AOF Business Economics

Master Vocabulary List

This document provides all the key vocabulary terms presented in this course at a glance. The terms are listed alphabetically; the lesson number identifies the first time a term is introduced in the course. To use the words only from a particular lesson, please see the Key Vocabulary resource included in the Teacher Resources document for that lesson.

| Term | Definition | Lesson # |
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| absolute advantage | The ability of a country, an individual, a company, or a region to produce a good or a service at a lower cost per unit than the cost at which any other entity produces (or can produce) that good or service. | 13 |
| allocation | A system under which a scarce good is distributed under a plan administered by a supplier and not by the interaction of supply and demand in the market. | 8 |
| allocative efficiency | The provision of the right amount of goods and services, taking into account consumers’ preferences, the production possibilities provided by technology, and the scarcity (and hence price) of each of the production inputs used. | 4 |
| antitrust laws | A set of laws and regulations meant to increase market competition by generally making it illegal to create a monopoly or cartel, and providing for a variety of legal actions to prevent future anticompetitive behavior by the company or companies concerned. | 9 |
| appreciation | When one currency’s value increases relative to the value of another currency. | 12 |
| arbitrage | The process by which a product sold at a lower price in one market is moved to another market where it can be sold for a higher price, thus making a relatively risk-free profit. | 12 |
| associate’s degree (AA) | A degree given for successful completion of some courses of study at a two-year college. | 14 |
| autarky | An economic policy in which a country attempts, so far as possible, to produce everything it needs without relying on imports. | 13 |
| average cost | The average amount spent to produce each item of a good, calculated as total cost divided by total units produced. | 8 |
| bachelor of business administration (BBA) | An academic degree in commerce and business administration that typically requires four years of study. | 14 |
| bachelor’s degree (BA or BS) | An academic degree typically requiring four years of study, conferred on someone who has successfully completed undergraduate studies; a bachelor of arts is a BA and a bachelor of science is a BS. | 14 |
| barriers to entry | Obstacles that make it difficult and/or costly for new competitors to enter a market. | 9 |
| black markets | Illegal markets in which goods are exchanged at prices higher than those set by the government in countries with command economies. | 8 |
| break-even point | The point in a business operation at which production generates enough revenue to cover costs. | 8 |
| business model | A concept of what a particular business will do and how it will make money; for example: providing financial news via the Internet, free to users, with revenue from advertising. | 7 |
| capital | All of the resources made and used by people to produce and distribute goods and services. This includes the machines, factories, and infrastructure used to produce output. | 5 |
| cartel | An agreement among producers or traders to divide up markets between them and/or manipulate prices in order to avoid direct competition that would drive down prices. | 9 |
| circular flow model | An economic model showing the interactions that occur in an economy between its two primary decision makers: households and businesses. | 5 |
| college | An institution of higher learning that offers undergraduate programs, usually of a four-year duration, that lead to a bachelor’s degree in the arts or sciences (BA or BS). | 14 |
| collusion | An illegal agreement among producers or traders to fix prices, limit production, or to divide up markets between the participating producers or traders. | 9 |
| command economy | An economic system in which the state owns all (or most) productive resources and businesses, and makes all (or most) production and distribution determinations based on central planning and not on supply and demand. | 10 |
| comparative advantage | An economic principle, used most in the theory of international trade, which states that a country should specialize in producing those goods where its advantage in productivity and costs, relative to its own productivity and costs in producing other goods, is greatest. | 4 |
| constraints | The resource limitations that scarcity places on production. | 3 |
| country of origin | The country in which shipped goods were produced, usually shown on a document and/or an indicator (e.g., a marking or label on the product). | 13 |
| customs duty | A tax imposed on goods and services when they are imported into a country (often enacted in order to protect local industry, services, or agriculture from international competition). Also referred to as a *duty,* a *customs tariff*, or simply a *tariff.* | 13 |
| demand | The amount of a particular product or service that a consumer is willing and able to buy at a specific price. | 6 |
| depreciation | When one currency’s value decreases relative to the value of another currency. | 12 |
| diminishing marginal utility | The tendency for the marginal utility associated with each additional incremental unit of the consumption of a good or service to diminish, as the consumer consumes a larger amount of the good or service. | 4 |
| diminishing returns | An economic concept stating that using increasing amounts of a particular input (e.g., labor hours) in production beyond a certain level increases output less and less. | 4 |
| doctorate (PhD) | One of the highest available academic degrees conferred by a university; a PhD is a doctor of philosophy, whereas an MD is a doctor of medicine. | 14 |
| economic efficiency | The production of the desired result with the minimum amount of effort, expense, or waste while accounting for the costs and benefits associated with the decision. | 3 |
| economic policies | Government actions (some of them in the form of laws) that are specifically intended to influence how the economy is functioning. | 2 |
| economic security | An economic policy concept where the government has responsibility for promoting the material well-being of its citizens. | 11 |
| economics | A social science that deals with the production, distribution, and consumption of goods and services, or the material welfare of humankind. | 1 |
| economies of scale | Reductions in production costs per unit of output resulting from increased scale of operations. | 9 |
| elasticity of demand | The degree to which consumer demand of a particular product or service changes when the price of that product or service changes. | 6 |
| embargo | A government prohibition against the shipment of certain products to a particular country for economic, political, or national security reasons. Embargoes are sometimes enacted by a single country or more usually as a result of enforcement action agreed by a group of countries such as the United Nations. | 13 |
| entrepreneur | A person who envisions a new business venture and assumes all or part of the financial risk of starting and operating it. | 7 |
| entrepreneurship | The combination of vision, initiative, skill, ingenuity, and risk taking needed to launch and sustain a business venture. | 5 |
| equilibrium price | The price at which the amount supplied and the amount demanded are equal. | 8 |
| equity | An economic policy concept that favors fairness in the distribution of the benefits and resources generated by human activity. | 11 |
| exchange rate risk | The risk associated with a financial transaction across two separate currencies due to changes in the relative values of those currencies. | 12 |
| externality | Economic side effect that affects an uninvolved third party. | 1 |
| factor market | The marketplace in which factors of production are bought and sold by households and businesses. | 5 |
| factors of production | The economic resources needed to produce goods and services. The term is generally used to refer to the very broad categories of land, labor, and capital. It has been suggested by many economists that some other broad categories (notably entrepreneurship, information, and know-how) should also be included as factors of production. | 5 |
| Federal Reserve System | A system of organizations across the United States, founded by Congress in 1913, which operates independently of the president and Congress to manage the money supply, supervise the working of financial markets, and perform some aspects of banking regulation. | 11 |
| fixed costs | The costs incurred by a business, whether or not it produces goods. | 8 |
| fixed exchange rates | Foreign exchange rates that remain constant or nearly constant over time due to government action. Also referred to as *pegged interest rates*. | 12 |
| flat tax | A single tax levied at the same rate regardless of the transaction size or origin. | 11 |
| floating exchange rates | Foreign exchange rates that move in value as a result of changes in the supply of, and/or demand for, the two currencies involved. | 12 |
| foreign exchange (forex) | Transactions in which one currency is traded for another for purposes related to trade or investment, for hedging (see *foreign exchange hedging*), or for speculative or financial trading purposes. | 12 |
| foreign exchange hedging | A financial strategy in which an organization protects itself from adverse price movements in a currency, or equivalently, a way for an individual or organization to minimize or eliminate foreign exchange risk. Typically this is done either by entering into a *forward contract*, or by buying a *foreign exchange option*. | 12 |
| foreign exchange option (FX option) | A contract that sets an exchange rate at which the holder of the contract may choose to exchange currencies at a specified date or dates in the future. If the market exchange rate at that future time turns out to be more favorable to the holder of the contract than the exchange rate specified in the option, then the holder will not exercise the option. | 12 |
| forward contract | A foreign exchange contract that grants its holder the right to sell or purchase a foreign currency at a future date for a prearranged price (exchange rate). | 12 |
| free enterprise economy | Economic system in which individuals or companies are generally free to enter any line of business (that is, provide any kind of goods or services they wish); usually subject to some rules (for example, forbidding anyone to practice dentistry without a license). A free enterprise economy is almost always a market economy. | 2 |
| free trade | An economic policy approach that favors unrestricted exchange of goods and services between different nations, unencumbered by customs duties (*tariffs*) or *nontariff barriers* to trade. Prominent early advocates of free trade included Adam Smith and David Ricardo, who provided the first clear formulation of the principle of *comparative advantage*. | 13 |
| free-market economy | An economic system based on market principles of supply and demand that operates with minimal government intervention in the economy (except for making and enforcing laws that define property rights, impose obligations to comply with contracts, and forbid theft and fraud). | 10 |
| geographic monopoly | A situation in which a firm controls the market in a local area due to remoteness of location or market size. | 9 |
| government monopoly | A situation in which the government controls a particular market by being the sole supplier of a particular good or service itself or by licensing only one private supplier. | 9 |
| government regulation | Actions, laws, or policies undertaken by the government to oversee specific economic activities. | 11 |
| graduate school | Postundergraduate education, usually in pursuit of a master’s degree, a doctorate, or a professional degree. | 14 |
| households | Individuals and families who live at one particular address. | 2 |
| income effect | The change in a consumer’s demand and consumption caused by lower prices. | 6 |
| industrialization | The process of increasing the amount of industrial (versus agrarian) output produced in a country. | 10 |
| infant industries | Emerging domestic industries that are typically protected until they have gained substantial production experience and scale, thereby raising their product quality and/or reducing their costs to a level where they can survive international competition. | 13 |
| infrastructure | The basic facilities and installations needed for the functioning of a community or society, such as transportation or communications systems, and water and power lines. | 5 |
| innovation | The introduction of an invention into a use that has economic value. | 7 |
| intellectual property rights | Property rights that insure the owner of a commercially viable idea or technology the benefits from any application of it by himself or herself. | 10 |
| invention | A new product or process. | 7 |
| invisible hand | The self-correcting characteristic of a market economy where the interaction of supply and demand generally tend to bring the system back to equilibrium. | 6 |
| labor | All human time, effort, and talent that goes into producing goods and services. | 5 |
| land | Areas of ground used for production (e.g., for farming or manufacturing industry), together with natural resources found on or under the ground that are used to produce goods and services. | 5 |
| limited government | A policy concept where the role, responsibilities, and activities of government should be kept to a minimum and government should have very little involvement in the economy. | 11 |
| macroeconomics | The study of how the economy works on a national and global scale. It is the study of such things as recessions, inflation, unemployment, and governmental fiscal or monetary policies. | 2 |
| major | The subject, the theme, or the professional field in which students choose to specialize during their undergraduate education. | 14 |
| maquiladoras | Mexican business operations established to import unassembled products, assemble them, and export the finished product to the United States. | 13 |
| marginal analysis | The form of business analysis that compares the additional revenue from increased production against the additional costs. | 8 |
| marginal cost | The additional cost incurred to produce one more unit of product. | 8 |
| marginal physical product (MPP) | The amount of additional production of a good (or service) that results from using one more unit of an input (e.g., hours of labor). | 4 |
| marginal product | The additional production that occurs by adding an additional unit of a particular input to the production process. Also called marginal physical product (MPP). | 8 |
| marginal revenue | The extra amount of revenue a business receives from producing and selling an additional unit. | 8 |
| marginal utility | The amount of benefit or satisfaction received from each additional instance of consumption of a good or a service. | 4 |
| market bubble | A market phenomenon in which the price of a product is bid up well beyond the price that is sustainable in the longer term due to speculation. | 10 |
| market economy | Economic system in which supply, demand, and prices help people make decisions and allocate resources. | 2 |
| market power | The ability of a firm to alter the market price of a good or service. A firm with market power can raise prices without losing its customers to competitors. | 9 |
| market research | A systematic, objective collection and analysis of data about a particular target market, competition, and/or environment. | 7 |
| market share | One company’s sales, as a percentage of the total for a particular market, by revenue or by volume. | 7 |
| master of business administration (MBA) | An advanced university degree in business studies. | 14 |
| master’s degree (MA) | A graduate degree typically requiring two or three years of study beyond a bachelor’s degree; an academic degree higher than a bachelor’s but lower than a doctorate. | 14 |
| microeconomics | The study of how households and businesses make choices about how to utilize their resources (for example, how people decide what goods and services to buy, and how businesses decide how many of something to produce and how to price their goods and services). | 2 |
| minor | A secondary specialization; a student might take 30 or more units in a major, whereas a minor might require only 10–15 units. | 14 |
| mixed-market economy | An economic system based on market principles of supply and demand but in which the government plays an active and significant role in the daily operation of the economy. | 10 |
| monetary policy | The process by which the central bank or monetary authority of a country controls the supply of money, availability of money, and cost of money or rate of interest. | 11 |
| monopolistic competition | Market structure in which firms do not compete through price to any significant extent but rather through means other than price (e.g., product differentiation and/or customer service). | 9 |
| monopoly | A market structure in which one firm has sufficient control over a particular product or service to significantly determine the terms on which buyers can gain access to it. | 9 |
| NAFTA (North American Free Trade Agreement) | A trade agreement between Canada, the United States, and Mexico that promotes increased trade between these countries through agreed reductions in customs duties and nontariff barriers to trade. | 13 |
| natural monopoly | A situation in which one firm controls the market because there are extreme economies of scale. | 9 |
| need | A basic requirement for survival, such as food, clothing, and shelter. | 2 |
| non-price competition | A situation in which a firm competes on factors other than price. The other factors include advertising and marketing; product appearance, quality, or design; and customer service. | 9 |
| nontariff barriers | Impediments to international trade other than customs duties (*tariffs*). Nontariff barriers can include quotas or technical requirements that imported products are required to meet. These may or may not be justified for policy reasons such as consumer health and safety. | 13 |
| oligopoly | Market structure in which the market is dominated by a few firms that produce a large proportion of total output. | 9 |
| operating profit | The revenue kept by a company after it has paid all costs associated with production and sales. | 8 |
| opportunity cost | The value of the next-best alternative, which was given up when the preferred alternative was chosen. | 3 |
| over the counter | A foreign exchange where brokers and traders deal directly with each other and there is no central exchange. | 12 |
| Pareto optimal | An economy in which resources are allocated in such a way that you cannot change the allocation to make anyone better off without making somebody else worse off. | 10 |
| perfect competition | Market structure in which a large number of firms with full market information and equal access to the same production technology compete to sell identical products to a large number of buyers. | 9 |
| postsecondary education | Education pursued after high school (secondary school). | 14 |
| price ceiling | A law requiring that a price for a certain good be kept below some level. This could lead to a shortage and a black market. | 8 |
| price elasticity | The percentage change in the demand for a product or service caused by a change in its price. | 9 |
| price equilibrium (market clearing price) | The point where the quantity supplied and the amount demanded are equal at the currently prevailing price. | 6 |
| price fixing | Illegal agreement among producers to charge uniform prices for similar products. | 9 |
| price floor | A law requiring that a price for a certain good be kept above some level. This could lead to surpluses and inefficient allocation of resources. | 8 |
| price maker | A firm with the ability to influence market price. | 9 |
| price supports | Government actions meant to place a floor price (minimum price) for a particular product or commodity in order to achieve an economic benefit for businesses or individuals involved in the production of that good or commodity. Setting a minimum price for food sold by farms is an example of a price support. | 11 |
| price taker | A firm (producer) or a buyer (firm or consumer) with no ability to influence market price. | 9 |
| private property | Land, resources, and other goods both tangible and intangible that individuals can control, benefit from, and transfer. | 11 |
| product differentiation | Real or imagined differences among competing products. | 9 |
| product market | The marketplace in which goods and services are bought and sold by households and businesses. | 5 |
| production efficiency | The manufacture of the desired output with the minimum amount of effort, expense, or waste while taking account of the costs and benefits associated with a particular choice of what outputs to produce and what inputs to use in producing them. | 4 |
| production possibility frontier | A graph that shows the different amounts of two goods that an individual or a group can efficiently produce in a certain interval of time with limited productive resources when producing with optimal technical efficiency. | 3 |
| profit margin | Profit per item produced divided by the price and expressed as a percentage. | 8 |
| profit maximization | The business practice of using margin analysis to set production levels to reach the highest possible profits. | 8 |
| profit motive | An economic driver that pushes people and firms to compete and succeed in order to earn more money. | 11 |
| protectionism | Government actions and policies that restrict or restrain international trade, often done with the intent of protecting local businesses and jobs from foreign competition. | 13 |
| quota | In the context of international trade, a limit put on the amount of a specific good that can be imported. | 13 |
| ratio | The number or amount of one item relative to the number or amount of another item. | 12 |
| rationing | A system under which a scarce good is distributed under a government-administered plan and not by the interaction of supply and demand in the market. | 8 |
| resources | Anything that households and firms use in order to achieve their needs and wants. Resources include time, money, natural resources, and technology. | 2 |
| salary cap | A ceiling or limit to the amount of money an individual can earn in a specifically designated time. | 11 |
| scarcity | The situation that exists when there are not enough resources to meet human wants and needs. | 3 |
| self-interest | Acting on or making economic decisions meant to benefit oneself rather than others. | 6 |
| shortage | The quantity of a product demanded at the currently prevailing price is greater than the amount supplied. | 6 |
| specialization | Concentration of economic activity on the production of a few particular goods or services. | 4 |
| standard of living | Quality of life based on ownership or use of necessities and luxuries that make life easier. | 2 |
| subsidy | A government payment meant to allay or defray the cost of production or purchase of a particular good or service. | 10 |
| substitution effect | The change in demand for a particular good or service when its price rises that is attributable to the availability of alternative goods and services that are cheaper or that represent an attractive alternative for other reasons. | 6 |
| supply | The amount of goods or services that a producer is willing and able to provide at a specific price. | 6 |
| surplus | The quantity of a product supplied that is greater than the amount demanded at the currently prevailing price. | 6 |
| sweatshop | A working environment with very difficult or dangerous conditions, usually where the workers have few rights or ways to address their situation. Though often associated with third-world countries, sweatshops can exist in any country. Sweatshops can produce many different goods, from clothing to furniture. | 13 |
| target market | A segment of a specific market that a company has identified as its customers or clients. | 7 |
| tariff | A tax paid on goods and services when they are imported into a country. Tariffs are often enacted in order to protect local industry, services, or agriculture from international competition, in which case it may be called a *protective tariff*. Also known as a *customs tariff*, *customs duty*, or just *duty*. | 13 |
| taxonomy | A categorized list of words that are related to a particular topic. | 1 |
| technical efficiency | The production of the desired result using the smallest input of resources (i.e., getting the most out of something). | 3 |
| technological monopoly | A situation in which a firm exercises market power through control of a manufacturing method, process, or other technological advance that is either unavailable to competitors or available to them only on highly disadvantageous terms. | 9 |
| total product | The total number of units of output produced during a specific interval of time. | 8 |
| trade | The exchange of goods, services, or both. | 13 |
| trade-offs | The alternative given up when making a choice. | 3 |
| undergraduate | A university student who has not yet received a first college degree. | 14 |
| university | An educational institution that usually maintains one or more four-year undergraduate colleges (or schools) with programs leading to a bachelor’s degree, a graduate school of arts and sciences awarding master’s and doctoral degrees, and graduate professional schools. | 14 |
| utility | The benefit or satisfaction gained from the use of a good or a service. | 3 |
| variable cost | The cost incurred by a business that varies as the level of production varies. | 8 |
| vetting | The process by which a business idea is evaluated and scrutinized. | 7 |
| want | Simply something we would like to have but is not necessary for survival. | 2 |
| welfare system | A government system that seeks to ensure the physical well-being of its constituents through payment or services in kind. | 10 |