



**Michigan Council
on Economic Education**

Glossary Terms by Benchmark

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Individual and Household Choices

Needs and Wants

People have different needs and wants that are influenced by their values, goals, lifestyle, and stage in life cycle.

[Goal](#)

[Life cycle](#)

[Lifestyle](#)

[Need](#)

[Value](#)

[Want](#)

Goods and Services

Goods and services satisfy our economic needs and wants. People's wants are unlimited.

[Complementary good](#)

[Durable good](#)

[Good](#)

[Nondurable good](#)

[Service](#)

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Production and Consumption

People acquire goods and services through production and consumption.

Consumer

Consumption

Employee

Interview

Producer

Production

Scarcity

Resources are used to produce the goods and services that satisfy wants. While resources are limited, we have unlimited wants. This scarcity encourages us to conserve resources.

Conservation

Nonrenewable
resources

Recycle

Reduce

Renewable resource

Resources

Scarcity

Decision Making

Through the decision making process, people consider the costs and benefits of alternatives. Steps in the process are:

- *Define the problem*
- *Gather information*
- *Explore Alternatives*
- *Make the Decision*
- *Take Action*
- *Evaluate Decision*

Alternatives

Benefit

Choice

Cost

Decision making

Opportunity cost

Trade-off

Income and Wealth

People earn income in exchange for work. How much a person earns depends on the job, a person's abilities, and their performance. Income is also received through gifts and the use of wealth.

Income

Interest

Rent

Salary

Tip

Wage

Wealth

Spending

People use shopping lists and budgets to plan how they will use income and wealth to achieve goals. They research purchases to maximize satisfaction.

Budget

Comparison shop

Deficit

Fixed expenses

Flexible expense

Impulse buying

Surplus

Transaction cost

Saving and Investing

Saving and investing are alternatives to spending.

Bond

Checking account

Compound interest

Invest

Risk

Save

Stock

Insurance

People protect income and wealth by sharing risk.

Insurance

Insured

Insurer

Credit

Credit lets people buy goods and services now with a promise to repay in the future. When deciding whether to lend money, a creditor considers the borrower's ability to repay the loan. The borrower's income, property, and past credit payment history will be examined.

Credit

Credit limit

Creditor

Debt

Debtor

Repossess

Business Choices

Business

Resources

The production of goods and the provision of services by businesses (and others) requires resources.

Capital resources

Human resources

Natural resources

Production and Distribution

Business activities are diverse and interdependent. Among the activities that bring goods and services to the ultimate consumer are the extraction of resources, manufacturing, packaging, transporting, storage, financing, promotion, provision of services and sales.

Distributor

Extractor

Financial institution

Intermediary

Inventory

Manufacturer

Packaging

Retailer

Wholesaler

Productivity

A business increases output through specialization, technology, and capital investments.

Capital investments

Division of labor

Economies of scale

Mass production

Productivity

Specialization

Technology

Business Organization

While some businesses organize the factors of production to earn a profit, others organize for nonprofit social and religious goals. The most common forms of for-profit businesses are: sole proprietorship, partnership, and corporation.

Corporation

Individual ownership

Nonprofit organization

Partnership

Profit

The goal of business is to achieve a profit.

Fixed cost

Profit

Revenue

Variable cost

Raising Capital

Starting a business and expanding it requires money. Owners can choose to use some of their profit or go outside the company by selling stocks and bonds.

Assets

Capital

Entrepreneur

Liabilities

Net worth

The Role of Government

Government provides the legal and social foundation required by a market economy. Specific roles of government in the United States are:

- *Provide public goods and services*
- *Establish legal and social frameworks*
- *Maintain competition*
- *Correct for externalities*
- *Redistribute income and wealth*
- *Promote economic growth and security*

Public Goods and Services

It is difficult to limit the use of some goods and services to just those who pay for them. Government steps in when businesses are unable or unwilling to provide those goods

and services.

Private good

Public good or service

Legal and Social Framework

Government institutions help the market economy work better. Laws and the judicial system protect consumers and producers by establishing property rights, creating fairness laws, enforcing contracts, and providing a means for conflict resolution.

Contract

Copyright

Discrimination

Equal Opportunity Programs

Labels

Labor Laws

Patent

Property Rights

Trademark

Regulation

Government tries to control the behavior of consumers, producers, and other entities through the creation and enforcement of regulation.

Grade

License

Price regulation

Ration

Regulation

Standards

Weights and measures

Fiscal Policy

Government uses spending and taxes to redistribute resources and influence behavior. To promote employment and economic growth, government can:

- *Reduce taxes which gives people extra money to spend*
- *Increase government spending on goods and services*

When inflation is a concern, government may increase taxes and decrease government spending.

Fee

Income tax

Lottery

Property tax

Sales tax

Tax

Competition

A perfectly competitive market has many buyers and sellers for identical products with no one player having control over price.

Competition

Industry

Monopoly

Public Utility

Externalities

The costs and benefits of market transactions sometimes "spill over" to a third party other than the direct consumer and producer. To correct for negative externalities, the government restricts activities and uses tax incentives. Subsidies are offered to encourage positive externalities.

Negative externality

Positive externality

Redistribute Income

To correct for some of the disparities created by a market system and for humanitarian reasons, public policies transfer resources from one group of people to another. Cash and noncash assistance programs are funded through higher taxes and higher prices.

Cash assistance

In-kind support

Poverty

Economic Growth and Security

The government builds roads, public education, and research to encourage economic growth. Government also tries to minimize unemployment and stabilize prices associated with the ups and downs of a market economy.

Consumer Price Index
(CPI)

Depression

Economic growth

Gross Domestic Product (GDP)

Inflation

Unemployment

Monetary Policy

The Federal Reserve System, a quasi-independent federal agency and the central bank of the United States, promotes economic growth and higher employment by reducing interest rates and increasing the money supply. Reversing these actions reduces spending and eventually, inflation. The FED includes the Board of Governors, the Federal Advisory Council, the Federal Open Market Committee, 12 Federal Reserve banks, 25 branches, and member banks.

Money Supply

Economic Systems

Like individuals, societies must decide how scarce resources will be allocated. Our choices involve tradeoffs.

- *What will be produced?*
- *How will it be produced?*
- *Who will benefit from the production?*

Market determined prices reward efficiency and higher levels of production.

Command economy

Economic system

Market economy

Mixed economy

Negative incentive

Positive incentive

Traditional economy

Markets

Market economies are directed by prices. As the price of an item goes up, sellers are encouraged to supply more and buyers are influenced to buy less. When the price falls, the opposite occurs. Sellers use both price and quality to attract buyers. Prices for different products are interrelated.

Demand

Market

Price

Quality

Supply

Marketing

Marketing brings buyers and sellers together. Sellers have a variety of ways they promote a product. On the positive side, these activities:

- provide information about prices, new goods, and features
- increase buyer demand which helps the economy
- helps create competition
- pay for magazines, newspapers, and television programs

On the negative side, marketing can:

- increase the price we pay for goods and services
- tempt us to buy things we don't need
- mislead buyers

Advertisement

Bandwagon

Brand name

Coupon

Discount

Display

Generic brand

Market research

Markup

Personal selling

Premium

Promotion

Slogan

Special sale

Rights and Responsibilities

Bargain

Caveat Emptor

Responsibility

Right

Warranty

Problem Resolution

Arbitrator

Boycott

Trade

Scarce resources are not equally available to all producers so producers specialize--

making goods and services most suited to their resources. People trade to get what they do not produce. They have a greater selection of goods and services to choose from, often at lower costs than would be available at home. Trade occurs between individuals, organizations, and nations.

Exchange

Barter

Interdependence

International Trade

Trade among nations encourages specialization which increases efficiency and world-wide production. Despite its advantages, nations sometimes create barriers to trade. Reasons given for the restrictions include protection of domestic jobs, national security, and promotion of new industries.

Export

Import

International trade

Quota

Tariff

Money

Money makes exchange easier. Different countries use different currencies.

Check

Coin

Credit card

Currency

Money supply

Demand

Market

Price

Quality

Supply

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