INTRODUCTION

Economics	Is a social science which studies human behaviour in relation to peoples aims and the scarce resources available to them to achieve these aims, knowing that the resources have alternative uses.
Needs	Are the essentials required for survival in life. These are basic food, clothing and shelter.
Wants	Are anything in excess of our needs. Examples of wants include luxury items such as CD's, designer clothes and holidays.
Factors of Production	Are those resources which we use to produce wealth.
Land	Is anything provided by nature which helps to produce wealth. Land is fixed in supply and has no cost of production.
Labour	Is any human effort which helps to create wealth e.g. Builders
Capital	Is anything made by man which is then used in the production of wealth e.g. Factories, Machines.
Enterprise	Is that special human activity which organises the other factors of productions and bears the risk involved in production.
Opportunity Cost	Is the item you must do without when you have to make a choice between two items you want to purchase or produce.
Externalities	Are the unintended side effects of a calculated decision to do something.
Wealth	Is a stock of goods and services i.e. goods which you have accumulated over time.
Income	Is a flow of goods and services i.e. it is possible to have a very high standard of living and to spend all of your earnings and have nothing to show for them.
Microeconomics	Deals with the individual units in economics and the interaction between them. e.g. consumer, household and firm. It deals with supply and demand, showing how goods will be produced and consumed at given market prices at given times.
Macroeconomics	Is the study of the entire economy in broad terms e.g. total income in the economy, total level of employment and the total amount of production.

ECONOMIC SYSTEMS

Free Enterprise System	Under this system all resources are privately owned and individuals are allowed to pursue their own self interest. E.g. USA
Centrally Planned System (Command)	Under this system all resources are publically owned and this system claims the ownership of the means of production. Government control of all areas of economic activity is essential in order to eliminate the inequalities of the distribution of wealth. E.g. Cuba
Mixed Economy	Under this economic system it allows most of the major production and distribution decisions to be made by the private sector, but the government intervenes to ensure the supply of essential goods to everybody. E.g. Ireland.
Consumer Sovereignty	Implies that it is the consumer who determines what goods will be created, as producers will only make those goods which are demanded in sufficient quantities to make them profitable.
Indicative Planning	The government negotiates collectively with the trade unions, industry representatives, employer representatives, representatives of the unemployed and farming representatives to come up with strategies such as national wage agreements and plans for economic development.
Social Partners	The various bodies involved in negotiating with the government are collectively known as the social partners.

THE MARKET MECHANISM

Market Price	The market price of a product is the price at which the product is currently selling.
Supply	Is the number of units of a particular good/product which a producer is willing to make available for sale at any given market price at any given time.
Demand	Is the number of units of a particular which consumers are willing to purchase at any given market price at any given time.
Market Mechanism	This is the interaction between supply and demand for a product.
Consumer Surplus	Is the difference between the market price of a product and the higher price which a consumer is willing to pay rather than do without.
Factor Markets	These are the markets for the factors of production. The buyers are the employers and the sellers are the people who supply these factors.
Intermediate Markets	In these markets the buyers can either buy goods to add value to them and sell them onto somebody else or to process them and to sell the finished goods to the wholesaler or the retailer e.g. buying raw materials.
Final Market	The goods are sold to their final market i.e. to the consumer.

DEMAND

Demand	Is the number of units of a particular which consumers are willing to purchase at any given market price at any given time.
Demand Schedule	Is a table showing demand the demand for a good at any given market price at any given time.
Utility	Is the amount of benefit or satisfaction derived from the consumption of a good. It is measured in Utils.
Marginal Utility	Is the addition to the total utility derived from the consumption of one extra unit of a good.
An Economic Good	Is one which commands price i.e. a product which people are willing to pay for.
Law of Diminishing Marginal Utility	States that as a consumer consumes extra units of a good, then at some point the marginal utility derived from the consumption extra units of that good, will decrease.
Equilibrium	Means the ideal situation to be in under a given set of circumstances.
The Principle Of Equi-Marginal Utility	States that a consumer will be in equilibrium when his/her income is spent in such a way that the ratio of Marginal Utility to price is the same for all goods which he/she consumes.
Normal Good	Is one which has a positive income effect.
Positive Income Effect	Means that a change in income will cause a change in demand in the same direction as the change in income. This is true for normal goods.
Inferior Goods	Are goods which have a negative income effect.
Negative Income Effect	Means that a change in income will cause demand to change in the opposite direction than the change in income. This happens with inferior goods.
Normal Goods	Have the ordinary reaction to a change in price i.e. when price goes up, demand goes down and visa versa.
Inferior Good	Have an unnatural reaction to a change in income i.e. when income goes up, demand goes down and visa versa.
Giffen Goods	Is a good with a positive price elasticity of demand i.e. more is bough as the price rises and less when the price falls.
Goods of Addiction	In the case of those goods to which a person becomes addicted to e.g. drugs, alcohol and cigarettes, they tend not to act rationally. They become so addicted that even an increase in the price of the commodity may not cause a fall in demand.
Substitute Goods	Are two or more different goods which can be substituted for each other to satisfy any one given need or want e.g. bus and rail transport, Ford and Opel cars.
Complementary Goods	Are two or more different goods that must be purchased to satisfy a given need or want. e.g. Tennis ball and tennis racket.
Goods in Derived Demand	A good is in derived demand when it is not demanded for its own direct utility but for the additional utility which it gives to another good e.g. the demand for bricks due to the demand for housing.

Goods of Ostentatious Consumption / Snob Goods	Some people buy expensive goods to show off their wealth in a very obvious manner. When the price of those goods increase, the demand increases to highlight that they can afford it while others can not.
Paradox of Value	This is when a good is high in value but low in use or when a good is low in value but high in use e.g. Diamonds are high in value but low in use and water is high in use but low in value. Diamonds give a high utility however which is the reason why a person buys them.

ELASTICITY OF DEMAND

Elasticity	Means responsiveness to or sensitivity to. One can be very sensitive to a stimulus (elastic) or insensitive (inelastic)
Perfectly Elastic (PED = Infinite)	Consumers will demand all of a firms goods at a given price but any changes will cause demand to fall to zero (0)
Relatively Elastic (PED > 1)	Means that goods are relatively sensitive to price. Any change in price will have a greater effect on quantity demanded. Producers of elastic goods should not increase the price of their goods but a fall in price will have a greater impact on quantity demanded.
Relatively Inelastic (PED < 1)	A change in price will have little effect on quantity demanded. Not very responsive to price e.g. cigarettes, alcohol, petrol. Firms producing elastic goods should increase price as much as possible in order to maximise profits.
Unitary Elastic (PED = 1)	Any percentage change in price results in an equal percentage change in quantity demanded.
Perfectly Inelastic (PED = 0)	Quantity demanded does not depend on price but on other factors e.g. life saving medicine, medical equipment etc.
Price Elasticity of Demand	Measures the percentage change in the quantity demanded for a good caused by the percentage change in the price of that good.
Cross Elasticity of Demand	Measures the percentage change in the demand for one good cause by the percentage change in the price of other goods e.g. how a change in the price of Ryanair affects the demand for Aer Lingus.
Income Elasticity of Demand	Measures the percentage change in demand for one good caused by a percentage change in the consumers income.

SUPPLY AND ELASTICITY OF SUPPLY

Supply	Is the number of units of a good made available by the supplier for sale at any given price at any given time.
Supply Schedule	Is a table showing the number of units of a good made available for sale at any given price and at any given time.
Supply Curve	Is a graph showing the number of units of a good made available for sale at any given market price at any given time..
Joint Supply	Is when the supply of one product automatically creates supply of another product. E.g. the supply of beef automatically creates the supply of hides, which can be used to make leather.
Fixed Supply	Is when the supply of a product cannot be changed in the short-run, regardless of any change in the market price e.g. land and perishable goods.
Price Elasticity of Supply	Measures the percentage change in the quantity supplied of a good as a result of a percentage change in the price of the good.

COSTS OF PRODUCTION

Costs of Production	Is any payment which must be paid, or any income which must be given up in order to stay in production.
Explicit Costs	Are any costs which have actually been paid or are due for payment.
Implied Costs	Is any income you must forego in order to run your business, e.g. you earn €200 a week in wages but you win €1 million in the lottery and leave your job to set up a business. The implied costs are the €200 a week and the interest you could have earned on the €1 million.
Short Run (SR)	Is a period of time sufficiently short so that at least one of the factors of production being used is fixed in quantity.
Long Run (LR)	Is a period of time sufficiently long to allow the firm to change the quantity of all of the factors of production being used.
Fixed Costs (FC)	Are costs that do not change in the short run e.g. rent, wages.
Variable Costs (VC)	Are costs which change with the volume of production e.g. raw materials, electricity.
AFC	FC/Q
AVC	VC/Q
TC	FC + VC
AC	TC/Q
MC	Addition to total cost as a result of production of extra unit of a product.
Revenue	Is the income which a firm gets from selling its goods or services.
Normal Profit	Is the minimum level of profit required to keep a firm in production in the long run.
Supernormal Profit (SNP)	Is any profit greater than or above normal profit and it is earned when AR > AC.
Subnormal Profit	Is any profit less than normal profit and happens when AC > AR.
Law of Diminishing Marginal Returns	States that as extra units of a variable factor of production are added to a fixed factor, then eventually the average output per variable factor employed will decrease.
Internal Economies of Scale	Are those forces within the firm which decrease AC as the size of the firm increases.
Internal Dis-economies of Scale	Are those forces within the firm which increase AC as the size of the firm increases.
Economies of Scale	Are the cost advantages experienced by large scale production (in the long run).
Dis-economies of Scale	Are the cost disadvantages experienced by large scale production (in the long run).
External Economies of Scale	Are those forces outside the firm which decrease AC as the size of the industry increases.
External Dis-economies of Scale	Are those forces outside the firm which increase AC as the size of the industry increases.

Supply Oriented Industries	Are those industries, everything else equal, which benefit more from being located nearer to the source of their raw materials than being near the market for their output.
Market Oriented Industries	Are those industries, everything else equal, which benefit more from being located nearer the market for their output rather than being located near the source of their raw materials.
Footloose Industries	Are those industries which have no particular advantage from locating either near the source of their raw materials or being located near the market for their supply.
Equilibrium for a Producer	Occurs when the firm earns the maximum possible profits, or in the short run, keeps its losses to the minimum possible level.

PERFECT COMPETITION

Equilibrium Position	Refers to the ideal situation under any given set of circumstances.
Market Structures	Market structures defines a particular type of firm or industry by examining the number of firms involved in the industry, its pricing and output policy, the type of good it produces, its profit motives, its cost structure etc.
Perfect Competition	Is a market structure where there are very many firms producing homogeneous (identical) products. These firms are usually small in size and no one firm by its own actions can influence market price. e.g. suppliers of potatoes.
Homogeneous Goods	Are identical goods and consumers have no preference for the product of one firm over that of another firm.
Price Taker	No one firm in perfect competition can influence or decide market price as each firm produces only a tiny fraction of the total supply of the industry. As a result, each firm will take its price.

MONOPOLY AND PRICE DISCRIMINATION

Monopoly	Is where there is only one producer, so that the firm and the industry have the same meaning. A monopolist can control either the price of the good or the quantity sold but not both. In this industry there are no close substitutes for the product.
Product Differentiation	Exists when a firm attempts to establish to the minds of the public so that their product is superior to those of its rivals. This can be done through advertising.
Price Discrimination	Takes place when a producer sells the same product to two or more different markets at different prices and the difference is not related to any difference in costs in these markets.

IMPERFECT COMPETITION

Imperfect Competition	Is a market structure where there are many firms in an industry, which are unique, selling close substitutes.
Excess Capacity	The difference between actual output and the output required to achieve full economies of scale.
Competitive Advertising	This is any advertising that stresses the qualities of one firms product over the goods produced by all competing firms. X is better than Y
Generic/Industrial Advertising	Promotes the product of an industry rather than the product of an individual firm.
Persuasive Advertising	Is a subtle form of competitive advertising where no reference is made to competitors but you are told that you really need this or deserve this product.
Informative Advertising	Simply tells consumers about the existence of a product or service or warns of the dangers of consuming certain goods.

OLIGOPOLY

Oligopoly	Is a market structure where there are few firms dominate the industry and sell close substitutes.
Limit Pricing	This is where firms in oligopoly set the prices so low that would make it unprofitable for new firms to enter the market.
Channels of Distribution	Existing firms may control these channels, and may refuse to supply retailers who supply products of new firms.
Brand Proliferation	Existing firms produce several brands of the same type of product, thus leaving little room for new firms. This is very noticeable in the shaving market where both Gillette and Wilkinson Sword already sell a vast range of blades.
Non-Price Competition	This is when firms compete with each other without changing price levels.
Price Competition	This is when firms compete with each other by changing prices.
Price Fixing	An agreement between firms not to compete with each other on a price basis. Without this agreement, firms could end up in a vicious price war.
Exclusivity	A refusal by firms to supply retailers who do not exclusively stock their goods.
Rigid / Sticky Prices	Is when oligopolistic firms are not willing to enter into a price war so they keep they do not change their costs.

MONEY AND BANKING

Money	Is anything that is generally accepted by the majority of people in exchange for goods and services.
Commodity Money	These were objects which were useful for their own intrinsic value as well as acting as a means of exchange.
Legal Tender	Is any money form which must be legally accepted in settlement for debt. All Euro notes are legal tender. Cheques are not legal tender.
Near Money	Those assets which fulfil some, but not all, of the functions of money.
M1 – The Narrow Money Supply	Are the notes and coins in circulation plus all balances in current accounts in all licensed banks in the state.
M2 – The Intermediate Money Supply	This is made up of currency in circulation plus current account balances (M1) and deposits, with a maturity of less than two years or a notice period of less than three months.
M3 – The Broad Money Supply	This is M1 plus all the balances in deposit accounts in all licensed banks plus borrowing from other credit institutions minus inter-bank balances.
Sale and Repurchase Agreements	These are the agreements under which one person sells securities to another for cash and agrees to repurchase the securities from the cash provider for a greater sum of money at a later date.
Primary Liquidity Rate (PLR)	Is the ratio of cash which the banks must hold to claims on the banks.
Secondary Liquidity Rate (SLR)	Is the ratio of liquid assets held by the banks to claims on the banks.
Liquidity Requirement	Is when banks must make sure that they have sufficient cash to meet their customers demands.
Exchequer Bills	These are 91 day loans given by the banks to the government at a fixed rate of interest.
Overdrafts	This is when bank current account holders are allowed to withdraw more money than they actually have in their account. This must be repaid within a given amount of time and interest is charged.
Monetary Policy	Is the policy regarding the amount of money in circulation, interest rates and credit creation. It is determined by the ECB and implemented by the central bank.
The Irish Central Bank	Is a member of the European system of central banks (ESCB), which is made up of the ECB and the national central banks of EU member states.
The Purchasing Power Parity Theory	States that in a free market, the rate of exchange of a currency will settle at the point where its internal purchasing power will be equal to its external purchasing power.
Protectionism	Countries impose tariffs and duties on imports to protect domestic industries.
Rates of Exchange	Is the price of one currency in terms of another.
Fixed Rates of Exchange	Where the values of currencies are agreed on and each country undertakes to exchange its currency at an agreed value. The governments agree to undertake whatever action is necessary to maintain these rates of exchange.

Floating Rates of Exchange	Under the floating rates of exchange system, currencies are allowed to find their own value on the international market through the interaction of supply and demand for the currencies.
Exchange Rate Risk	This is the element of uncertainty in importing on credit as the rate of exchange may shift and could result in a reduction of international trade.
Open Economy	Is one which trades with other economies.
Closed Economy	Is one which does not trade with other economies.
Commercial/Associated Banks	These are essentially clearing banks which provide a broad range of retail and wholesale banking services. They were traditionally responsible for the money transmission system.
Merchant/Wholesaler Banks	Are banks that deal with the business sector of the community. These banks offer a variety of services to the business sector of the community.
Industrial Banks	Are the main provider of instalment loans for the purchase of cars, furniture and expensive consumer durable goods. They tend to carry very high rates of interest.
Sub-Prime Lending	Is the practice of granting loans, mortgages, car loans, credit cards etc. to borrowers with poor or no credit rating.
The Inter-Bank Market	Is where a bank with a temporary surplus of cash can lend this surplus to another bank which is experiencing a temporary shortage of cash. The loans are usually for very short periods of time.
The International Monetary Fund (IMF)	Is the worlds central organisation for international monetary cooperation.
The World Bank	Is a viral source of financial and technical assistance to developing countries. It is not a bank in the common sense.
Re-Discount Rate	This is the interest rate charged by the central bank to the commercial banks for acting as a lender of last resort.
Fiscal Policy	This is any action taken by the government which affects the size or composition of the government revenue and expenditure. Fiscal Policy is carried out by the central government and the responsibility for the implementation rests with the Minister for Finance.
Debt Securities	These cover bonds, debentures and notes that usually give the holder the unconditional right to a fixed money income or contractually determined variable money income.

NATIONAL INCOME

National Income	The income accruing to the permanent residents of a country from current economic activity during a specified period, usually one one.
Gross Domestic Product at Factor Cost	Is the output produced by the factors of production in the domestic economy irrespective of whether the factors are owned by Irish nationals or foreigners, valued at the current market price.
Incomes In Kind	Are incomes received in a non monetary form e.g. farmers may consumer his/her own produce.
Benefits in Kind	Is any non-money income earned. Your employer may provide you with a car that you can use also in your private life, as distinct from work purposes only.
Transfer Payments	Are payments made to individuals for which no factor of production is supplied in return e.g. children's allowances, student grants.
Net Factor Income From Abroad	Is the difference between the money earned by Irish factors and sent home and income earned by foreign factors here and repatriated.
Multiplier	The multiplier shows the precise relationship between an initial injection into the circular flow of income and the eventual increase in national income resulting from the injection.
Marginal Propensity to Consume (MPC)	Is the proportion of each additional unit of income which is spent.
Marginal Propensity to Import (MPM)	Is the proportion of each additional unit of income which is spent on imports.
Marginal Propensity to Save (MPS)	Is the proportion of each additional unit of income which is saved.
Aggregate Demand	Refers to the total demand for all goods and services.
Average Propensity to Consumer (APC)	Is the tendency to spend a given percentage of total income on consumer goods.
Circular Flow of Income	This is the amount of income in circulation at any one time.
Injection	Any extra income put into the circular flow of income.
Leakage	Is any income removed from the circular flow of income.
Autonomous Consumption	Is the level of consumption which is not dependant on the level of income.
The Capital Output Ratio	Is the ratio of the number of units of capital required to produce one unit of wealth.
Deflationary Gap	Occurs when the level of consumption is less than the level of disposable income.
Inflationary Gap	Occurs when the level of consumption is greater than the level of disposable income.
Marginal Propensity to Tax (MPT)	Is the proportion of each additional unit of income which is taxed.
The Productive Capacity	Is the capital stock divided by the capital output ratio.
The Accelerator Principle	States that a small change in consumer spending can cause bigger percentage changes in investment.

Paradox of Thrift	Shows how an increase in savings can cause a contradiction in the economy and a possible fall in the level of savings.
Gross National Product at Market Prices	Is the value of the total goods and services produced in an economy in a year at current market prices produced by Irish owned factors of production.

INFLATION

Consumer Price Index	Is an index drawn up by the Central Statistics Office (CSO) to measure the changes in the general level of prices over a period of time.
Price Index	Measures the changes in prices over a period of time.
Simple Price Index	Measures the change in price of one good only.
Composite Price Index	Measures the change in price of a number of goods together.
Inflation	A steady and persistent increase in the general level of prices. Inflation leads to an increase in the cost of living.
Deflation	This is a decline in the general level prices.
Harmonised Index of Consumer Prices (HICP)	Is the measure of price changes calculated by each member state of the European Union (EU). The index is based on a harmonisation and standardisation of practices within the EU.
Real Wages	Look at the purchasing power of your wages when you take inflation into account.
Economic Indicator	Is any statistic which reflects the performance of the economy.
Constant Tax Price Index (CTPI)	Is one that omits price increases due to increases in direct taxes when compiling the CPI.
Demand-Pull Inflation	Occurs when aggregate demand in the economy exceeds supply resulting in an increase in the general level of prices.
Cost-Push Inflation	Occurs when increases in the cost of production are passed onto the consumer in the form of increased prices.
National Wage Agreements	Are agreements between the social partners. The main parties to these agreements - as far as wages are concerned – are the Irish Congress of Trade Unions, the Irish Business and Employers Confederation, various farming organisations and the government.
Money Income	Is the monetary value of your income.
Negative Interest Rate	This is when the rate of inflation is greater than the rate of interest.
Household Budget Survey	Is a survey carried out by the CSO to find out the percentage of income which people send on various goods and services, on average.

GOVERNMENT AND TAXATION

Merit Goods	These are goods which society deems should be available to everybody at some minimum quantity, regardless of their income e.g. food and shelter.
Public Goods	These are goods provided by the government for the benefit of everybody e.g. Police, street lighting, footpaths etc.
Automatic Stabilisers	When change in government expenditure and tax revenue occurs without any change in government policy as national income changes. As national income increases tax revenue automatically increases.
Progressive Tax	Is a tax that takes a higher percentage of income from a person as their income increases. This form of income takes into account the persons income. (PAYE)
Regressive Tax	Is a tax that takes a higher percentage of income from a low income earner than from a high income earner. (VAT)
Imposition of Taxes	Refers to the people or companies on whom the tax is actually levied i.e. imposed. They have to pay tax directly to the government e.g. excise duty on petrol is levied on the petrol companies.
Effective Incidence of Tax	Refers to the people who have to bear the burden of the tax e.g. a tax on petrol is levied on the petrol companies who pass this onto motorists in the form of increased prices.
Tax Avoidance	Is the practice of using the tax code to the best possible advantage in order to reduce your tax liability to the minimum. This is legal.
Tax Evasion	This is the non payment of tax due to either making no tax returns or making false tax returns. This is illegal.
Direct Taxes	Are taxes on all forms of income e.g. PAYE, capital gains tax.
Indirect Taxes	Are taxes on transactions e.g. VAT, customs duties, stamp duties.
Black Economy	Is all the economic activity that goes unrecorded in a year.
Capital Acquisition Tax	Is a tax on gifts received or an inheritance above a certain value.
Ad Valorem Tax	Is an indirect tax which takes a given percentage of the price of a good e.g. VAT
Capital Gains Tax	Is a tax on the profits from the sales of assets
Lump Sum Tax	Is a fixed sum of tax levied on a firm irrespective of its level of income or profit.
Specific Tax	Is levied at a given absolute amount on each unit of a good sold e.g. 10c on one litre of petrol.
Stealth Taxes	Are charges made for the use of services provided by the government or by a local authority e.g. bin charges.
Exchequer Balance	Is the difference between total current and capital expenditure and total income of the central government.
General Government Balance	Is the total income minus expenditure of all arms of government i.e. central government, local authorities, vocational education committees and non commercial state sponsored bodies.
National Debt	Is the total outstanding amount of money borrowed by the central government and not repaid to date.

Commercial Rates	Are a tax on property which are used for business purposes.
Balanced Budget	Is one where planned current income is equal to planned current expenditure.
Surplus Current Budget	Is one where planned current income is greater than planned current expenditure.
Deficit Current Budget	Is one where planned current income is less than planned current expenditure. More is put into the economy than it taken out.
Neutral Budget	Is one which is neither inflationary nor deflationary.
Exchequer Borrowing Requirement (EBR)	Is the amount of money which a government borrows to finance a current budget deficit and capital projects.
Public Sector Borrowing Requirement (PSBR)	Is the EBR plus borrowing for the non-commercial state sponsored bodies and local authorities.
Deadweight Debt	Is borrowing for projects which will never become self financing e.g. the e-voting machines.
Rolled-Over Debt	Is substituting an old debt with a new one e.g. to pay off the interest of the national debt, governments often have to borrow again to pay off this part of servicing the national debt.
Exchange Rate Policy	Refers to devaluing or revaluing our currency in terms of other currencies.
Direct Intervention	The setting up of Semi-State bodies to provide goods or services on the open market and the passing of legislation.
Deregulation	Is the changing of laws and practices which are detrimental to competition.
Prices and Incomes Policy	Is the way the government implements price control regulations and freezes or limits wage increases.
Economic Planning	Includes consultations with the social partners to achieve realistic economic targets over an agreed period of time e.g. National Development Plan.
Public Private Partnerships	Partnerships between the public and private sector organisations and private sector investors and businesses for the purposes of designing, planning, financing and particularly projects which are normally provided through traditional procurement mechanism by the state or other government organisations.
Regional Development	Is aimed at ensuring that all regions of the country share in the economic development of the country and that all the population has an adequate infrastructure suited to its needs.
Privatisation	Is the sale of government owned companies and assets to the private sector.
Nationalisation	This is when the government acquires ownership of privately owned businesses. This may be done to ensure the supply of a product to all of the population e.g. water.

INTERNATIONAL TRADE

Free Trade Area	This is an agreement between a number of countries to permit the free trading of goods between them without any quotas, custom duties or tariffs.
Customs Union	Is a free trade area which also imposes common restrictions on goods coming into the area from non-member countries.
Common Market	Is a customs union which also allows the free movement of the factors of production between the member countries.
European Union (EU)	Is a group of democratic countries working together for peace and prosperity.
European Social Fund	ESF helps people improve their skill and consequently their job prospects.
Exports	Are any goods or services provided by the residents of a country which cause money to come into the country.
Imports	Are any goods or services purchased by the residents of a country which cause money to leave the country.
Visible Exports	Are any physical goods provided by the residents of a country which cause money to come into the country e.g. food, computer chips etc.
Visible Imports	Are any physical good purchased by the residents of a country which causes money to leave the country e.g. cars, timber, electrical products brought into Ireland.
Invisible Exports	Are any services provided by the residents of a country which causes money to come into the country e.g. Tourists coming to Ireland, non Irish residents using and Irish airline.
Invisible Imports	Are any services purchased by the residents of a country which causes money to leave the country e.g. residents going abroad on holiday, singers playing in Ireland and repatriating their earnings.
Marginal Propensity to Import (MPM)	Is the proportion of each additional unit of income which is spent on imports.
Balance of Payments	Is a record of the economic transactions of a country with the rest of the world. It is made up of three sections, the current account, the capital account and the financial account.
Balance of Trade	The difference between the value of visible import and visible exports.
Balance of Invisible Trade	The difference between the value of invisible imports and invisible exports.
Net Factor Income from Abroad	Is the difference between the money earned by Irish factors and sent home and income earned by foreign factors here and repatriated.
Direct Investment	Net difference between the amount of money invested in Irish based enterprises by non-Irish residents and the amounts invested by Irish residents in foreign based enterprises.
Portfolio Investment	Cover the buying and selling of shares and other forms of ownership of businesses rather than directly setting up enterprises.
Terms of Trade	The relationship between the average price received for a unit of exports and the average price paid for a unit of imports.
Embargoes	This a complete ban on the importation of certain goods e.g. during a war.

Quotas	This is setting a limit on the number of units of a product which can be imported.
Dumping	Occurs when a country sells its surplus production on a foreign market at less than cost price, or at a lower price than that prevailing on the domestic market.
Customs Duties/Tariffs	These are taxes levied on imported goods to make them more expensive than domestically produced goods.
Law of Absolute Advantage	A country will specialise in the production of a good in which it enjoys the greatest absolute advantage. It will export the good it produces most efficiently in exchange for the good it produces least efficiently.
Law of Comparative Advantage	States that a country should specialise and trade in the production of those goods and services in which it is relatively most efficient at and trade for the rest of its requirements.
Free Trade	This means that there are no restrictions on the importation of goods and governments do not place any taxes on imports.
Returns To Scale	States the production of a good will increase in proportion to the increase in the factors of production being used to produce it.
Protectivism	These are argument against free trade.

ECONOMIC DEVELOPMENT AND GROWTH

Term	Definition
Least Developed Economies (LDC's)	Are countries that according to the UN, exhibit the lowest indicators of socio-economic development with the lowest human development index ratings in all countries in the world.
Economic Development	The level of national income or GNP per person in the economy is increasing and at the same time fundamental changes in the structure of society.
Economic Growth	The level of national income or GNP per person in the economy is increasing but with no fundamental changes in the structure of society.
Economic Dualism	Refers to the fact that within LDC's the majority of the population exists at subsistence level but there may be a well developed export sector, led by MNC's.
Poverty Trap	This is when most people earn subsistence level of income only. Therefore they do not have any savings which are essential to improve the standard of living and they cannot afford to borrow as they could not meet the repayments.

FACTORS OF PRODUCTION

Marginal Physical Product (MPP)	Is the addition to total production caused by employing an extra unit of a factor of production.
Marginal Revenue Product (MRP)	Is the addition to total revenue caused by employing an extra unit of a factor of production.
Supply Price of a Factor of Production	The minimum payment necessary to bring a factor into use and maintain it in that use.
Transfer Earnings	What a factor must receive to keep it in its constant use and prevent it from transferring to another use.
Economic Rent	Is the difference between the total amount earned and the transfer earnings.
Marginal Revenue Productivity for Labour	Is the extra revenue earned as a result of the employment of an additional unit of labour.
Land	Is anything provided by nature which helps in the creation of goods and services. The payment for which is rent.
Labour	Is any human effort involved in the production of goods and services. The reward for which is wages.
Capital	Is anything man made which is used in the production of goods and services. It is total stock of wealth existing at a given time. The reward for which is interest.
Enterprise	Is the factor which organises the other factors of production and bears the risk involved to produce goods and services. The payment for which is profit/loss.
Specific Factor of Production	Is one which can be used for only one purpose e.g. a worker may have skills that are only needed for one job. Therefore he cannot transfer to another job.
Non Specific Factor of Production	One that can be transferred from one use to another. Most factors of production are non specific.
Labour Hoarding	Is where firms are unwilling to let workers go even if the wage rate exceeds the MRP. If the fall in sales is seen as temporary, the firm may prefer to hang onto the workers rather than make them redundant and have to hire new staff when the market picks up again.
Quasi Rent	This is short term economic rent. It happens because there is a temporary shortage of that factor and demand exceeds supply.
Insurable Risk	Those risks which can be mathematically estimated and an entrepreneur can insure against occurring.
Non-Insurable Risk	Those risks which an entrepreneur cannot insure against occurring. An insurance policy cannot be purchased to insure against these risks. The entrepreneur suffers the costs involved.
Profit	Difference between accounting profit and real economic profit.
Structural Unemployment	Is long term unemployment and it happens when there is a continued decline for a particular good or where an industry suffers a major decline in the demand for its product.
Cyclical Unemployment	When unemployment is caused by a fall in aggregate demand due to recession or depression.

Frictional Unemployment	This occurs when work becomes unavailable in certain trades or occupations in one area though work is available in that trade or occupation in another area.
Seasonal (Casual) Unemployment	Certain industries such as tourism, building, agriculture operate mainly on a seasonal basis and during the low season these industries lay off large numbers of their staff.
Transitional Unemployment	This type of unemployment arises when a person moves from one job to another. A time gap may arise in the changeover and this type of unemployment is short term and not a serious problem.
Quarterly National Household Survey (QNHS)	Used to measure the level of unemployment in Ireland. It sets out to establish the number of people who are not working but are actively seeking work.
Live Register	Is a list of those persons under 65 years of age who are claiming some social welfare benefit for unemployment.
Labour Force	The total number of people at work or looking for work at the current wage rate. The Irish labour force is around 2 million.
Full Employment	Where all those willing to work at existing wage rates are employed. An economy is said to have full employment when when 97% of those who are able and willing to work are employed.
Unemployment Trap	This is when a person will not gain anything by being employed due to the fact that the level of unemployment payments plus benefits is close to the persons potential net income from work.
Poverty Trap	Describes a person who is employed and who is unable to increase his final income, even when his gross income increases. In many cases, because of increased taxes, a persons final income can actually fall even though gross earnings increase.
Occupational Mobility of Labour	Is the ease of movement of a worker from one job to another. It is influenced by the level of education attained, level of training available, degree of specialisation of the worker, state of the economy etc.
Geographical Mobility of Labour	This is the ability of workers to move from one location or area to another. It is influenced by the existence of social relationships, cost and inconvenience of moving, lack of awareness of alternative opportunities, reluctance to disturb child education etc.
Participation Rate	This is the percentage of the active population (18-65) in the labour force, both employed and unemployed.
Institutional Unemployment	This arises due to obstacles to the mobility of labour or the removal of the incentive to work. There may be a shortage of housing or immigration regulations which prevent the person from taking up jobs there.
Marginal Efficiency of Capital	Is the extra profit earned as a result of employing one extra unit of capital.
Fixed Capital	Is the stock of fixed assets or assets for long term use e.g. buildings, machinery etc.
Social Capital	Are assets that belong to society in general e.g. schools, parks, roads etc. It is usually the central or local governments that undertakes the expenditure on this form of capital.

Investment	Is expenditure designed to create wealth and output in the future e.g. purchase of machinery.
Savings	Is the act of non-spending or non-consumption of income and depends on the level of income and rates of interest among other things.
Rates of Interest	Is the amount of money paid by a borrower for the use of the lenders money.
Nominal Rates of Interest	Are the actual rates charged or paid.
Real Rates of Interest	Rates of interest paid to depositors and charged on loans by financial institutions taking inflation into account.
Short Term Facility Rate	Rate of interest charged by the central bank to the commercial banks when they borrow from it for a very short period of time.
Central Bank Rediscount Rate (Bank Rate)	Is the rate of interest charged by the central bank to commercial banks when it acts as lender of last resort.
Capital Deepening	Is when the amount of capital per worker increases.
Capital Widening	Is when the capital to worker ratio remains unchanged even when the amount of capital increases.
Loanable Funds Theory	The rates of interest are determined by supply and demand for money.
The Transactionary Motive	This is money kept for day to day expenses. The amount that people need depends on how much they spend, which in turn depends on their income.
The Precautionary Motive	This is money demanded for emergencies e.g. illness, house repairs etc. The individuals do not when such expenses will arise. It is affected by the level of income and interest rates.
The Speculative Motive	This is money demanded for any possible profitable investment opportunity. People will want to have cash to purchase an asset that is expected to increase in value in the future.
Marginal Efficiency of Capital	Is the additional profit earned by an entrepreneur from employing an additional unit of capital.