



Basic Terms

- 1) **Economics** is the study of the patterns of choices that people make in order to satisfy their needs in society, where resources are limited. These choices centre around goods and services.
- 2) **Goods and services** are the central point of economy as they are the ones that are bought and sold.
- 3) **Macro-economics** is the branch of economics that deals with economic issues at the level of society, for example, economic growth, money supply, government spending, *inflation* (a general, continuous increase in prices), and employment and unemployment.
- 4) **Micro-economics** is the branch of economics that deals with smaller-scale economic choices made by individual consumers, households, and companies.
- 5) **Scarcity** is a fundamental concept in economics, which implies the basic economic problem that people want to exceed the resources available to satisfy their infinite needs.
- 6) **Demand** is an important factor of the market because it indicates the quantity of a *commodity* (a product that can be traded) that the public will buy at a certain price. It is influenced by the price of the commodity, alternative items (substitutes along with complements), buyers' income and savings, the number of buyers, expected market price changes, and consumer preferences. If all elements are equal, consumers will buy a larger amount of goods with lower prices.
- 7) **Supply** is the amount of goods that will be offered for sale on the market at a certain time and price. It is influenced by the price of the product, the availability and price of resources, innovation, and technology, the availability of work labour for production, wage levels, the number of suppliers, inflation expectations, taxes, and expected future prices. If prices are higher, a larger quantity of goods will be supplied in the hope of higher profits.

Typology

- 8) **Free-market economy** is a type of economy where the *allocation* (distribution) of resources is only determined /dɪ'tɜː(r)mm/ by the forces of supply and demand. Profits are the major motivating forces for entrepreneurs /ˌɒntɹəprə'nɜː, ˌɑːntɹəprə'nɜːr/. The state has only a limited share as its role is to provide a framework of laws that govern economic activity. This type of economy reacts to changes flexibly. However, private enterprises can cause inflation or unemployment.
- 9) **Command / controlled economy** is a type of economy where the government centrally assigns goals and coordinates production and distribution according to an economic plan. As a consequence, there can be a mismatch of supply and demand, and economy cannot react flexibly to changes. Nevertheless, this type of economy ensures the basic needs of the population, reduces the inequities of different incomes, and can create full employment.
- 10) **Black economy** means illegal economic activities, for example, smuggling or drug trafficking. Goods traded in this economy are scarce, so their demand and supply rise. Prices can be either under the price level of the legal market due to lower production costs or, in fact, higher if these goods and services are difficult to obtain officially. This economy also involves tax evasion as no income tax is paid after profits earned.

Components of Economics

- 11) **Production** is the first component of economics, and it means the creation of goods and services to meet the needs of society. Its inputs are land and natural resources, labour (including occupations and skills), capital resources (e.g. machines, buildings), and the risk-taking entrepreneur /,ɒntɹəprə'naɪ, ,ɑːntɹəprə'naɪ/.
- 12) **Primary production** means the activities that exploit natural resources, for example, agriculture, forestry, farming, fishing and hunting, logging, mining, oil and gas production, and *quarrying* (digging stone and other building materials). This category or sector of production makes up a larger portion of economy in a *developing country* (a poorer country with less advanced industries).
- 13) **Secondary production** means the activities that manufacture goods from raw materials and construction, for example, textile production, car manufacturing, and handicraft. Its output is finished goods suitable for sale to domestic businesses or for export. This category or sector is typical in a *developed country* (a country with modern industry, including transport and services).
- 14) **Tertiary production**, also known as the **service sector**, means the activities that involve *services* (intangible goods) such as (tele)communications, education, financial services (banking, insurance, investment), healthcare, IT, insurance, mass media, professional services (legal services, management consulting), real estate, retail, tourism, trade, transportation, and waste disposal. This category or sector is typical in a *developed country* (a country with modern industry, including transport and services).
- 15) **Direct production** means that people produce goods and services that they need, with their own skills and efforts, for example, growing vegetables in your own garden for personal consumption.
- 16) **Indirect production** means that members of society, who cannot all be self-sufficient, satisfy their needs by using specialization and division of labour to increase cost and time efficiency and productivity and to gain a competitive advantage. However, specialization and division of labour may result in a reduction of motivation (and consequently, a drop in productivity) at a personal level due to the lack of variety, and it may make a country tightly dependent on certain conditions, for example, if a country specializes in agriculture, natural disasters or bad weather can cause the economy to collapse.
- 17) **Distribution** is the second component of economics, and it means the spreading of products through various channels on the market to a large number of consumers. It involves, for example, transport system, tracking system, and packaging.
- 18) **Consumption** is the third component of economics, and it means the use of goods and services by households.

- 19) **GNP**, that is, **Gross National Product**, is the total value of final goods and services produced by a country's economy in a year, including profits made from foreign investments. Per capita income shows this value divided by the total number of inhabitants of the country.
- 20) **GDP**, that is, **Gross Domestic Product**, is the total value of final goods and services produced by a country's economy within the borders of the country in a year. Per capita income shows this value divided by the total number of inhabitants of the country, which is a more precise indicator to compare the wealth of two countries as it takes into consideration that the value is shared among a huge or small population. However, per capita does not say anything about inequalities.

Economic Sectors

- 21) **The corporate sector** contains all the economic units which produce goods and services and whose aim is to gain profit. It is part of the private sector.
- 22) The aim of **the household sector** is consumption. It includes private households and non-profit organizations, for example, the Church or social organizations. It is also part of the private sector.
- 23) In **the public / state sector**, the state pays the costs and expenses from taxes or other incomes. It includes, for example, hospitals, local authorities and councils, ministries, schools, the army, and the police.
- 24) **The banking sector** is responsible for keeping the right amount of money in circulation.
- 25) **The foreigner sector** includes the business of national economy with foreign countries, including exports and imports. It can mean persons or legal entities not being permanent inhabitants of the country and not being involved in the process of national economy.

- 26) **Anti-globalization** is a range of ideologies that criticize the consequences of global trends and policies by drawing attention to the protection of ecological systems, biodiversity, and local cultures.
- 27) **Localization** is an alternative to globalization, which involves regional cohesion as opposed to a multinational one.
- 28) **Interventionism** or **protectionism** is the view that says that the government should interfere in economic matters to protect the interests of groups, for example, home producers against foreign competition. This interference is done via price and quantitative restrictions.
- 29) **Privatization** /ˌpraɪvətəɪ'zeɪʃən/ is the sale or transfer of assets (something with value belonging to a person or company), companies, or services from the public to the private sector, which brings higher revenues to the seller country, livens /'laɪvən/ up money market transactions, and strengthens competition and the quality of services through the introduction of new technologies.
- 30) **Perfect competition** is a model market where there is a high number of producers, each with a small market share, so none of them can influence prices on their own, there are no considerable barriers for new companies to entry into the market, sellers have the freedom of moving factors of production, there are no transport costs, goods are homogeneous and substitutable, and sellers and buyers have all information about market conditions.
- 31) **Pure monopoly** is a market situation where there is only one provider of product or service without competition, so it can control market prices to maximize profits. This situation can be national, regional, or local. It is used for companies having competition but also having the largest market share to dictate prices and the quantity of goods that they sell. To protect consumers' interests, governments usually have legislation against this market situation.
- 32) **Oligopoly** is a market situation where a few providers dominate the sale of a commodity or similar brands, so these companies are interdependent. As they have large market shares, leading companies may become price leaders, for example, telecommunications companies or supermarkets. These companies can also collude and form a cartel to control the market, but in most countries, such agreements are strictly regulated.