Unit one definitions (SL).

Ad valorem tax.
Tax set as a percentage of the price of a good. It will cause the supply curve to diverge.

Allocation of resources
How resources (land, labour, capital and management) are distributed in an economy.

Average cost
Total cost/output

Average revenue
Total revenue/output

Common access resources
Where the ownership of a resource is not clearly defined it is difficult to exclude people from using these resources and this leads to overuse and destruction. Examples include fishing grounds, forests and jungle.

Consumer surplus
Consumer surplus is the difference between what consumers are willing to pay (shown by the demand curve) and the market price. Changes when supply or demand changes.

Complementary goods
Goods that are demanded together. Example: Tennis racket and tennis balls. They have a negative cross elasticity of demand

Cross elasticities of demand:
XED measures the responsiveness of quantity demanded for product X to a change in price of product Y. Formula:

$$\frac{\text{\% change in QD of X}}{\text{\% change in price of Y}}$$

Goods with a positive cross elasticity are substitutes.
Goods with a negative cross elasticity are complements.

Demand
The quantity of a good or service that consumers are willing and able to buy at each possible price.

Demerit Goods
Goods whose consumption creates external costs. Goods that society believes brings lower than expected benefits to consumers. Demerit goods are over consumed in a free market and therefore cause market failure. For example cigarettes.

Derived demand
Many goods and services are demanded only because they are used in the production of other goods. Labour is derived demand.

Where a few firms act together to avoid competition by agreeing to fix prices or output.

Concentration ratio
The amount of market share held by the top n firms – measure of market dominance. The higher the percentage the higher the concentration. *If the data is given, work out the concentration ratio.*

Demand function
Represents demand as a function of price. Qd = a - bP

Diminishing returns
When increasing variable inputs (usually labour) are added to a process that has a fixed input (usually capital), at some point the additions to output from the extra input will decrease. Diminishing returns is a short term concept. Affect on MC…… because inputs cost, as the amount of inputs to produce the same amount of outputs increase when diminishing returns sets in, so the marginal cost of producing an extra unit of output must increase

Diseconomies of Scale
Factors that cause an increase in unit costs as output rises above a certain level i.e. bureaucracy

Diversification
Widening the product range outside current areas of specialism.

Economic cost
The cost of all the resources employed by a firm including entrepreneurship (implicit and explicit costs).

Economic profit
Total Revenue – Total Costs, where Total Costs are the *explicit and implicit costs*.

Economies of scale
Factors that cause a fall in long run ***unit*** costs as a result of a firm increasing its scale of operations.

Explicit costs
The cost of items a firm has to buy in.

Formal collusion
This is where firms openly agree to set prices or output or market share or agree market expenditure between themselves.

Fixed cost (FC)
Short run concept. Costs which do not change when the level of output changes e.g. rent.

Game Theory
Game theory illustrates that firms sometimes collude (tacitly) to end up in a position where joint profits are maximised. However, this is not a stable position. From this position either firm could decrease their price/increase output and gain higher profits at the expense of the other firm in the **short term**. The tacit collusion has broken down and we tend to end up at