

## LC Economics (Micro)– Key Definitions



# Demand

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The quantity of a good or a service that customers will purchase at varying prices

# Supply

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The quantity of a good or a service that producers will sell at varying prices

# Opportunity Cost

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The cost of forgone alternatives involved in making a choice

# Law of Demand

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As the **price** of a normal good **rises**, the **quantity demanded** will **fall & vice versa**, all things being equal

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## LC Economics (Micro) – Key Definitions



### Law of Supply

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As the **price** of a normal good **rises**, the **quantity supplied** will **rise** & **vice versa**, all things being equal

### Utility

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The satisfaction a consumer gets from consuming a good or service

### Marginal Utility

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The extra satisfaction a consumer gets from consuming an extra unit of a good or

### Consumer Surplus

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The difference between what a consumer pays for a good and the maximum they were willing to pay rather than go without

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## LC Economics (Micro) – Key Definitions



### Producer Surplus

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The difference between what a producer receives for a good and the lowest price they were willing to accept

### Law of Diminishing Marginal Utility

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As more & more of a good is consumed, the marginal utility gained from each successive unit decreases

### Equi-Marginal Principle/ Law of Equi-Marginal Returns

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In order to maximise utility, consumers should spend their income so that the ratio of marginal utility to price is the same for all goods consumed

### Short Run

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A period of time in which at least one factor of production is fixed. Law of Diminishing Returns applies

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## LC Economics (Micro) – Key Definitions



### Long Run

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A period of time in which all factors of production are variable. Law of Diminishing Returns does not apply

### Fixed Costs

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Costs that remain the same, regardless of the quantity of goods produced

### Normal Profit

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The minimum amount of profit an entrepreneur must earn to keep resources in their present use in the long run

### Economies of Scale

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A reduction in average costs as a firm produces on a large scale

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## LC Economics (Micro) – Key Definitions



### Law of Diminishing Marginal Returns

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As increasing quantities of a variable factor is added to a fixed, a stage will be reached where addition to total output will decline

### Supernormal Profit

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Profit earned in excess of normal profit. Average revenue  $>$  average costs

### Deregulation

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Measures taken in an industry to improve competition and allow for an efficient market to exist

### Brand Proliferation

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Many brands are made & advertised under the same umbrella

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## LC Economics (Micro) – Key Definitions



### Limit Pricing

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Selling goods at exceptionally low prices. Deters competition

### Price Leadership

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In oligopolies, the biggest firm sets the price and other firms follow this pricing policy

### Collusion

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Firms come together for their mutual benefit. They act together to set price, output or other conditions of sale

### Land

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Anything given by nature that is used to make goods or provide a service.

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## LC Economics (Micro) – Key Definitions



# Labour

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Human effort used to make goods or provide a service.  
Return = Wages

# Capital

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Anything man made used to make a good or provide a service.  
Return = Interest

# Enterprise

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Organises the other factors into a production unit to produce a good/service. Return = Profit

# Derived Demand

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Where a factor is demanded for its contribution to the production process

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## LC Economics (Micro) – Key Definitions



### Marginal Physical Product

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The extra output produced as a result of employing an extra factor

### Marginal Revenue Productivity

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The extra revenue earned as a result of employing an extra factor

### Supply Price

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The minimum payment required to bring a factor into use & maintain it in that use

### Transfer Earnings

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What a factor must earn to keep it in its present use & prevent it from transferring to an alternative use

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## LC Economics (Micro)– Key Definitions



### Economic Rent

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Any earnings of a factor of production above its supply price

### Negative Equity

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Occurs when property is worth less than the mortgage obtained to purchase

### Mortgage Arrears

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The inability to meet mortgage loan obligations

### Mobility of Labour

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The ease with which workers can move from one area to another, or from one firm to another

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## LC Economics (Micro) – Key Definitions



### Unemployment

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Occurs when a person of employable age is out of work

### Workforce

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The number of people actually working in the economy

### Labour Force

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The number of people available for work i.e. unemployed + workforce

### Participation Rate

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The proportion of the active age group (16-65) who are in the labour force

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## Dependency Rate

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The proportion of the population not working

## Full Employment

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When everyone looking for employment at existing wage rates is employed

## Live Register

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Notes the number of people signing up for social welfare schemes & are on partial work schemes

## Wage Drift

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Occurs when wage levels rise above the negotiated rates due to a high demand for labour



## LC Economics (Micro) – Key Definitions



### Black Economy

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All unrecorded economic activity in the National Income Accounts. No tax is paid on this activity

### Quasi-Rent

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Rent of a temporary nature. Eliminated in the long run

### Labour Productivity

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The output per worker per period of time

### Real Wages

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Wages adjusted to take account of inflation i.e. purchasing power of wages

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## LC Economics (Micro)– Key Definitions



Investment  
(Capital  
Formation)

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Adding to the stock of capital. The use of savings for production

Savings

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The part of one's income that is not consumed.  
Income > Expenditure

MRP of  
Capital

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The extra income earned due to hiring one extra unit of capital

Capital  
Deepening

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When a firm becomes more capital intensive

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## LC Economics (Micro) – Key Definitions



### Liquidity Preference Theory

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States that interest rates are determined by the supply of and demand for money

### Transactionary Motive

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The desire to hold money for day-to-day expenses

### Precautionary Motive

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The desire to hold money for emergencies

### Speculative Motive

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The desire to hold money for possible future investment opportunities

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## LC Economics (Micro) – Key Definitions



### Rent of Ability

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Supernormal Profit earned by an entrepreneur due to their business acumen

### Explicit Costs

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Costs that the firms pay and are included in the accounts

### Implicit Costs

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Costs that are often non-monetary and difficult to identify

### Labour Theory of Value

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States that the value of a product is equal to the amount of labour that went into producing it

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