Edexcel (A) A Level Economics

All Definitions

Contents

Hey there! 👋

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Theme 1 – Introduction to markets and market failure definitions

We've taken some of the trickiest **key definitions and concepts** from **Edexcel A-Level Economics** and broken them down into **plain English,** no confusing jargon, just easy-to-understand explanations. 🚀📚

A

- **Ad valorem tax** – A tax that changes depending on the value of the thing being taxed. Higher price? Higher tax!
- **Asymmetric information** – When one person in a deal knows more than the other, often leading to unfair outcomes.

C

- **Capital** – The tools, machines, and buildings used to make other stuff.
- **Capital goods** – Goods made to help produce other goods, like a factory or a machine.
- **Ceteris paribus** – A fancy way of saying "everything else stays the same."
- **Command economy** – When the government decides what to make, how to make it, and who gets it.
- **Complementary goods** – Two products that go together, like peanut butter and jelly. If one gets expensive, people buy less of the other.
- **Consumer goods** – Stuff that people buy for themselves, like clothes, food, or a new phone.
- **Consumer surplus** – The extra happiness you get when you pay less than what you were actually willing to pay.
- **Cross elasticity of demand (XED)** – How much the demand for one thing changes when the price of another thing changes.

D

- **Demand** – How much people want to buy something at a certain price.
- **Diminishing marginal utility** – The more you have of something, the less excited you are about getting more.
- **Division of labour** – Splitting up jobs so people focus on one thing and get really good at it.

E

- **Economic problem** – There aren't enough resources to give everyone everything they want.
- **Efficiency** – Making the best use of resources with minimal waste.
- **Enterprise** – Taking risks and organizing other resources to create a business.
- **Equilibrium price/quantity** – The perfect balance where what's supplied matches what's demanded.
- **Excess demand** – When there's more demand than supply – people want more than what's available.
- **Excess supply** – When there's more supply than demand – too much of something with not enough buyers.
- **Externalities** – Side effects of an economic activity that affect people who weren't directly involved.

F

- **Free market** – A system where businesses and consumers make all the decisions without government interference.
- **Free rider principle** – People benefiting from something without paying for it (like public parks or streetlights).

G

- **Government failure** – When government tries to fix a problem but ends up making it worse.

I

- **Indirect tax** – A tax added to goods and services, like VAT or sales tax.
- **Inferior goods** – Cheap products that people buy less of when they get richer.
- **Information gap** – When people don't have enough knowledge to make good choices.

L

- **Labour** – The human effort (physical and mental) used in production.
- **Land** – Natural resources like oil, coal, and farmland.
- **Luxury goods** – Expensive items that people buy more of when they have extra money.

M

- **Market failure** – When the free market doesn't distribute resources in the best way for society.
- **Market forces** – The natural way prices go up or down based on supply and demand.
- **Maximum price** – A price limit that sellers can't go above.
- **Minimum price** – A price floor that sellers can't go below.
- **Mixed economy** – A mix of free market and government-controlled decisions.

N

- **Negative externalities** – When producing something causes bad side effects, like pollution.
- **Non-excludable** – If something is available, no one can be stopped from using it (like streetlights).
- **Non-renewable resources** – Resources that won't come back once used, like oil and coal.
- **Normative statement** – An opinion-based statement that can't be proven.

O

- **Opportunity cost** – The thing you give up when you choose something else.

P

- **Perfectly price elastic goods** – Goods where a tiny price change stops all demand.
- **Perfectly price inelastic goods** – Goods that people will buy no matter the price.
- **Positive externalities** – Good side effects of consuming something, like vaccines.
- **Positive statement** – A factual statement that can be tested.
- **Production possibility frontier (PPF)** – A graph showing the maximum possible production when using all resources efficiently.
- **Price elasticity of demand (PED)** – Measures how much demand changes when price changes.
- **Price elasticity of supply (PES)** – Measures how much supply changes when price changes.
- **Price mechanism** – How prices naturally adjust based on supply and demand.
- **Private cost/benefit** – The direct cost or benefit to an individual in a transaction.
- **Private goods** – Things that belong to someone and others can't use without paying.
- **Producer surplus** – The extra money a seller makes when they sell for more than they were willing to.
- **Public goods** – Goods that everyone can use, like national defence or public parks.

R

- **Rationality** – Making choices that maximize personal benefit.
- **Regulation** – Government rules to make markets fairer.
- **Relatively price elastic goods** – Goods where demand changes a lot with price changes.
- **Relatively price inelastic goods** – Goods where demand barely changes with price changes.
- **Renewable resources** – Resources that can be replaced, like trees and wind power.

S

- **Scarcity** – Not having enough resources to meet everyone's wants.
- **Social cost/benefit** – The total cost or benefit of an action for society.
- **Social optimum position** – The ideal point where benefits equal costs.
- **Social science** – The study of human behaviour in societies.
- **Specialisation** – When a person, business, or country focuses on making one thing really well.
- **Specific tax** – A tax that is charged based on quantity, not price.
- **State provision of goods** – When the government provides goods or services using tax money.
- **Subsidy** – Government money given to businesses to help lower costs and increase production.
- **Substitutes** – Goods that can replace each other, like Coke and Pepsi.
- **Supply** – How much of something businesses are willing to sell at a certain price.
- **Symmetric information** – When buyers and sellers have the same information.

T

- **Trade pollution permits** – Government-issued allowances for businesses to pollute, which can be bought and sold.

U

- **Unitary price elasticity** – When a price change causes demand to change by the same percentage.
- **Utility** – The happiness or satisfaction you get from something.

W

- **Weakness at computation** – When people make bad decisions because they aren't great at math or estimating future benefits.

Theme 2 – The UK Economy – Performance and Policies Definitions

A

- **Actual Growth** – How much the economy has actually grown, measured by real GDP changes.
- **Aggregate Demand (AD)** – The total demand for everything in the economy at a given time and price level.
- **Aggregate Supply (AS)** – The total output produced in the economy at a given time and price level.
- **Animal Spirits** – A fancy way to describe how confident business owners feel about the economy.

B

- **Balance of Payments** – A record of all money flowing in and out of a country through trade and financial transactions.
- **Base Year** – A starting year for comparing data, always given an index value of 100.
- **Boom** – The high point in the business cycle when the economy is doing great!
- **Budget** – The government's plan for how it will earn and spend money.
- **Budget Deficit** – When the government spends more than it collects.
- **Budget Surplus** – When the government collects more than it spends.

C

- **Circular Flow of Income** – A model showing how money moves around the economy between households and businesses.
- **Claimant Count** – A way to measure unemployment by counting people claiming unemployment benefits.
- **Consumer Price Index (CPI)** – The official measure of inflation, tracking changes in the price of everyday goods.

- **Consumption** – The amount households spend on goods and services.
- **Cost-Push Inflation** – Inflation caused by rising production costs.
- **Current Account** – Part of the balance of payments that records trade, income, and transfers.
- **Current Account Deficit** – When a country spends more on foreign goods/services than it earns.
- **Current Account Surplus** – When a country earns more from foreign trade than it spends.

D

- **Deflation** – When prices of goods and services fall over time.
- **Deflationary Policy** – Government policies aimed at reducing demand to control inflation.
- **Demand-Pull Inflation** – Inflation caused by too much demand in the economy.
- **Depreciation** – When assets like machinery lose value over time.
- **Direct Tax** – A tax paid directly to the government, like income tax.
- **Disinflation** – Prices are still rising, but at a slower rate than before.
- **Disposable Income** – The money you have left after paying taxes and receiving benefits.

E

- **Economic Growth** – When the economy produces more goods and services over time, measured by GDP.
- **Employed** – Anyone working at least one hour per week for pay, or in unpaid work for their family business.
- **Expansionary Policy** – Government actions to boost demand in the economy.
- **Exports** – Goods and services sold to other countries.
- **Export-Led Growth** – Economic growth driven by increased exports.

F

- **Fiscal Policy** – Government decisions on spending, taxation, and borrowing to influence the economy.
- **Frictional Unemployment** – Short-term joblessness when people are between jobs.

G

- **Gross Domestic Product (GDP)** – The total value of all goods and services produced in a country.
- **GDP Per Capita** – GDP divided by the population to show the average income per person.
- **Gross Investment** – Spending on both replacing old equipment and buying new capital goods.
- **Gross National Income (GNI)** – GDP plus income from abroad.
- **Gross National Product (GNP)** – The value of all goods and services produced by a country's citizens, no matter where they are in the world.
- **Government Spending** – Money spent by the government on public services and infrastructure.

I

- **Imports** – Goods and services bought from other countries.
- **Inactive** – People not working and not looking for work.
- **Index Number** – A way to compare economic data over time using a base year of 100.
- **Indirect Tax** – A tax added to goods/services (like VAT), paid by consumers indirectly.
- **Inflation** – The general increase in prices over time, reducing the purchasing power of money.
- **Injection** – Extra spending entering the economy from investment, government spending, or exports.

L

- **Labour Force Survey** – A way to measure unemployment by surveying people about their job status.
- **Living Standards** – The general well-being and quality of life of people in a country.
- **Long Run Aggregate Supply (LRAS)** – The total output an economy can produce when all resources are fully used.
- **Long Run Trend Growth Rate** – The average sustainable growth rate of an economy over time.

M

- **Monetary Policy** – The central bank's control over interest rates and money supply to influence demand.
- **Multiplier Effect** – When an increase in spending leads to a larger increase in national income.

N

- **National Income** – The total income earned by people and businesses in an economy.
- **Net Exports** – Exports minus imports.
- **Nominal GDP** – GDP measured in current prices, without adjusting for inflation.

O

- **Output Gap** – The difference between actual GDP and potential GDP.

P

- **Purchasing Power Parity (PPP)** – A way to compare prices and the cost of living between different countries

Q

- **Quantitative Easing (QE)** – When the central bank creates new money to buy financial assets and boost the economy.

R

- **Real GDP** – GDP adjusted for inflation to show the true value of economic growth.
- **Recession** – When the economy shrinks for at least two consecutive quarters.
- **Retail Price Index (RPI)** – An old measure of inflation that includes housing costs.
- **Savings** – Money that is not spent but kept for future use.

S

- **Seasonal Unemployment** – Unemployment caused by seasonal work patterns (e.g., ski instructors in winter).
- **Short Run Aggregate Supply (SRAS)** – The total output when some factors of production are fixed.
- **Supply-Side Policies** – Government policies aimed at improving productivity and efficiency in the economy.

T

- **Trade Cycle (Business Cycle)** – The natural rise and fall of economic growth, leading to booms and recessions.

U

- **Underemployment** – When people are working part-time but want full-time jobs or are overqualified for their roles.
- **Unemployment** – People who are jobless, able to work, and actively looking for jobs.

W

- **Wealth** – The total value of all assets owned by an individual or society.
- **Withdrawal** – Money leaving the circular flow of income due to savings, taxes, or imports.

Theme 3 – Business behaviour and the labour market definitions

A

- **Allocative Efficiency** – Resources are used in the best way possible, making sure society gets the most benefit! Happiest customers and no waste.
- **Asymmetric Information** – When one side (buyer or seller) knows more than the other. Can lead to unfair deals.
- **Average Cost (AC)** – The cost of making one unit of a product.
- **Average Revenue (AR)** – The price per unit that a business sells its products for.

B

- **Bilateral Monopoly** – A situation where there's only one buyer and one seller in the market. Think of it as an exclusive business relationship!

C

- **Cartels** – A secret (or sometimes open) agreement between businesses to set prices and avoid competition.
- **Collusion** – When businesses work together, instead of competing, to keep prices high or limit production.
- **Competition Policy** – Government rules to make sure companies compete fairly.
- **Competitive Tendering** – When businesses bid to provide a government service, and the best offer wins.
- **Conglomerate Integration** – When two completely unrelated businesses merge. Like a clothing company buying a tech firm.
- **Constant Returns to Scale** – When increasing inputs (labour, materials) leads to an equal increase in output.
- **Contestable Market** – A market where new businesses can enter easily, keeping existing firms on their toes.

D

- **Decreasing Returns to Scale** – When increasing inputs doesn't give as much extra output as expected.
- **Demergers** – Breaking up a big company into smaller ones.
- **Deregulation** – Removing government rules to let businesses compete freely.
- **Derived Demand** – When the demand for one product depends on another. (E.g., demand for steel increases when more cars are made.)
- **Diseconomies of Scale** – When a company gets too big and starts becoming inefficient.

E

- **Economies of Scale** – When businesses grow and produce more at a lower cost.
- **External Economies of Scale** – When an industry's growth benefits all businesses within it.

F

- **Fixed Cost** – Business costs that stay the same no matter how much is produced (e.g., rent, salaries).
- **For-Profit Business** – A business whose main goal is making money.

G

- **Game Theory** – A way to predict what competitors will do based on their possible choices.
- **Geographical Mobility of Labour** – How easily workers can move to different places for work.

H

- **Horizontal Integration** – When two companies in the same industry at the same level merge (e.g., two car manufacturers joining together).

I

- **Increasing Returns to Scale** – When a business grows, and its output increases faster than its inputs.
- **Interdependent** – When one business's actions directly affect another.
- **Internal Economies of Scale** – When a business's growth reduces its costs, independently of other businesses.

L

- **Limit Pricing** – Setting prices low to prevent new competitors from entering the market.
- **Loss** – When a business spends more than it earns.

M

- **Marginal Cost** – The extra cost of making one more unit of a product.
- **Marginal Revenue** – The extra money earned by selling one more unit.
- **Minimum Efficient Scale** – The smallest production level needed to benefit from economies of scale.
- **Monopoly** – When one company dominates the entire market.
- **Monopsony** – When there's only one buyer in a market (e.g., a big supermarket buying from farmers).

N

- **Nationalisation** – When the government takes control of a private company or industry.
- **Natural Monopoly** – When it makes sense for only one company to exist (e.g., public utilities like water supply).

O

- **Oligopoly** – When a few big companies dominate the market.
- **Organic Growth** – When a business grows naturally by increasing sales and production, rather than merging or acquiring other companies.

P

- **Perfect Competition** – A market with many sellers, identical products, and no barriers to entry.
- **Predatory Pricing** – Setting prices super low to drive competitors out of business.
- **Price Wars** – When companies keep lowering prices to compete, sometimes leading to losses.
- **Principal-Agent Problem** – When managers (agents) make decisions that don't always benefit the owners (principals/shareholders).
- **Privatisation** – Selling government-owned businesses to private owners.

- **Profit Maximisation** – When a business tries to make as much money as possible.

R

- **Regulatory Capture** – When regulators start favouring businesses instead of protecting consumers.
- **Revenue Maximisation** – When a business tries to earn as much money as possible, even if profits aren't maximised.

S

- **Sales Maximisation** – When a business focuses on selling as many products as possible without making losses.
- **Sunk Costs** – Money that has already been spent and can't be recovered.
- **Supernormal Profit** – When a business earns more than the minimum needed to stay in the market.

T

- **Tacit Collusion** – When businesses indirectly agree on pricing without formally discussing it.
- **Third Degree Price Discrimination** – Charging different prices to different groups of customers for the same product.

V

- **Vertical Integration** – When a company takes over another at a different stage in production (e.g., a coffee shop buying a coffee farm).

Theme 4 – A Global Perspective

A

- **Absolute Advantage** – When a country can produce something cheaper than anyone else.
- **Absolute Poverty** – When people don't have enough money for basic needs (living on less than $1.90 per day!).
- **Aid** – When one country helps another with money, resources, or loans with low interest.
- **Appreciation** – When a currency gains value compared to others.
- **Asymmetric Information** – When one side in a deal knows more than the other, leading to unfairness.
- **Automatic Stabilisers** – Economic policies that help balance the economy without government action (e.g., taxes and benefits adjust automatically).

B

- **Balance of Payments** – A record of all the money moving in and out of a country.
- **Buffer Stock Systems** – A way to keep prices stable by setting a price ceiling and floor.

C

- **Capital Account** – Tracks big financial transactions like debts and asset sales between countries.
- **Capital Expenditure** – Government spending on things that last a long time, like roads, hospitals, and schools.
- **Capital Flight** – When investors take their money out of a country due to economic instability.
- **Central Bank** – The bank that controls a country's money supply, interest rates, and currency.
- **Common Market** – A trade agreement where member countries allow free trade and a shared tariff on outsiders.
- **Comparative Advantage** – When a country is better at making one thing than another, so they focus on that and trade.

- **Current Account** – Tracks trade, income from abroad, and financial transfers.
- **Customs Union** – A group of countries that remove trade barriers and have a common external tariff.

D

- **Depreciation** – When a currency loses value compared to others.
- **Devaluation** – When a country deliberately lowers the value of its currency.
- **Developed Country** – A wealthy country with high living standards.
- **Developing Country** – A poorer country with lower living standards.
- **Discretionary Fiscal Policy** – When the government changes its spending or taxes to influence the economy.

E

- **Economic Development** – Improvements in people's living standards and quality of life.
- **Emerging Economies** – Fast-growing countries that are not yet fully developed.
- **Exchange Rate** – The value of one currency compared to another.

F

- **Financial Account** – Tracks foreign investments and currency reserves.
- **Financial Markets** – Where people trade money-related assets like stocks and bonds.
- **Fiscal Deficit** – When the government spends more than it earns in a year.
- **Fixed Exchange Rate** – When a country's currency value is set and does not fluctuate freely.
- **Foreign Direct Investment (FDI)** – When businesses invest in companies in another country.
- **Free Trade** – Trade without restrictions like tariffs or quotas.
- **Free Trade Agreements** – Deals between countries to lower or remove trade barriers.

G

- **Gini Coefficient** – A number that shows how unequal income distribution is in a country.
- **Globalisation** – The world becoming more connected through trade, technology, and finance.

H

- **Harrod-Domar Model** – A theory that says economic growth depends on savings and investments.
- **Human Capital** – The value of skills, experience, and education people bring to the economy.
- **Human Development Index (HDI)** – Measures a country's development based on income, health, and education.

I

- **Infrastructure** – Physical systems like roads, railways, and power grids that help the economy run.
- **International Competitiveness** – How well a country's products compete in global markets.

J

- **J-Curve** – When a country's trade balance gets worse before improving after a currency depreciation.

L

- **Laffer Curve** – A theory that suggests raising taxes too much can reduce government revenue.
- **Lewis Model** – A theory that says developing countries grow by shifting workers from farming to industry.
- **Lorenz Curve** – A graph showing how income is distributed in a country.

M

- **Market Bubbles** – When asset prices rise way above their actual value, leading to crashes.
- **Market Rigging** – When companies or traders manipulate prices unfairly.
- **Microfinance Schemes** – Small loans given to low-income people to help them start businesses.
- **Managed Floating Exchange Rate** – When a currency's value is mostly determined by market forces, but the central bank steps in if needed.
- **Monetary Unions** – When two or more countries share the same currency (e.g., the Eurozone).
- **Moral Hazard** – When people take bigger risks because they don't face the full consequences (like banks taking risky bets knowing they might get bailed out).

N

- **National Debt** – The total amount of money a government owes.

P

- **Primary Product Dependency** – When a country relies too much on raw materials (like oil or crops) rather than finished products.
- **Progressive Taxation** – Higher earners pay a bigger percentage of their income in taxes.
- **Proportional Taxation** – Everyone pays the same percentage of their income in taxes.
- **Protectionism** – When governments use tariffs, quotas, or bans to limit imports and protect local industries.

Q

- **Quota** – A limit on how much of a good can be imported.

R

- **Regressive Taxation** – When lower-income earners pay a higher percentage of their income in taxes.
- **Relative Poverty** – When someone earns significantly less than the average person in their country.
- **Revaluation** – When a country raises the value of its currency in a fixed exchange rate system.

S

- **Speculation** – Buying financial assets hoping to sell them later for a profit.
- **Structural Deficit** – The government's deficit even when the economy is running well.

T

- **Tariffs** – Taxes on imported goods to make them more expensive.
- **Terms of Trade** – A measure of how much exports can buy in relation to imports.
- **Trade Liberalisation** – Removing barriers to trade, like tariffs and quotas.
- **Trading Bloc** – A group of countries that remove trade barriers among themselves.
- **Transfer Payments** – Government payments like welfare or pensions that don't buy goods or services.
- **Transfer Pricing** – When companies adjust prices between their own divisions to lower taxes.

U

- **Unit Labour Costs** – The cost of paying workers to produce each unit of a good.

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