal policy	The use of taxation and government spending to control economy
Monetary policy	The use of controls on money supply to control economy
Gilt	Government bond
PSBR	Public sector borrowing requirement. The 'overdraft' of the government required to fund difference between tax receipts and expenditure. Finance (normal but not always by selling gilts (government bonds – T bills in USA)
BoP	Balance of payments. The net of (all including services) export minus imports
Balance of trade	The net of physical exports minus imports
Demand side policy	Use of government spending or tax cuts to stimulate demand. Associated with Keynesian economics
Supply side policy	Alterations to infrastructure, taxation, legislation, education designed to make it cheaper to do business. Enhances productivity and so enables firms to expand
PPP	Purchasing power parity. The relationship between inflation and exchange rates. The law of one price suggests that after conversion an amount of currency should be able to purchase the same goods or services
Public good	Non rival in consumption and non-excludable. E.g a lighthouse does not lose its light by being used nor can non-payers be excluded from its benefit
Market failure	Where there is a difference between marginal social cost and marginal private costs such that the market over or under supplies a product or service
Externalities	Costs other than those involved in the transaction (e.g environmental costs or social costs)
MR	Marginal revenue – revenue from selling one more
MC	Marginal cost – cost of selling one more
Profit maximisation	Point at which MC=MR
AR	Average revenue
AC	Average cost
Economy of scale	Reduction in AC brought about by increase in size of firm. Eventually become dis-economy of scale where reveres occurs.
Increasing returns	Increase in output greater than increase in input. After a point will become diminishing returns where increase in input is greater than increase in output.