

Theme 1 key terms

1.1. Nature of economics

- **Ceteris paribus** = all other things being equal.
- **Positive statement** = a statement that can be judged as true or false through the available evidence. It does not carry a value judgement.
- **Normative statement** = a statement which is subjective and therefore carries a value judgement.
- **Value judgement** = a view of the rightness or wrongness of something, based on a personal view.
- **Scarcity/the basic economic problem** = there are finite resources but infinite human wants.
- **Opportunity cost** = the value of the next best alternative foregone.
- **Renewable resource** = one whose stock level can be replenished naturally over a period of time (e.g. solar energy, wind and tidal power).
- **Non-renewable resource** = one whose stock level decreases over time as it is consumed (e.g. coal, oil and steel).
- **The 4 factors of production** = land (any natural resource), labour (any human resource), capital (any man-made resource) and enterprise (ties the other 3 factors together and takes the risks).
- **Free goods** = do not require any scarce resources to be used in their production, therefore have **no** opportunity cost.
- **Consumer good** = directly provide utility to consumers (e.g. food, clothes and holidays).
- **Capital goods** = used to produce more consumer goods and services and therefore will generally provide utility to consumers indirectly.
- **Production possibility frontier/curve** = a graph which shows all the maximum combos of goods/services that can be produced in a given period, with all the resources being used efficiently.
- **The Law of Increasing Costs** = the opportunity costs of additional units of a good generally increases as society attempts to produce more of that good.
- **Factor incomes** = the rewards to factors of production. Labour receives wages and salaries, land earns rent, capital earns interest and enterprise earns profit.
- **Specialisation** = The process by which individuals, firms and economies concentrate on producing those goods and services in which they have an advantage (a limited range).
- **Division of labour** = a form of specialisation where individuals concentrate on the production of a particular good or service - the production process is broken down into a sequence of stages (e.g. Adam Smith's pin factory).
- **Money** = anything that is generally acceptable in the payment of a good or service, or of a debt.