

LC Economics – Key Definitions

Resource
depletion



The reduction of available natural resources. The depletion of resources occurs when non-renewable resources, e.g. gas, coal, oil, are used and cannot be replaced.

Resource
degradation



Occurs when a natural resource becomes less productive over time. For example, a polluted river produces less fish. Resource degradation can also be caused by intensive use, e.g. farming.

Economic good



A product or service that commands a price, derives utility and is transferrable.

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Consumer



An individual who makes the decision whether to buy a good or a service. It is assumed that they have a limited income, that they seek maximum gain, are subject to the law of diminishing marginal utility and will act rationally.

Law of diminishing marginal utility



The law states that as more units of a good are consumed, a point will be reached where marginal (extra) utility eventually begins to decline.

Demand



The number of units of goods a consumer wants to buy at various prices.

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Law of demand



States that an increase in price leads to a decrease in quantity demanded or a decrease in price leads to an increase in quantity demanded.

Complementary goods



Goods that are used jointly. The use of one involves the use of the other, e.g. bread and butter, cars and petrol. They must be purchased together to satisfy a need or a want and achieve maximum utility from the purchase.

Substitute goods



Goods that satisfy the same needs and thus can be considered as alternatives to each other. Examples include butter and low-fat spread and different brands of tea, milk and breakfast cereals.

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Normal good



A good that obeys the law of demand and has a positive income effect. A rise in income causes an increase in demand, while a fall in income leads to a fall in demand.

Inferior good



A good with a negative income effect. A rise in income causes a decrease in demand, while a decrease in income causes an increase in demand.

Supply



Quantity of a good that firms are willing to make available at various prices over a particular period of time.

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Individual supply



The quantity of a good supplied by an individual firm at different prices.

Market/aggregate supply



The quantity of a good supplied by all the firms in the market at different prices.

Supply schedule



A table illustrating the different quantities of a good made available for sale at various market prices at any given time.

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Individual supply
schedule



A table illustrating the different quantities of a good made available for sale by individual firms at various market prices at any given time.

Market/aggregate
supply schedule



A table illustrating the total quantities of a good that all the firms in the market are willing to make available for sale at various prices at any given time.

Economic
development



An increase in GNP per head of population, which is accompanied by a fundamental change in the structure of society.

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Economic growth



An increase in GNP per head of population without any changes to the structure of society.

Developed countries



Countries that are developed in terms of their economy and industrialisation. The developed countries are also known as the First World countries, as they are self-sufficient nations.

Developing countries, or least developed countries (LDCs)



Countries that are going through the initial levels of industrial development and have low income per capita. These countries are also known as Third World countries.