Economics Terminology

Term	Definition
Capital	Those goods produced or supplied by the economic system that are used as inputs to produce other goods and services in the future.
Compliments	Goods that are used in tandem with each other; when the price of one increases, the demand for other goes down.
Consumer surplus	The difference between the maximum amount that a person is willing to pay for a good and its current market price.
Demand curve	A graph illustrating how much of a given Product a household or all households would be willing to buy at different prices.
Discount rate	Interest rate that banks pay to the Fed when borrowing from it.
Economy of Scale	When cost per unit of output declines with the number of output produced
Efficiency	The condition in which the economy is producing what people want at least possible cost.
Elasticity	A general concept used to quantify the response in one variable when another variable changes.
Equilibrium	A state that occurs when there is no tendency for change
Externality	A consequence or side effect occurred to a party due to an action or economic activity of another party
Fixed cost	Any cost the does not depend on the firms level of output. These cost are incurred even if the firm is producing nothing. There are no fixed costs in the long run.
Income	The sum of all of household’s wages, salaries, profits, interest payments, rents, and other forms of earnings in given period of time.
Inferior goods	Goods for which demand tends to fall when income rises.
Inputs	The goods and services that firms purchased to turn into output.
Law of demand	The negative relationship between price in quantity demand: as price rises, quantity demanded decreases. As price falls, quantity demanded increases.
Law of diminishing marginal utility	The more of any one good consumed in a given period, the less satisfaction (utility) generated by consuming each additional (marginal) unit of the same good.

Term	Definition
Law of supply	The positive relationship between price in quantity of a good supplied: an decrease in market price will lead to a decrease in quantity supplied.
Long run	That period of time for which there are no fixed factors of production. Firms can increase or decrease scale of operation, and new firms can enter and existing firms can exit the industry.
Marginal benefit	The additional benefit associates with the production of one more unit of something. For example, the societal benefit associated with reducing air pollution by one more unit.
Marginal cost	The increase in total cost that result from producing one more unit of output. Marginal cost reflects changes in variable costs.
Marginal revenue	The additional revenue that a firms makes when it increase output one additional unit. In perfect competition, P equals MR.
Marginal utility	The additional satisfaction and gained by consumption or use of one more unit of something.
Marginal willingness to pay	The additional amount consumers are willing to pay for one more unit of a particular good. This is marginal utility in monetary amounts.
Market supply	The sum of all that is supplied each period by all producers of a single product.
Maximization	Getting the most possible given the available resources. Consumers maximize utility. Firms maximize profits.
Monopoly	In industry structured in which there is only one large firms that produces a product for which there are no closed substitute. Monopolies can set prices but are subject to market discipline.
Monopsony	A market in which there is only one buyer for a good or service.
Normal goods	Goods for which demand goes up when income is higher and for which demand goes down when income is lower.
Opportunity cost	That which we give up, or forego, when we make a choice or a decision.
Perfect competition	An industry structure in which there are many firms, each small relative to the industry, producing virtually identical products and in which no firm is large enough to have any control over prices. In perfectly competitive industry, new competitors can freely enter and the market.

Term	Definition
Price	The amount that product sells for per unit. It reflects what society is willing to pay.
Producer surplus	The difference between a producer marginal cost curve and market price.
Production possibility frontier	A graph that shows all the combinations of goods and services that can be produced if all society's resources are used efficiently.
Profit	The difference between total revenue and total cost. Profit = (price – average cost) x quantity.
Public goods or social goods	Goods or services that bestow collective benefits on members of society. Generally, no one can be excluded from enjoying their benefits. The classic example is national defense.
Rational behavior/ economic agent	A behavior or agent that is supposed to optimize one's economic interest
Short run	The period of time for which two conditions hold: the firm is operating under fixed scales (fixed factor) of production, and firms can neither enter nor exit an industry.
Substitutes	Goods that can serve as replacements for one another; when the price of one increase, demand for the other goes up.
Supply curve	A graph illustrating how much of a product a firm will supply at different prices.
Total revenue	The total amount that a firm takes in form the sale of its product: the price per unit times the quantity of output the firm decides to produce.
Total utility	The total amount of satisfaction obtained from consumption of a good or service.
Total variable cost	The total of all costs that vary with output in the short run.
Utility	The satisfaction, or reward, a product yields relate to its alternative. The basis of choice.
Variable cost	The cost that depends on the level of production chosen.