

## Key Terms

### **barriers to entry**

Factors, such as technological or legal conditions, that prevent new firms from competing equally with an existing firm.

### **business**

An organization that strives for a profit by providing goods and services desired by its customers.

### **business cycles**

Upward and downward changes in the level of economic activity.

### **capital**

The inputs, such as tools, machinery, equipment, and buildings, used to produce goods and services and get them to the customer.

### **capitalism**

An economic system based on competition in the marketplace and private ownership of the factors of production (resources); also known as the *private enterprise system*.

### **circular flow**

The movement of inputs and outputs among households, businesses, and governments; a way of showing how the sectors of the economy interact.

### **communism**

An economic system characterized by government ownership of virtually all resources, government control of all markets, and economic decision-making by central government planning.

### **consumer price index (CPI)**

An index of the prices of a “market basket” of goods and services purchased by typical urban consumers.

### **contractionary policy**

The use of monetary policy by the Fed to tighten the money supply by selling government securities or raising interest rates.

### **cost-push inflation**

Inflation that occurs when increases in production costs push up the prices of final goods and services.

### **costs**

Expenses incurred from creating and selling goods and services.

### **crowding out**

The situation that occurs when government spending replaces spending by the private sector.

**cyclical unemployment**

Unemployment that occurs when a downturn in the business cycle reduces the demand for labor throughout the economy.

**demand**

The quantity of a good or service that people are willing to buy at various prices.

**demand curve**

A graph showing the quantity of a good or service that people are willing to buy at various prices.

**demand-pull inflation**

Inflation that occurs when the demand for goods and services is greater than the supply.

**demography**

The study of people's vital statistics, such as their age, gender, race and ethnicity, and location.

**economic growth**

An increase in a nation's output of goods and services.

**economic system**

The combination of policies, laws, and choices made by a nation's government to establish the systems that determine what goods and services are produced and how they are allocated.

**economics**

The study of how a society uses scarce resources to produce and distribute goods and services.

**entrepreneurs**

People who combine the inputs of natural resources, labor, and capital to produce goods or services with the intention of making a profit or accomplishing a not-for-profit goal.

**equilibrium**

The point at which quantity demanded equals quantity supplied.

**expansionary policy**

The use of monetary policy by the Fed to increase, or loosen, the growth of the money supply.

**factors of production**

The resources used to create goods and services.

**federal budget deficit**

The condition that occurs when the federal government spends more for programs than it collects in taxes.

**Federal Reserve System (the Fed)**

The central banking system of the United States.

**fiscal policy**

The government's use of taxation and spending to affect the economy.

**frictional unemployment**

Short-term unemployment that is not related to the business cycle.

**full employment**

The condition when all people who want to work and can work have jobs.

**goods**

Tangible items manufactured by businesses.

**gross domestic product (GDP)**

The total market value of all final goods and services produced within a nation's borders each year.

**inflation**

The situation in which the average of all prices of goods and services is rising.

**knowledge**

The combined talents and skills of the workforce.

**knowledge workers**

Workers who create, distribute, and apply knowledge.

**macroeconomics**

The subarea of economics that focuses on the economy as a whole by looking at aggregate data for large groups of people, companies, or products.

**market structure**

The number of suppliers in a market.

**microeconomics**

The subarea of economics that focuses on individual parts of the economy, such as households or firms.

**mixed economies**

Economies that combine several economic systems; for example, an economy where the government owns certain industries but others are owned by the private sector.

**monetary policy**

A government's programs for controlling the amount of money circulating in the economy and interest rates.

**monopolistic competition**

A market structure in which many firms offer products that are close substitutes and in which entry is relatively easy.

**national debt**

The accumulated total of all of the federal government's annual budget deficits.

**not-for-profit organization**

An organization that exists to achieve some goal other than the usual business goal of profit.

**oligopoly**

A market structure in which a few firms produce most or all of the output and in which large capital requirements or other factors limit the number of firms.

**perfect (pure) competition**

A market structure in which a large number of small firms sell similar products, buyers and sellers have good information, and businesses can be easily opened or closed.

**producer price index (PPI)**

An index of the prices paid by producers and wholesalers for various commodities, such as raw materials, partially finished goods, and finished products.

**productivity**

The amount of goods and services one worker can produce.

**profit**

The money left over after all costs are paid.

**purchasing power**

The value of what money can buy.

**pure monopoly**

A market structure in which a single firm accounts for all industry sales of a particular good or service and in which there are *barriers to entry*.

**quality of life**

The general level of human happiness based on such things as life expectancy, educational standards, health, sanitation, and leisure time.

**recession**

A decline in GDP that lasts for at least two consecutive quarters.

**relationship management**

The practice of building, maintaining, and enhancing interactions with customers and other parties to develop long-term satisfaction through mutually beneficial partnerships.

**revenue**

The money a company receives by providing services or selling goods to customers.

**risk**

The potential to lose time and money or otherwise not be able to accomplish an organization's goals.

**savings bonds**

Government bonds issued in relatively small denominations.

**seasonal unemployment**

Unemployment that occurs during specific seasons in certain industries.

**services**

Intangible offerings of businesses that can't be held, touched, or stored.

**socialism**

An economic system in which the basic industries are owned either by the government itself or by the private sector under strong government control.

**standard of living**

A country's output of goods and services that people can buy with the money they have.

**strategic alliance**

A cooperative agreement between business firms; sometimes called a *strategic partnership*.

**structural unemployment**

Unemployment that is caused by a mismatch between available jobs and the skills of available workers in an industry or region; not related to the business cycle.

**supply**

The quantity of a good or service that businesses will make available at various prices.

**supply curve**

A graph showing the quantity of a good or service that businesses will make available at various prices.

**technology**

The application of science and engineering skills and knowledge to solve production and organizational problems.

**unemployment rate**

The percentage of the total labor force that is not working but is *actively looking for work*.