

1. What is a Social Science?	A study of human behaviour and interaction	19. Give an example of an opportunity cost for a consumer	When buying a new TV, the consumer foregoes spending that money on a smartwatch
2. What is an Economic Model?	An Economic theory or collection of theories which allows us to simulate situations. They are simplified versions of the world	20. Give an example of an opportunity cost for a firm	By spending £1000 on a marketing campaign, the firm forgoes the benefits of spending that money on capital investment
3. Why do Economists use Models?	To simplify the world around us	21. Give an example of an opportunity cost for a Government	By spending on NHS, the government foregoes the benefits of spending that money on education
4. What does ceteris paribus mean?	All else equal	22. What is a Production Possibility Frontier/Curve?	A diagram showing the maximum combination of two goods or services which can be produced if all resources are used efficiently for a given level of technology
5. Why is it difficult for Economists to conduct scientific experiments?	Humans are unpredictable and varied and exist in complex environments which might affect their behaviour	23. Illustrate a point on the PPF at which the productive potential of the economy is maximised	Point on curve
6. What is a positive statement?	An assertion that is objective and testable (although not necessarily true)	24. Illustrate a point on the PPF which is unattainable at the current level of technology	Point outside the curve (to the right/above)
7. What is a normative statement?	An opinion which is subjective and contains value judgements	25. Illustrate a point on the PPF where the allocation of resources is efficient	Point on curve
8. Which 3 questions does the study of economics seek to answer?	What to produce? How to produce? For whom to produce?	26. Illustrate a point on the PPF where the allocation of resources is inefficient	Point inside the curve (to the left, below)
9. What does 'scarcity' mean?	A limited, finite amount	27. Illustrate actual economic growth on a PPF diagram	Moving from a point inside the curve to a point closer on the curve
10. What is meant by a 'renewable resource'?	A resource for which the stock level can be replenished naturally over time	28. Illustrate potential economic growth on a PPF diagram	Curve expands outwards
11. What is meant by a 'non-renewable resource'?	A resource for which the stock level cannot be replenished naturally over time	29. Explain 2 causes of an outward shift in the PPF	finding resources, immigration, investment in capital
12. What is the Economic Problem?	Infinite wants and limited resources	30. Explain 2 causes of an inward shift in the PPF	Resource depletion (eg natural disaster, war) or resource depreciation (skills atrophy after long-term unemployment, lack of investment)
13. What are the 4 factors of production?	Land, labour, capital, enterprise	31. Illustrate opportunity cost on a PPF	When you move up one axis, you move down the other
14. What is the reward for enterprise?	profit		
15. What is the reward for Capital?	interest		
16. What is the reward for Land?	rent		
17. What is the reward for Labour?	wages		
18. Why do opportunity costs exist?	Scarcity. Since we cannot have everything, we must make decisions		

32. What is the difference between consumer goods and capital goods?	Consumer goods provide utility directly, capital goods do not	49. What is the law of diminishing marginal utility?	As more of a good is consumed, each additional unit provides less additional satisfaction
33. What is the difference between actual and potential growth?	Actual growth is an increase in output, potential growth is an increase in productive capacity	50. What is supply?	The quantity firms are willing and able to sell at a given price (over a given period of time)
34. Explain why we would not want 100% of our production to be on capital goods	We would have no consumption (and therefore utility) right now	51. Why are supply curves upward sloping	Law of diminishing marginal returns, profit motive, attracting new entrants
35. Explain why we would not want 100% of our production to be on consumer goods	We would forego consumer goods (and their utility) in the future	52. Illustrate an extension in supply	Sliding up the supply curve
36. What is utility?	Satisfaction	53. What could cause an extension in supply?	Outward shift in demand
37. What do consumers seek to maximise?	Utility	54. Illustrate a contraction in supply	Sliding down the supply curve
38. What do firms seek to maximise?	Profit	55. What could cause a contraction in supply?	Inward shift in demand
39. What is irrational behaviour?	Where actions do not maximise utility	56. Give 3 conditions (shifters) of supply?	Cost of production, ease of production, regulations, expectations
40. Explain 3 reasons why agents may behave irrationally	Habit, inertia, influenced by others	57. What is equilibrium price?	The price at which $D=S$
41. What is bounded rationality?	Rationality within constraints (eg of time, information, computational skill, using rules of thumb)	58. What is equilibrium quantity?	The quantity at which $D=S$
42. What is demand?	The amount of a good or service customers are willing to buy at a given price (over a given time period)	59. What is a shortage?	Where demand is greater than supply
43. Why are demand curves downward sloping?	Law of diminishing marginal utility, income effect, substitution effect	60. Referring to extension and contraction, explain how shortages are resolved.	Price rises, Supply expands and demand contracts,
44. Illustrate an extension in demand	Sliding down the demand curve	61. What is a surplus?	Where supply is greater than demand
45. What could cause an extension in demand?	An outward shift in supply	62. Referring to extension and contraction, explain how surpluses are resolved.	Price falls, supply contracts and demand expands
46. Illustrate a contraction in demand	Sliding up the demand curve	63. Explain 3 functions of the price mechanism	Incentive, Rationing, Signalling, Allocative
47. What could cause a contraction in demand?	An inwards shift in supply	64. What is consumer surplus?	The difference between what a consumer is willing to pay and the price they actually pay
48. Give 3 conditions (shifters) of demand	Population, consumer income, tastes, advertising, price of complements/substitutes, seasons...	65. How do we illustrate consumer surplus on a diagram?	Triangle between axis, demand curve and price
		66. What is producer surplus?	The difference between the price the market is willing to supply at and what they actually supply at

67. How do we illustrate producer surplus on a diagram?	The triangle between axis, supply curve and price
68. What is total economic welfare?	Consumer surplus + Producer surplus
69. What is the definition of price elasticity of demand?	The sensitivity of demand to changes in price
70. Give the formula for PED	$\% \Delta Qd \div \% \Delta P$
71. What is meant by 'price elastic demand'?	Demand is very sensitive to price - the % change in demand will be bigger than the % change in price
72. What values would constitute 'price elastic demand'?	-1 to $-\infty$
73. Draw a price elastic demand curve	Flatter curve
74. What is meant by 'perfectly price elastic demand'?	If we increase price by even 1%, we lose all demand
75. What values would constitute 'perfectly elastic demand'?	$-\infty$
76. Draw a perfectly elastic demand curve	Horizontal
77. What is meant by 'price inelastic demand'?	Demand is not very sensitive to price - the % change in demand will be smaller than the % change in price
78. What values would constitute 'price inelastic demand'?	0 to -1
79. Draw a price inelastic demand curve	Steep curve
80. What is meant by 'unit elastic demand'?	The % change in demand will be the same as the % change in price
81. What value would constitute 'unit elastic demand'?	-1
82. Draw a unit elastic demand curve	It is curvey
83. Give 3 factors which influence the PED of a product	Number of subs, proportion of income, degree of luxury/necessity, addictiveness, time period, definition

84. What is the definition of cross price elasticity of demand?	The sensitivity of demand of good A to a change in the price of good B
85. Give the formula for XED	$\% \Delta Qd \text{ of Good A} \div \% \Delta P \text{ of Good B}$
86. What is the definition of substitute goods?	Goods which can be used in place of one another
87. What values of XED would constitute a substitute?	Positive
88. What is the definition of complementary goods?	Goods that are used together
89. What values of XED would constitute complementary goods?	Negative
90. What would an XED of 0 indicate?	Unrelated goods
91. What is the definition of income elasticity of demand?	The sensitivity of demand to changes in income
92. Give the formula for YED	$\% \Delta Qd \div \% \Delta Y$
93. What is the definition of an inferior good?	Where demand increases when incomes fall
94. What values of YED would constitute an inferior good?	Negative
95. What is a normal good?	When demand increases when incomes rise
96. What values of YED would constitute a normal good?	Positive
97. What is the definition of a luxury good?	Demand is very sensitive to changes in income - the % change in demand will be larger than the % change in income
98. What values of YED would constitute a luxury good?	1+
99. What is another term for a luxury good?	Normal income elastic

100. What is the term for a normal good which is not a luxury good?	Necessity	116. What is meant by 'price inelastic supply'?	Supply is not very sensitive to price - the % change in supply will be smaller than the % change in price
101. Why do firms need to know the price elasticity of demand for their products?	So they can predict the impact of a price change on demand/revenue	117. What values would constitute 'price inelastic supply'?	0 to 1
102. Under what circumstances would an increase in price increase the revenue gained from a product?	PED inelastic	118. Draw a price inelastic supply curve	Steep
103. Under what circumstances would an increase in price decrease the revenue gained from a product?	PED elastic	119. Give 3 factors which influence the PES of a product	Time, Capacity, Storability
104. Under what circumstances would an increase in price leave revenue unchanged?	PED unit elastic	120. What is meant by 'perfectly price inelastic demand'?	Only one quantity can be supplied, regardless of the price
105. Why do firms need to know the cross price elasticity of demand for their products?	To predict revenue change of one good when the price of another good changes	121. What values would constitute 'perfectly inelastic demand'?	0
106. Why do firms need to know the income price elasticity of demand for their products?	To predict revenue change of one good when incomes change	122. Draw a perfectly inelastic demand curve	Vertical
107. Under what circumstances would a recession increase the sales of product?	Inferior good	123. What is the economic definition of the long run?	The period of time in which at least one factor of production is fixed
108. What is the definition of price elasticity of supply?	The sensitivity of supply to changes in price	124. Why is PES more elastic in the long run?	Because firms have time to increase capacity
109. Give the formula for PES	$\% \Delta Q_s \div \% \Delta P$	125. What is the definition of market failure?	Where the market mechanism doesn't result in socially optimum quantity or price
110. What is meant by 'price elastic supply'?	Supply is very sensitive to price - the % change in supply will be bigger than the % change in price	126. Name 3 types of market failure	Information failure, externalities, public goods
111. What values would constitute 'price elastic supply'?	1 to ∞	127. What is an external benefit?	A benefit to a third party outside the transaction
112. Draw a price elastic supply curve	Shallow	128. What is an external cost?	A cost to a third part outside the transaction
113. What is meant by 'perfectly price elastic supply'?	Where supply is infinite at a certain price	129. What is a social benefit?	The total benefit to private individuals and third parties: Private benefit plus External benefit
114. What values would constitute 'perfectly elastic supply'?	∞	130. What is a social cost?	The total cost to private individuals and third parties: Private cost plus External cost
115. Draw a perfectly elastic supply curve	Horizontal	131. On a negative production externality diagram, how do you find socially optimum equilibrium?	Where MB (MSB) meets MSC

132. On a negative production externality diagram, how do you find private equilibrium?	Where MB (MSB) meets MPC	147. What is adverse selection?	Where information asymmetry leads to a narrower market
133. On a negative production externality diagram, how do you find Under/over consumption in a private market?	Overconsumption - the difference between the quantity at social equilibrium and at private equilibrium	148. What is moral hazard?	Where one party changes their behaviour after a transaction
134. On a positive consumption externality diagram, how do you find social equilibrium?	Where MC (MSC) meets MSB	149. How can independent reviews help moral hazard?	People are less likely to change their behaviour if they know it may affect their future transactions
135. On a positive consumption externality diagram, how do you find private equilibrium?	Where MC (MSC) meets MPB	150. What are the disadvantages of independent reviews?	They can be faked or sabotaged.
136. On a positive consumption externality diagram, how do you find under/over consumption in a private market?	Underconsumption, the difference between the quantity at social equilibrium and at private equilibrium	151. What are merit goods? (Edexcel)	Goods which would be demanded more if consumers had full information
137. What are the two features of public goods?	Non-excludability and Non-rivalry	152. What are demerit goods? (Edexcel)	Goods which would be demanded less if consumers had full information
138. What is the name for a good which displays only one feature?	Quasi-public goods	153. What is a tax?	A charge levied by government
139. What is non-excludability?	You can't stop someone consuming it once it has been provided	154. What is the difference between an indirect and a direct tax?	Direct taxes are levied on income, indirect taxes are levied on expenditure.
140. What is non-rivalry?	One person's consumption does not affect another's	155. What are the two types of indirect tax?	Specific and Ad Valorem
141. What is the free rider problem?	where consumers can consume good without paying for it because it is non-excludable	156. What is the difference between the two types of indirect tax?	Specific taxes add a fixed amount, ad valorem taxes add a percentage
142. Are public goods under- or over-consumed in the free market and why?	Underconsumed because no-one wants to pay for them; they all want to free-ride on someone else's purchase	157. What is producer tax incidence?	The portion of government revenue arising from a tax which comes out of producer surplus
143. Give a reason why governments may choose not to provide public goods	Expense, adverse consequences, crowding out, government inefficiency	158. What is consumer tax incidence?	The portion of government revenue arising from a tax which comes from consumer surplus
144. Give an alternative to full state provision	Subsidisation, public-private partnerships	159. What is deadweight loss?	The fall in total surplus that results from a market distortion, such as a tax
145. What is information asymmetry?	Where one party in a transaction knows more than another	160. What is a subsidy?	A payment made by the government to a producer
146. Why is information asymmetry a form of market failure?	It can lead to a suboptimal level of output	161. Under what circumstance would tax burden fall mainly on the consumer?	When supply is more elastic than demand
		162. Under what circumstance would tax burden fall mainly on the producer?	When demand is more elastic than supply
		163. Explain in words why taxes result in deadweight loss	Welfare lost from the units which are no longer consumed

164. Give 2 benefits of indirect taxes over other forms of intervention to correct a market failure	Raise revenue, they don't ignore price mechanism	178. If an unguaranteed minimum price is imposed, does a firm's revenue increase or decrease?	Depends on elasticity
165. Give 2 disadvantages of indirect taxes over other forms of intervention to correct a market failure	Difficult to predict results, cause deadweight loss	179. What is a guaranteed minimum price?	A legal price floor where the Government buys up the surplus
166. Give 2 reasons why governments may wish to subsidise a product	To encourage consumption, to encourage production, to protect producers	180. If a guaranteed minimum price is imposed, does a firm's revenue increase or decrease?	Increase
167. Give 2 benefits of subsidies over other forms of intervention to correct a market failure in a market of your choice	Politically popular, works with the price mechanism	181. Give a benefit of guaranteed minimum prices over unguaranteed minimum prices	Certainty for producers
168. Give 2 disadvantages of subsidies over other forms of intervention to correct a market failure in a market of your choice	Costs government money, welfare loss	182. Give a disadvantage of guaranteed minimum prices over unguaranteed minimum prices	Cost for government
169. Explain in words why subsidies result in deadweight loss	Wasted resources on units where cost of production is greater than utility gained	183. If a guaranteed minimum price is imposed, does firm's revenue increase or decrease?	Decrease
170. Under what circumstances would a tax generate a lot of government revenue?	PED inelastic	184. What is a maximum price?	A price ceiling above which a product cannot be sold
171. Under what circumstances would a tax result in a significant decrease in the quantity of the good consumed?	PED elastic	185. Give 2 reasons why a government may wish to put a maximum price on a product	To protect consumers, to encourage consumption, to discourage production
172. Under what circumstances would a subsidy result in a significant fall in price for the consumer?	PED inelastic	186. What is a tradeable pollution permit?	A right to pollute a certain amount, which can be bought or sold
173. Under what circumstances would a subsidy result in a significant increase in price for the producer?	PED elastic	187. Explain 3 benefits of tradeable pollution permits	Caps pollution (so gives certainty), Lowers abatement costs, raises revenue
174. Under what circumstances would a subsidy result in a significant increase in the quantity of a good consumed?	PED elastic	188. Explain 3 disadvantages of tradable pollution permits	Hard to enforce, hard to know how many permits to allocate, raises costs of production
175. What is a minimum price?	A legal price floor below which the good cannot be sold	189. Explain 3 reasons why the government might want to provide goods	Market failure, equity, natural monopoly
176. Give 2 reasons why a government may wish to put a minimum price on a product	Protect the producer, discourage consumption	190. Explain 2 disadvantages of state provision	No market mechanism to inform about consumer demands, expensive, no competition so can be inefficient
177. Does an unguaranteed minimum price cause a shortage or a surplus?	Surplus	191. Explain a benefit of information provision	Helps market to work properly so works with price mechanism

192. Explain 2 disadvantages of information provision	Expensive, changing habits is hard, consumers may not listen
193. What is ('command and control') regulation?	Where government decides if and how something can be produced and who can buy it
194. What forms might regulation take?	Age restrictions, packaging laws, bans
195. Explain a benefit of regulation	Gives more certainty than other laws
196. Explain 2 disadvantages of regulation	Doesn't work with price mechanism, needs to be enforced, takes a long time to implement
197. What is meant by 'government failure'?	Government intervention that fails to improve economic outcomes
198. Give 2 causes of government failure	Info gaps, unintended consequences, distorts price signals, admin costs