Economics Definitions List

Economics: The social science that studies the choices that we make as we cope with the scarcity and the incentives that influence and reconcile (bring together) our choices.

Microeconomics: The study of the choices that individuals and businesses make and the way these choices respond to incentives, interact, and are influenced by governments.

Macroeconomics: The study of the aggregate (or total) effects on the national and the global economy of the choices that individuals, businesses, and governments make.

Economic Model: A description of some aspect of the economic world that includes only those features of the world that are needed for the purpose at hand.

Economic Theory: A generalization that summarizes what we understand about the economic choices that people make and the economic performance of those industries and nations based on models that have repeatedly passed the test of corresponding well with real-world data.

Goods and Services: The objects that people value and produce to satisfy human wants. **Goods** are physical objects and **Services** are tasks performed for people.

Supply: The amount of goods available.

Demand: The desire to own something and the ability to pay for it.

Standard of Living: The level of consumption of goods and services that people enjoy, on the average; it is measured by average income per person.

Cost of Living: The number of dollars it takes to buy the goods and services that achieve a given standard of living.

Unemployment: The state of being available and willing to work but unable to find an acceptable job.

Business Cycle: A periodic but irregular up-and-down movement in production and jobs.

Gross Domestic Product (GDP): the dollar value of all final goods and services produced within a country's borders in a given year.

Inflation: A situation in which the cost of living is rising and the value of money is shrinking.

Deflation: A situation in which the cost of living is falling and the value of money is rising.

Recession: A prolonged economic contraction; when the GDP falls for two consecutive quarters (at least 6 months) and generally lasts from 6 to 18 months; they are typically marked by national unemployment at 6 to 10%.

Depression: A recession that is especially long and severe; always accompanied by high unemployment and low economic output.

The Great Depression: A period during the 1930's in which the economy experienced its worst ever recession.

Benefit: The benefit of something is the gain or pleasure that it brings.

Opportunity Cost: The opportunity cost of something is the best "thing" that you must give up to get it.

Rational Choice: A choice that uses the available resources to most effectively satisfy the want of the person making the choice.

Margin: A choice on the margin gives us a choice that is made by comparing all the relevant alternatives systematically and incrementally.

Marginal Cost: The opportunity cost that arises from a one-unit increase in an activity. The marginal cost of something is what you must give up to get one more unit of it.

Marginal Benefit: The benefit that arises from a one-unit increase in an activity. The marginal benefit of something is measured by what you are willing to give up to get one more unit of it.

Correlation: The tendency for the values of two variables to move in a predictable and related way.

Post Hoc Fallacy: The error of reasoning that a first event causes a second event because the first occurred before the second.

Sunk Cost: This is a previously incurred and irreversible cost.

Ceteris Paribus: The Latin words meaning "other things remain the same."
(often abbreviated as **cet. par.**)