Economics Definition List – T7A Central economic problems/Demand and Supply/Government Regulation

- Opportunity cost

Opportunity cost is the value of the next best alternative forgone when a choice is made
Production Possibilities Curve

- The Production Possibilities Curve is a curve that shows all the possible combinations of the maximum quantity of two goods that a country can produce within a specified period of time with all its resources fully and efficiently employed at a given state of technology

- Change in Quantity Demanded
  A change in quantity demanded is the change in consumption of the goods due to a change in the price of the good concerned. This is represented by a movement **along** the demand curve

- Change in Demand
  A change in demand is a change in the consumption of the goods due to factors other than the change in price of the good concerned. This represented by the **shift** of the demand curve.

- Joint Demand
  The relationship of the two goods is complementary in nature, implying that the increase in quantity demanded for good A will lead to the increase in demand for good B.

- Competitive Demand
  The two goods are substitutes for each other, implying that the increase in quantity demanded for good A will lead to the reduction in demand for good B. For example, specially-brewed coffee and soft drinks.

- Derived Demand
  The relationship of the two goods is linked in such a way that the demand for good A is dependent on the quantity demand of good B. For example, brick and houses.

- Composite Demand
  The demand for the goods comes from many sources. (It can be used in many ways by different types of consumers.) For example, steel.

- Minimum price

A minimum price is a **price floor** below which the market price cannot fall. To be effective the minimum price has to be set above the equilibrium price

Maximum price
A maximum price is a **Price ceiling** above which the market price cannot exceed. To be effective, the price ceiling has to be set below the equilibrium price.

- Change in quantity supplied
  A change in quantity supply means that the change in production capacity is due to the change in the price of the good concerned. This is represented by a movement **along** the supply curve

- Change in supply
  A change in supply means that the change in production capacity is due to some other factors beside the price of the goods concerned. It is represented by the **shift** of the supply curve.

- Fixed supply curve
  The supply of the production is restricted and fixed and it will not change in accordance to the change in the price level. For example, the fishery industry has its production capacity fixed by natural environment factor.

- Joint supply
  The increase in quantity supplied of a good will lead to the increase in the supply of another good as the production of one good will create the by-products which can be used for the production of another good. The increase in the supply of these resources will lower down the cost of production for latter, thus leading to an increase in the supply of the good.

- Competitive Supply
  The increase in supply of one good will lead to the reduction of another good as the production of one good (competing for same resources) requires resources for production which is also used for the production of the good. Due to the condition of limited resources, the cost of these resources will increase which will raise the cost of production and thus, contributing to the fall in supply of the good concerned.

- Market equilibrium
  This condition of market equilibrium is attained when the market demand is equal to market supply. At equilibrium, the **market clearing price** and quantity is determined.

- Market clearing price
  Market-clearing price is the price that achieves a market balance. Because quantity demanded and quantity supplied are equal at the market-clearing price, there is no shortage nor surplus in the market, which means that neither buyers nor sellers are inclined to change the price, which is the primary condition for equilibrium.

- Consumer surplus
  Consumer surplus is the difference between the maximum amount that consumers are willing to pay for a given quantity of good and what they actually pay (equilibrium price).

- Producer Surplus
  Producer surplus is the difference between the amount received by producers and the minimum amount that they are willing and able to accept for supplying the good.

- Price floor
  A minimum price set artificially so that goods are bought and sold at that price level which is above the market equilibrium price level

- Price ceiling
  A maximum price set artificially by the government of firms so that goods are bought and sold at that price level which is below the market equilibrium price level.

- Black market
  Black market condition will evolve for the quantity set at P_C which will contribute a rise in the price from P_C to P_{BM} if the quantity supplied at Q_1 can be re-sold

- Direct tax
  Direct tax is directly levied by the authorities on the consumers.

- Indirect Tax
  Indirect tax is tax levied by the authorities on producers. The producers can then pass on the burden of the tax to the consumers.

- Specific tax / per unit tax
  Specific tax, or per unit tax, is a constant tax amount levied on per unit of goods sold. It causes a parallel shift of the supply curve up and to the left.

- Ad valorem tax

Ad valorem tax, a percentage tax, takes a percentage of the price of good concerned. It changes as the price of good changes. It changes the slope of the curve as the curve pivots anti-clockwise upwards.

- Lump sum tax
  Lump sum tax is a fixed amount of tax regardless of the amount of quantity.

- Consumer tax burden
  Tax incidence that falls on the consumers. Consumers will take the entire tax burden if demand is perfectly inelastic and if supply is perfectly elastic

- Producer Tax burden

Tax incidence that falls on the producers. Tax burden falls entirely on producers when supply is perfectly inelastic and when demand is perfectly elastic.

- Subsidy

Subsidy is a payment to the producers by the government. It lowers the cost of production and shifting supply curve down and to the right. Specific subsidy causes a parallel shift downwards and to the left. Ad valorem subsidy causes a pivoted shift in the clockwise direction.

- Deadweight Loss
  Consumer and producer welfare (surplus) loss when there is allocative inefficiencies as a result of the restriction of production due to the imposition of taxation