Basics of Economics

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1 Key Terms and Ideas

Absolute Advantage (AA): A person (or country) has an absolute advantage if they are more productive than others.
Allocative Efficiency: An allocation of goods that maximizes benefit (total benefit - total cost).
Comparative Advantage (CA): A person (or country) has a comparative advantage in an activity if they can perform that activity at a lower opportunity cost that everyone else.
Demand: The entire relationship between the price of a good and the quantity demanded of that good.
Diminishing Marginal Benefit: The more of a good an individual has, the less the individual is willing to give up for one more unit of that good.
Function: The relationship between two quantities.
Gains From Trade: The net benefit to agents who conduct trade of specific goods.
Marginals: The variance in the output of a function as the input value changes by a given amount. Analogous to the derivative of a function.
Marginal Benefit: The total amount of a good that an individual is willing to give up for ONE unit of another good.
Marginal Cost: The opportunity cost of producing one additional unit of some good. Ex: "I give up 3 cookies to produce the 6th unit of cat food".
Marginal Revenue: The change in total revenue obtained by a seller as a result of a change in the total quantity sold.
Marginal Utility: The change in total utility that results from a one unit increase in the quantity of a good consumed.
Minimum Wage: A government regulation making it illegal to pay a worker

less than a specified wage.
Normative Statement: An expression of how things ought to be.
Opportunity Cost (OC): The highest valued alternative for the action.
Pareto Efficiency: An allocation is pareto efficient if there is no way to make an individual better off without making someone else worse off.
Positive Statement: An expression of how things are.
Price Ceiling: A regulation making it illegal to charge more than a specified price.
Price Elasticity of Demand: A measure of the responsiveness of the demand for a good to a change in its *price*, ceteris paribus.
Price Floor: A regulation making it illegal to charge less than a specified price.
Production Efficiency: Goods are produced at the lowest possible opportunity cost.
Production Possibilities Frontier (PPF): The set of all possible goods that can be produced at a given point in time.
Subsidies: A payment made by the government to a producer or a consumer.
Supply: The entire relationship between the quantity supplied of a good and its price.
Tax: A levy imposed on an individual or legal entity by the state whose failure to be paid can be punishable by law.
Tax Incidence: The division of the burden of a tax between buyers and sellers.
Total Benefit: The total amount of a good that an individual is willing to give up for some amount of another good.
Total Fixed Cost: The sum of all fixed costs in the production process.
Total Revenue: The price of a good times the quantity sold.
Total Utility: The total benefit or satisfaction a person gets from consuming goods.
Total Variable Cost: The sum of all variable costs in the production process at a certain level p.

If any errors are found, please contact me at alvin.lin.dev@gmail.com