EDEXCEL A-LEVEL ECONOMICS (A)

KEY TERM GLOSSARY

Theme 1 – Introduction to Markets and Market Failure

tutor2u

EDEXCEL A-LEVEL ECONOMICS KEY TERM GLOSSARY – THEME 1

1.1	Nature of Economics
1.1.1	Economics as a social science
Behavioural economics	Research that adds elements of psychology to traditional models in an attempt to better understand decision-making by investors, consumers and other economic participants.
Ceteris paribus	To simplify analysis, economists isolate the relationship between two variables by assuming ceteris paribus – i.e. all other influencing factors are held constant.
Economic assumptions	In his 1953 essay titled "The Methodology of Positive Economics, Milton Friedman explained why economists need to make assumptions to provide useful predictions. Friedman understood economics couldn't use the scientific method as neatly as chemistry or physics, but he still saw the scientific method as the basis. Friedman stated economists would have to rely on "uncontrolled experience rather than on controlled experiment."
Economic model	A simplified representation of economic processes. This representation can be used to gain a better understanding of the theory.
Microeconomics	Study of economics at the level of the individual firm, industry or consumer/household.
Unintended consequences	Outcomes that are not the ones foreseen and intended by a purposeful action. In government intervention in markets there is usually at least one and often many unintended consequences partly because economics is a social science and we cannot predict accurately how producer and consumers will react.

1.1.2	Positive and normative economic statements
Normative statements	Normative statements express an opinion about what ought to be. They are subjective statements - i.e. they carry value judgments. For example, the level of duty on petrol is unfair and unfairly penalizes motorists.
Positive statement	Objective statements that can be tested or rejected by referring to the available evidence. Positive economics deals with objective explanation. For example: “A rise in consumer incomes will lead to a rise in the demand for new cars.” Or “A fall in the exchange rate will lead to an increase in exports overseas.”
Value judgement	A view of the rightness or wrongness of something, based on a personal view.

1.1.3	The economic problem
Barter	The practice of exchanging one good or service for another without using money.
Basic economic problem	There are infinite wants but finite factor resources with which to satisfy them.
Capital goods	Producer or capital goods such as plant (factories) and machinery and equipment are useful not in themselves but for the goods and services they can help produce in the future. Distinguished from "financial capital", meaning funds which are available to finance the production or acquisition of real capital.
Constraints	Limits to what we can afford to consume – we have to operate within a budget and therefore must make choices from those sets that are feasible/affordable. There is always a set of conceivable things that are actually available, and another set of that are not.
Economic agent	A participant in an economic system – be it a consumer, business or the government.
Entrepreneur	An entrepreneur is an individual who seeks to supply products to a market for a rate of return (i.e. a profit). Entrepreneurs will often invest their own financial capital in a business and take on the risks associated with a business investment.

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Factor incomes	Factor incomes are the rewards to factors of production. Labour receives wages and salaries, land earns rent, capital earns interest and enterprise earns profit.
Factors of production	Factors of production are the inputs available to supply goods and services: Land - Natural resources available for production Labour - The human input into the production process Capital - goods used in the supply of other products e.g. technology, factories and specialized machinery Enterprise - Entrepreneurs organise factors of production and take risks Know-how - Information required to develop, produce and bring products to the market.
Finite resources	There are only a finite number of workers, machines, acres of land and reserves of oil and other natural resources on the earth. By producing more for an ever-increasing population, we may destroy the natural resources of the planet.
Free goods	Free goods do not use up any factor inputs when supplied. Free goods have a zero-opportunity cost i.e. the marginal cost of supplying an extra unit of a free good is zero.
Inputs	Labour, capital and other resources used in the production of goods and services.
Interest	Interest is the reward to the ownership of capital.
Land	Natural resources available for production.
Labour	Physical and mental effort by humans.
Manufacturing	The use of machines, tools and labour to make things for use or sale. The is most commonly applied to industrial production, in which raw materials are transformed into finished goods on a large scale.
Needs	Humans have many different types of wants and needs - economic, social and psychological. A need is essential for survival; food satisfies hungry people. A want is something desirable but not essential to survival e.g. cola quenches thirst.
Non-renewable resources	Non-renewable resources are resources which are finite and cannot be replaced. Minerals, fossil fuels and so on are all non-renewable resources.
Opportunity cost	The cost of any choice in terms of the next best alternative foregone.
Rationing	Rationing is a way of allocating scarce goods and services when market demand exceeds available supply. There are many ways of rationing including by price, by consumer income, by assessment of need, by education level and by age, gender, nationality.
Renewable resources	Renewable resources (in theory) are replaceable if the rate of extraction of the resource is less than the natural rate at which the resource renews. Examples of renewable resources are solar energy, oxygen, biomass, fish stocks and forestry.
Rent	Rent is income typically associated with the ownership of land, but which can also include rental income from leasing out other assets such as cars, capital equipment.
Scarcity	Scarce means limited. There is only a limited amount of resources available to produce the unlimited amount of goods and services we desire.

1.1.4	Production possibility frontiers
Allocative efficiency	Allocative efficiency occurs when the value that consumers place on a good or service (reflected in the price they are willing and able to pay) equals the cost of the resources used up in production.
Capital goods	Producer or capital goods such as plant (factories) and machinery and equipment are useful not in themselves but for the goods and services they can help produce

	in the future. Distinguished from "financial capital", meaning funds which are available to finance the production or acquisition of real capital.
Concave production possibility frontier	A concave PPF is “bowed outwards”. This means there is a rising marginal opportunity cost as you produce more of one good. This is because there is imperfect factor mobility. E.g. labour/land/capital is more suited towards the production of one good than another.
Consumer goods	Goods bought and used by consumers and households. They are the end result of manufacturing.
Economic efficiency	Economic efficiency is about making best or optimum use of our scarce resources among competing ends so that economic and social welfare is maximised over time.
Economic growth	An increase in the productive potential of a country – shown by an outward shift of the production possibility frontier.
Pareto efficiency	In neoclassical economics, an action done in an economy that harms no one and helps at least one person. A situation is Pareto efficient if the only way to make one person better off is to make another person worse off.
Production possibility frontier	A boundary that shows the combinations of two or more goods and services that can be produced using all available factor resources efficiently.
Productive potential	The amount of output an economy could produce if all of its resources were fully and efficiently employed.
Trade-off	A trade-off implies that choices have to be made between different objectives of policy for example a trade-off between economic growth and inflation.

1.1.5	Specialisation and the division of labour
Adam Smith	One of the founding fathers of modern economics. His most famous work was the Wealth of Nations (1776) - a study of the progress of nations where people act according to their own self-interest - which improves the public good. Smith's discussion of the advantages of division of labour remains a potent idea.
Alienation	A sociological term to describe the estrangement many workers feel from their work, which may reduce their motivation and productivity. It is sometimes argued that alienation is a result of the division of labour because workers are not involved with the satisfaction of producing a finished product, and do not feel part of a team.
Division of labour	The specialization of labour in specific tasks, intended to increase productivity.
Measure of value	A function of money where it can be used to judge the value of a good or service.
Medium of exchange	Money is any asset that is widely acceptable as a medium of exchange when buying goods and services in markets. It facilitates transactions between buyer and seller.
Method of deferred payment	A function of money that allows a system of making payments at a later date.
Money	Money is defined best by what money does. Money – in its various forms – fulfils various key functions including a medium of exchange, a unit of account, a store of value and a standard of deferred payment.
Specialisation	A method of production where a business or area focuses on the production of a limited scope of products or services to gain greater productive efficiency.
Standard of deferred payment	A function of money - the accepted way, in a given market, to settle a debt.
Store of value	A function of money in that it can be used to save and be exchanged at a later time.
Unit of account	A function of money, a nominal unit of measure or currency used to value/cost products, assets (e.g. houses), debts, incomes and spending.

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1.1.6	Free market economies, mixed economy and command economy
Adam Smith	One of the founding fathers of modern economics. His most famous work was the Wealth of Nations (1776) - a study of the progress of nations where people act according to their own self-interest - which improves the public good. Smith's discussion of the advantages of division of labour remains a potent idea.
Capitalist economy	An economic system organised along capitalist lines uses market-determined prices to guide our choices about the production and distribution of goods. One key role for the state is to maintain the rule of law and protect private property.
Command economy	An economic system where most factor resources are allocated by the government, with few officially sanctioned private markets (e.g. ex-Soviet bloc countries prior to their transition into market economies, modern-day North Korea and Venezuela).
Consumer sovereignty	Consumer sovereignty exists when an economic system allows scarce resources to be allocated to producing goods and services that reflect the wishes of consumers. Sovereignty can be distorted by the effects of persuasive or misleading advertising.
Economic planning	Government policies aimed at influencing trends in the economy.
Economic system	An economic system is a network of organisations used to resolve the problem of what, how much, how and for whom to produce.
Free market	System of buying and selling that is not under the control of the government, and where people can buy and sell freely, or an economy where free markets exist, and most companies and property are not owned by the state.
Friedrich Hayek	An Anglo-Austrian economist and philosopher best known for his criticisms of the Keynesian welfare state. His approach stems from the Austrian school of economics and emphasises the limited nature of knowledge. 1899 – 1992.
Karl Marx	A German philosopher, economist and political theorist. He was a hugely influential thinker and co-authored the pamphlet 'The Communist Manifesto' which was published in 1948 and asserted that all human history has been based on class struggles, but that these would ultimately disappear with the victory of the proletariat. 1818 – 1883.
Mixed economy	Where resources are partly allocated by the market and partly by the government.
Planned economy	In a planned economy, decisions about what to produce, how much to produce and for whom are decided by central planners working for the government rather than allocated using the price mechanism.
Transition economies	*Transition economies are involved in a process of moving from a centrally planned economy to a mixed or free market economy.*

1.2	**How markets work**
1.2.1	Rational decision making
Behavioural economics	Research that adds elements of psychology to traditional models in an attempt to better understand decision-making by investors, consumers and other economic participants.
Incentives	Incentives matter enormously in any study of microeconomics, markets and market failure. For competitive markets to work efficiently economic agents (i.e. consumers and producers) must respond to price signals in the market.
Income	Income represents a flow of earnings from using factors of production to generate an output of goods and services. For example, wages and salaries are a factor reward to labour and interest is the flow of income for the ownership of capital.
Invisible hand	Adam Smith - one of the founding fathers of modern economics, described how the invisible or hidden hand of the market operated in a competitive market through the pursuit of self-interest to allocate resources in society's best interest.

Market incentives	Signals that motivate economic actors to change their behaviour perhaps in the direction of greater economic efficiency.
Profit maximisation	The assumption that producers wish to produce an output that will create maximum profit levels.
Rational choice	Rational choice involves the weighing up of costs and benefits and trying to maximise the surplus of benefits over costs.
Utility	Utility is a measure of the satisfaction that we get from purchasing and consuming a good or service.
Utility maximisation	The assumption that consumers behave rationally in allocating their limited budget between different products so as to maximise total satisfaction from their purchases.

1.2.2	Demand
Consumer goods and services	Consumer goods and services help satisfy our needs and wants directly There is a sub-division between: Consumer durables: Products that provide a steady flow of satisfaction / utility over their working life (e.g. a washing machine or using a smartphone). Consumer non-durables: Products that are used up in the act of consumption e.g. drinking a coffee or turning on the heating) iii) Consumer services: E.g. a hair cut or ticket to a show or sporting event.
Demand	Quantity of a good or service that consumers are willing and able to buy at a given price in a given time period.
Demand curve	A demand curve shows the relationship between the price of an item and the quantity demanded over a period of time. For normal goods, more of a product will be demanded as the price falls.
Diminishing marginal utility	Marginal utility is the change in satisfaction from consuming an extra unit of a good or service. Beyond a certain point, marginal utility may start to fall (diminish). If marginal utility becomes negative, then consuming an extra unit will cause total utility to fall.
Effective demand	Demand in economics must be effective. Only when a consumers' desire to buy a product is backed up by an ability to pay for it do we speak of demand.
Excess demand	The difference between the quantity supplied and the higher quantity demanded when price is set below the equilibrium price. This will result in queuing and an upward pressure on price.
Law of demand	The law of demand is that there is an inverse relationship between the price of a good and demand. As prices fall, we see an expansion of demand. If price rises, there should be a contraction of demand.
Perverse demand curve	A perverse demand curve is one which slopes upwards from left to right. Therefore, an increase in price leads to an increase in demand. This may happen where goods are strongly affected by price expectations.
Willingness to pay	The maximum price a consumer is prepared pay to obtain a product.

1.2.3	Price, income and cross elasticities of demand
Complements	Two complements are said to be in joint demand. Examples include fish and chips, iron ore and steel, hardware and software for digital products.
Cross price elasticity of demand	Responsiveness of demand for good X following a change in the price of good Y (a related good). With cross price elasticity, we make an important distinction between substitute products and complementary goods and services.

Derived demand	Derived demand is demand that comes from (is derived) from the demand for something else. Thus, the demand for machinery is derived from the demand for consumer goods that the machinery can make. If there is low demand for consumer goods, there is low demand for the machinery that can make them. Demand for bricks is derived from spending on new construction projects.
Elastic demand	Demand for which the coefficient of price elasticity of demand is greater than 1.
Income elasticity of demand	Measures the relationship between a change in quantity demanded and a change in real income. The formula for income elasticity is: percentage change in quantity demanded divided by the percentage change in income.
Inelastic demand	When the coefficient of price elasticity of demand is less than 1. (Ped<1)
Inferior good	When demand for a product falls as real incomes increases. Income elasticity is negative.
Luxury good	Luxury goods and services have an income elasticity of demand with a coefficient of more than +1 i.e. a 5% rise in real incomes might lead to an increase in demand of 20% giving a coefficient of YED of +4.
Necessities	Necessities typically have a low own-price elasticity of demand (consumers are not sensitive to a change in price) and a low but positive income elasticity of demand (YED >0 but <+1). Examples might include milk, cereals, toothpaste and bread.
Normal goods	Normal goods have a positive income elasticity of demand. Necessities have a coefficient of income elasticity of demand of between 0 and +1. Luxuries have income elasticity > +1 demand rises more than proportionate to a change in income.
Price elasticity of demand	Price elasticity of demand measures the responsiveness or sensitivity of demand for a product following a change in its own price.
Real income	The money earned from employment after the distorting effects of inflation have been removed.
Substitutes	Goods in competitive demand that act as replacements for another product.
Total revenue	The amount of money earned by a firm from selling its output. TR = P X Q
Unit elasticity of demand	A demand curve with unitary price elasticity has a coefficient of PED equal to 1 (unity) throughout. Total spending on the product will be the same at each price level. Government intervention will not affect total spending on the product.
Unrelated goods	Goods or services that have no relationship between them in which case the cross-price elasticity of demand will be zero.

1.2.4	Supply
Competitive supply	Goods in competitive supply are alternative products a firm could make with its resources. E.g. a farmer can plant potatoes or carrots. An electronics factory can produce smart-phones or smart-watches. Land has many uses – e.g. commercial/residential.
Excess supply	When supply is greater than demand and there are unsold goods in the market. Surpluses put downward pressure on the market price.
Law of supply	The law of supply is that there is a positive relationship between the price of a good and supply. As prices rise, we see an expansion of supply. If price fall, there should be a contraction of supply.
Market supply	Market supply is the total amount of an item producers are willing and able to sell at different prices, over a given period of time e.g. one month. Industry, a market supply curve is the horizontal summation of all each individual firm's supply curves.
Supply	Quantity of a good or service that a producer is willing and able to supply onto the market at a given price in a given time period.

Supply chain	Different stages of making, distributing and selling a good or service from the production of parts, through to distribution and sale of the product.
Supply curve	The relationship between market price and quantity supplied onto the market.

1.2.5	Elasticity of supply
Elastic supply	Where the coefficient of price elasticity of supply is greater than +1.
Elasticity of supply	Price elasticity of supply measures the relationship between change in quantity supplied and a change in market price.
Inelastic supply	When the coefficient of price elasticity of supply is less than +1. (Pes<1)
Price elasticity of supply	Price elasticity of supply (PES) measures the relationship between change in quantity supplied and a change in price. Supply responds positively to price, so PES is positive.

1.2.6	Price determination
Disequilibrium	Prices where demand and supply are out of balance are points of disequilibrium. There is either excess demand (market prices too low) or excess supply (market prices too high).
Equilibrium	Equilibrium means 'at rest' or 'a state of balance' - i.e. a situation where there is no tendency for change. The concept is used in both microeconomics (e.g. equilibrium prices in a market) and also in macroeconomics (e.g. equilibrium national income).
Excess demand	A situation where quantity demanded is greater that quantity supplied.
Excess supply	A situation where quantity supplied is greater than quantity demanded.
Health rationing	Health rationing occurs when the demand for health care services outstrips the available resources leading to waiting lists and delays for health treatment.
Shortage	A situation in which quantity demanded is greater than quantity supplied.

1.2.7	Price mechanism
Incentives	For competitive markets to work efficiently economic agents (i.e. consumers and producers) must respond to price signals in the market.
Price mechanism	The means by which decisions of consumers and businesses interact to determine the allocation of resources. The free-market price mechanism clearly does NOT ensure an equitable distribution of resources and can lead to market failure.
Price signals	Changes in price act as a signal about how resources should be allocated. A rise in price encourages producers to switch into making that good but encourages consumers to use an alternative substitute product (therefore rationing the product).
Rationing	A rising price can reduce the quantity demanded of a good or service.
Signalling	Prices have a signalling function because the price in a market sends important information to producers and consumers.

1.2.8	Consumer and producer surplus
Community surplus	Community surplus is the sum of consumer and producer surplus at a given market price and output. Community surplus is maximised in competitive markets at an equilibrium output when price = marginal cost.
Consumer surplus	A measure of the welfare that people gain from consuming goods and services, or a measure of the benefits they derive from the exchange of goods. Consumer surplus is the difference between the total amount that consumers are willing and able to pay for a good or service (indicated by the demand curve) and the total they pay (the market price).

Producer surplus	The difference between what producers are willing and able to supply a good for and the price they actually receive. The level of producer surplus is shown by the area above the supply curve and below the current market price.

1.2.9	Indirect taxes and subsidies
Ad valorem tax	An indirect tax based on a percentage of the sales price of a good or service. An increase in an ad valorem tax causes an inward shift in the supply curve.
Alcohol duties	Excise duties on alcohol are a form of indirect tax and are chargeable on beer, wine and spirits according to their volume and/or alcoholic content.
Black market	An illegal market in which the market price is higher than a legally imposed price ceiling. Black markets can develop where there is excess demand (or a shortage) for a product.
Direct tax	A tax on income and wealth e.g. income tax or corporation tax where the burden of the tax cannot be passed on to someone else.
Emission tax	A charge made to firms that pollute the environment based on the quantity of pollution they emit i.e. the volume of CO2 emissions.
Excise duties	Excise duties are indirect taxes levied on our spending on goods and services such as cigarettes, fuel and alcohol. There are also duties on air travel, car insurance.
Incidence of a tax	How the final burden of a tax is shared out. If demand for a good is price elastic and a tax is imposed, then the tax may fall mainly on the producer as they will be unable to put prices up without losing a lot of demand.
Indirect tax	An indirect tax is imposed on producers (suppliers) by the government. Examples include excise duties on cigarettes, alcohol and fuel and also value added tax.
Specific tax	A specific tax is a set tax per unit imposed by the government, a good example is the specific tax (duty) on fuel sold in the UK.
Subsidy	Payments by the government to suppliers that reduce their costs. The effect of a subsidy is to increase supply and therefore reduce the market equilibrium price.
Tax incidence	The manner in which the burden of an indirect tax is shared between participants in the market i.e. consumers and producers.
Unit tax	A specific tax per unit sold e.g. the duty on a litre of fuel might be 80 pence.

1.2.10	Alternative views of consumer behaviour
Behavioural economics	Research that adds elements of psychology to traditional models in an attempt to better understand decision-making by investors, consumers and other economic participants.
Computational weakness	Irrationality arises when consumer's decisions are dominated by computational weakness. This occurs when consumers find it difficult to calculate the probability of something happening when they make purchasing decisions. For example, people may underestimate the long-term health consequences of eating processed meats or relying heavily on prescription painkillers.
Habitual consumption	Habitual behaviour occurs when people have strong default choices. Repeat choices / purchases often become automatic because default choices don't involve much mental (cognitive) effort. To get people to change behaviour may require compelling incentives perhaps from government intervention through taxes and subsidies.
Herd behaviour	When individuals in a group act collectively without centralised direction.

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1.3	Market failure
1.3.1	Types of market failure
Externalities	Externalities are third party effects arising from production and consumption of goods and services for which no appropriate compensation is paid.
Information gap	Information gaps exist when either the buyer or seller does not have access to the information needed for them to make a fully informed decision. For example, risks from using tanning salons, the complexity of pension schemes, uncertain quality of second-hand products and knowledge of the nutritional content of foods and drinks.
Market failure	Market failure exists when the competitive outcome of markets is not efficient from the point of view of the economy as a whole. This is usually because the benefits that the market confers on individuals or firms carrying out a particular activity diverge from the benefits to society as a whole.
Public goods	Pure public goods are non-rival – consumption of the good by one person does not reduce the amount available for consumption by another person, and non-excludable – where it is not possible to provide a good or service to one person without it being available for others to enjoy.

1.3.2	Externalities
Deadweight loss	The loss in producer and consumer surplus due to an inefficient level of production perhaps resulting from market failure or government failure.
External benefit	A benefit to a 3rd party agent arising from production and/or consumption.
External cost	External costs are those costs faced by a third party for which no appropriate compensation is forthcoming. Identifying and then estimating a monetary value for air and noise pollution is a difficult exercise - but one that is important for economists concerned with the impact of economic activity on our environment.
Externalities	Externalities are third party effects arising from production and consumption of goods and services for which no appropriate compensation is paid.
Marginal external benefit (MEB)	Benefit to third parties from the consumption of extra unit of output.
Marginal external cost (MEC)	Cost to third parties from the production of an additional unit of output.
Marginal private benefit (MPB)	Benefit to the consumer of consuming an extra unit of output.
Marginal private cost (MPC)	Cost to the producing firm of producing an additional unit of output.
Marginal social benefit (MSB)	Total benefit to society from consuming an extra unit, MSB = MPB + MEB.
Marginal social cost (MSC)	Total cost to society of producing an extra unit of output. MSC = MPC + MEC.
Negative externality	Negative externalities occur when production and/or consumption impose external costs on third parties outside of the market for which no appropriate compensation is paid. This causes social costs to exceed private costs.
Net social benefit	A measurement of the net impact of an investment project found by estimating the social costs and benefits. Net social benefit may be considered by a government when deciding which project(s) offers the best potential return for society.

Positive externalities	Positive externalities exist when third parties benefit from the spill-over effects of production/consumption e.g. the social returns from investment in education & training or the positive benefits from health care and medical research.
Private benefit	The rewards to individuals, firms or consumers from consuming or producing goods and services. Also known as internal benefit.
Private cost	Costs of an economic activity to individuals and firms. Also known as internal costs.
Social benefit	The benefit of production or consumption of a product for society as a whole. Social benefit = private benefit + external benefit.
Social cost	The cost of production or consumption of a product for society as a whole. Social cost = private cost + external cost.
Social efficiency	The socially efficient output is where Social Marginal Cost (SMC) = Social Marginal Benefit (SMB).
Spill-over effects	External effects of economic activity, which have an impact on outsiders who are not producing or consuming a product – these can be negative (creating external costs) or positive (creating external benefits).

1.3.3	Public goods
Excludability	Property of a good whereby a person can be prevented from using it if they do not pay.
Free rider problem	Because public goods are non-excludable it is difficult to charge people for benefitting once a product is available. The free rider problem leads to under-provision of a good and thus causes market failure. Free riders have no incentive to reveal how much they are willing and able to pay for a public good because they can enjoy benefit without paying.
Global public goods	Global public goods benefit every country, irrespective of which ones provide them – they have become more important recently. Examples might include: Security from war, violence, and crime, the rule of law, property rights, and contract enforcement, eradication of smallpox, Ebola and other diseases.
Missing market	Missing markets are associated with the difficulties that the free market has in providing pure public goods. Public goods are non-excludable meaning that the benefits derived from them cannot be confined solely to those who have paid for it. Non-payers can enjoy the benefits of consumption at no financial cost to themselves (aka free riders).
Non excludability	A characteristic of public goods. Benefits derived from pure public goods cannot be confined solely to those who have paid for it. This gives rise to the free-rider problem.
Non-rival consumption	Non-rivalry means that consumption of a good by one person does not reduce the amount available for others. Non-rivalry is one of the key characteristics of a pure public good.
Public goods	Pure public goods are non-rival – consumption of the good by one person does not reduce the amount available for consumption by another person, and non-excludable – where it is not possible to provide a good or service to one person without it being available for others to enjoy.
Quasi-public good	A quasi-public good is a near-public good. It has some of the characteristics of a public good. Quasi-public goods are: Semi-non-rival: up to a point, more consumers using a park, beach or road do not reduce the space available for others. But eventually beaches become crowded as do parks/leisure facilities. Open-access Wi-Fi networks become crowded.

	Semi-non-excludable: it is possible but difficult or costly to exclude non-paying consumers. E.g. fencing a park or beach and charging an entrance fee; or building toll booths on congested road routes.
Tragedy of the Commons	When no one owns a resource, it may get over-used, for example fish stocks and deforestation - people use and benefit from a common pool resource such as grazing land without regard to the effects on others. Over-use of a renewable resource can lead to a long-term decline in maximum sustainable yield.

1.3.4	Information gaps
Asymmetric information	Where parties have unequal access to information in a market.
Information failure	Information failure occurs when people have inaccurate, incomplete, uncertain or misunderstood data and so make potentially 'wrong' choices.
Symmetric information	For markets to work, there needs to be symmetric information i.e. consumers and producers have the same level of knowledge about the products, and they know everything there is to know about them and the effects of consuming them.

1.4	**Government intervention**
1.4.1	Government intervention in markets
Government information	Campaigns and sources of information used in order to correct a market failure and/or influence consumer behaviour. An example would be the 'Don't drink and drive' campaigns.
Maximum price	A legally imposed maximum price in a market that suppliers cannot exceed - in an attempt to prevent the market price from rising above a certain level. To be effective a maximum price has to be set below the free market price.
Minimum price	A legally imposed price floor below which the normal market price cannot fall. To be effective the minimum price has to be set above the normal equilibrium price.
Polluter pays principle	The government may choose to intervene in a market to ensure that the firms and consumers who create negative externalities include them when making their decisions e.g. first parties are forced to internalise external costs & benefits through indirect taxes.
Pollution permits	Permits allocated in an emissions trading system, for example each permit in the EU trading scheme allows a business to pollute 1 tonne of CO2.
Price ceiling	A price ceiling is a regulated maximum price in a market – sellers cannot legally offer the product for sale at a price higher than the ceiling. To be effective, a ceiling must be set below the normal free market equilibrium price.
Price floor	A price floor is a minimum price for example a minimum wage in the labour market. Sellers cannot legally under-cut the price floor.
Regulated prices	Not all prices are set by the free-market forces of supply and demand. In Britain, a number of prices are affected by regulators who may impose a pricing formula on suppliers. Good examples are rail fares, the cost of postage stamps and water bills.

Regulation	Government rules and laws that can control the behaviour of producers or consumers in a market.
State provision	Government-provided good or services - funded through tax revenue to provide goods which have positive externalities or are public goods.

1.4.2	Government failure
Government failure	Policies that cause a deeper market failure. Government failure may range from the trivial, when intervention is merely ineffective, to cases where intervention produces new and more serious problems that did not exist before.
Net welfare loss	An overall loss of economic welfare when compared to the starting position.
Regulatory capture	A form of government failure, happens when a government agency operates in favour of producers rather than consumers.
Unintended consequences	A cause of government failure whereby the government's actions result in unexpected effects. For example, in the 1960s the government cut spending on railway infrastructure and built roads instead. This caused a significant rise in car transport, which in turn has led to a rise in the demand for trains because the roads are so congested.

