ability–to–pay principle (Chapter 12)
the idea that taxes should be levied on a person according to how well that person can shoulder the burden p. 258

absolute advantage (Chapter 3)
the comparison among producers of a good according to their productivity p. 57

accounting profit (Chapter 13)
total revenue minus total explicit cost p. 272

adverse selection (Chapter 22)
the tendency for the mix of unobserved attributes to become undesirable from the standpoint of an uninformed party p. 490

agent (Chapter 22)
a person who is performing an act for another person, called the *principal* p. 488

Arrow's impossibility theorem (Chapter 22)
a mathematical result showing that, under certain assumed conditions, there is no scheme for aggregating individual preferences into a valid set of social preferences p. 497

average fixed cost (Chapter 13)
fixed costs divided by the quantity of output p. 278

average revenue (Chapter 14)
total revenue divided by the quantity sold p. 293

average tax rate (Chapter 12)
total taxes paid divided by total income p. 256

average total cost (Chapter 13)
total cost divided by the quantity of output p. 278

average variable cost (Chapter 13)
variable costs divided by the quantity of output p. 278

benefits principle (Chapter 12)
the idea that people should pay taxes based on the benefits they receive from government services p. 258

budget constraint (Chapter 21)
the limit on the consumption bundles that a consumer can afford p. 460

budget deficit (Chapter 12)
an excess of government spending over government receipts p. 251

budget surplus (Chapter 12)
an excess of government receipts over government spending p. 251

business cycle (Chapter 1)
fluctuations in economic activity, such as employment and production p. 15

capital (Chapter 18)
the equipment and structures used to produce goods and services p. 408

cartel (Chapter 17)
a group of firms acting in unison p. 367

circular–flow diagram (Chapter 2)
a visual model of the economy that shows how dollars flow through markets among households and firms p. 24

Coase theorem (Chapter 10)
the proposition that if private parties can bargain without cost over the allocation of resources, they can solve the problem of externalities on their own p. 222

collusion (Chapter 17)
an agreement among firms in a market about quantities to produce or prices to charge p. 367

common resources (Chapter 11)
goods that are rival in consumption but not excludable p. 231

comparative advantage (Chapter 3)
the comparison among producers of a good according to their opportunity cost p. 58

compensating differential (Chapter 19)
a difference in wages that arises to offset the nonmonetary characteristics of different jobs p. 416

competitive market (Chapter 14)
a market in which there are many buyers and many sellers so that each has a negligible impact on the market price p. 70, 292

competitive market (Chapter 4)
a market in which there are many buyers and many sellers so that each has a negligible impact on the market price p. 70, 292

complements (Chapter 4)
two goods for which an increase in the price of one leads to a decrease in the demand for the other p. 75

Condorcet paradox (Chapter 22)
the failure of majority rule to produce transitive preferences for society p. 496

constant returns to scale (Chapter 13)
the property whereby long–run average total cost stays the same as the quantity of output changes p. 284

consumer surplus (Chapter 7)
a buyer's willingness to pay minus the amount the buyer actually pays p. 147

corrective taxes (Chapter 10)
taxes enacted to correct the effects of negative externalities p. 215

cost (Chapter 7)
the value of everything a seller must give up to produce a good p. 151

cost–benefit analysis (Chapter 11)
a study that compares the costs and benefits to society of providing a public good p. 235

cross–price elasticity of demand (Chapter 5)
a measure of how much the quantity demanded of one good responds to a change in the price of another good, computed as the percentage change in quantity demanded of the first good divided by the percentage change in the price of the second good p. 105

deadweight loss (Chapter 8)
the fall in total surplus that results from a market distortion, such as a tax p. 168

demand curve (Chapter 4)
a graph of the relationship between the price of a good and the quantity demanded p. 72

demand schedule (Chapter 4)
a table that shows the relationship between the price of a good and the quantity demanded p. 71

diminishing marginal product (Chapter 13)
the property whereby the marginal product of an input declines as the quantity of the input increases p. 275, 396

diminishing marginal product (Chapter 18)

the property whereby the marginal product of an input declines as the quantity of the input increases p. 275, 396

discrimination (Chapter 19)
the offering of different opportunities to similar individuals who differ only by race, ethnic group, sex, age, or other personal characteristics p. 423

diseconomies of scale (Chapter 13)
the property whereby long–run average total cost rises as the quantity of output increases p. 284

dominant strategy (Chapter 17)
a strategy that is best for a player in a game regardless of the strategies chosen by the other players p. 371

economic profit (Chapter 13)
total revenue minus total cost, including both explicit and implicit costs p. 272

economics (Chapter 1)
the study of how society manages its scarce resources p. 4

economies of scale (Chapter 13)
the property whereby long–run average total cost falls as the quantity of output increases p. 284

efficiency (Chapter 1)
the property of a resource allocation of maximizing the total surplus received by all members of society p. 5, 156

efficiency (Chapter 7)
the property of a resource allocation of maximizing the total surplus received by all members of society p. 5, 156

efficiency wages (Chapter 19)
above–equilibrium wages paid by firms in order to increase worker productivity p. 422

efficient scale (Chapter 13)
the quantity of output that minimizes average total cost p. 280

elasticity (Chapter 5)
a measure of the responsiveness of quantity demanded or quantity supplied to one of its determinants p. 96

equilibrium (Chapter 4)
a situation in which the price has reached the level where quantity supplied equals quantity

demanded p. 81

equilibrium price (Chapter 4)
the price that balances quantity supplied and quantity demanded p. 81

equilibrium quantity (Chapter 4)
the quantity supplied and the quantity demanded at the equilibrium price p. 81

equity (Chapter 7)
the fairness of the distribution of well–being among the members of society p. 5, 156

equity (Chapter 1)
the fairness of the distribution of well–being among the members of society p. 5, 156

excludability (Chapter 11)
the property of a good whereby a person can be prevented from using it p. 230

explicit costs (Chapter 13)
input costs that require an outlay of money by the firm p. 271

exports (Chapter 3)
goods and services produced domestically and sold abroad p. 62

externality (Chapter 1)
the uncompensated impact of one person's actions on the wellbeing of a bystander p. 13, 206

externality (Chapter 10)
the uncompensated impact of one person's actions on the wellbeing of a bystander p. 13, 206

factors of production (Chapter 18)
the inputs used to produce goods and services p. 394

fixed costs (Chapter 13)
costs that do not vary with the quantity of output produced p. 277

free rider (Chapter 11)
a person who receives the benefit of a good but avoids paying for it p. 232

game theory (Chapter 17)
the study of how people behave in strategic situations p. 365

Giffen good (Chapter 21)
a good for which an increase in the price raises the quantity demanded p. 464

horizontal equity (Chapter 12)
the idea that taxpayers with similar abilities to pay taxes should pay the same amount p.258

human capital (Chapter 19)
the accumulation of investments in people, such as education and on–the–job training p. 416

implicit costs (Chapter 13)
input costs that do not require an outlay of money by the firm p. 271

imports (Chapter 3)
goods and services produced abroad and sold domestically p. 62

in–kind transfers (Chapter 20)
transfers to the poor given in the form of goods and services rather than cash p. 441

incentive (Chapter 1)
something that induces a person to act p. 9

income effect (Chapter 21)
the change in consumption that results when a price change moves the consumer to a higher or lower indifference curve p. 470

income elasticity of demand (Chapter 5)
a measure of how much the quantity demanded of a good responds to a change in consumers' income, computed as the percentage change in quantity demanded divided by the percentage change in income p. 103

indifference curve (Chapter 21)
a curve that shows consumption bundles that give the consumer the same level of satisfaction p. 462

inferior good (Chapter 4)
a good for which, other things equal, an increase in income leads to a decrease in demand p. 74, 469

inferior good (Chapter 21)
a good for which, other things equal, an increase in income leads to a decrease in demand p. 74, 469

inflation (Chapter 1)
an increase in the overall level of prices in the economy p. 14

internalizing the externality (Chapter 10)
alter incentives so that people take account of the external effects of their actions p. 211

law of demand (Chapter 4)
the claim that, other things equal, the quantity demanded of a good falls when the price of the good rises p.71

law of supply (Chapter 4)
the claim that, other things equal, the quantity supplied of a good rises when the price of the good rises p. 78

law of supply and demand (Chapter 4)
the claim that the price of any good adjusts to bring the quantity supplied and the quantity demanded for that good into balance p. 83

liberalism (Chapter 20)
the political philosophy according to which the government should choose policies deemed to be just, as evaluated by an impartial observer behind a “veil of ignorance” p. 446

libertarianism (Chapter 20)
the political philosophy according to which the government should punish crimes and enforce voluntary agreements but not redistribute income p. 446

life cycle (Chapter 20)
the regular pattern of income variation over a person’s life p. 441

lump–sum tax (Chapter 12)
a tax that is the same amount for every person p. 257

macroeconomics (Chapter 2)
the study of economy–wide phenomena, including inflation, unemployment, and economic growth p. 29

marginal changes (Chapter 1)
small incremental adjustments to a plan of action p. 8

marginal cost (Chapter 13)
the increase in total cost that arises from an extra unit of production p. 279

marginal product (Chapter 13)
the increase in output that arises from an additional unit of input p. 273

marginal product of labour (Chapter 18)

the increase in the amount of output from an additional unit of labour p. 396

marginal rate of substitution (Chapter 21)
the rate at which a consumer is willing to trade one good for another p. 463

marginal revenue (Chapter 14)
the change in total revenue from an additional unit sold p. 294

marginal tax rate (Chapter 12)
the extra taxes paid on an additional dollar of income p. 256

market (Chapter 4)
a group of buyers and sellers of a particular good or service p. 70

market economy (Chapter 1)
an economy that allocates resources through the decentralized decisions of many firms and households as they interact in markets for goods and services p. 11

market failure (Chapter 1)
a situation in which a market left on its own fails to allocate resources efficiently p. 13

market power (Chapter 1)
the ability of a single economic actor (or small group of actors) to have a substantial influence on market prices p. 13

maximin criterion (Chapter 20)
the claim that the government should aim to maximize the well–being of the worst–off person in society p. 446

median voter theorem (Chapter 22)
a mathematical result showing that if voters are choosing a point along a line and each voter wants the point closest to his most preferred point, then majority rule will pick the most preferred point of the median voter p. 498

microeconomics (Chapter 2)
the study of how households and firms make decisions and how they interact in markets p. 29

monopolistic competition (Chapter 16)
a market structure in which many firms sell products that are similar but not identical p. 346

monopoly (Chapter 15)
a firm that is the sole seller of a product without close substitutes p. 314

moral hazard (Chapter 22)
the tendency of a person who is imperfectly monitored to engage in dishonest or otherwise undesirable behaviour p. 488

Nash equilibrium (Chapter 17)
a situation in which economic actors interacting with one another each choose their best strategy given the strategies that all the other actors have chosen p. 368

natural monopoly (Chapter 15)
a monopoly that arises because a single firm can supply a good or services to an entire market at a smaller cost than could two or more firms p. 316

negative income tax (Chapter 20)
a tax system that collects revenue from high–income households and gives transfers to low–income households p. 449

normal good (Chapter 21)
a good for which, other things equal, an increase in income leads to an increase in demand p. 74, 469

normal good (Chapter 4)
a good for which, other things equal, an increase in income leads to an increase in demand p. 74, 469

normative statements (Chapter 2)
claims that attempt to prescribe how the world should be p. 30

oligopoly (Chapter 16)
a market structure in which only a few sellers offer similar or identical products p. 346, 365

oligopoly (Chapter 17)
a market structure in which only a few sellers offer similar or identical products p. 346, 365

opportunity cost (Chapter 1)
whatever must be given up to obtain some item p. 7, 57

opportunity cost (Chapter 3)
whatever must be given up to obtain some item p. 7, 57

perfect complements (Chapter 21)
two goods with right–angle indifference curves p. 466

perfect substitutes (Chapter 21)

two goods with straight–line indifference curves p. 465

permanent income (Chapter 20)
a person’s normal income p. 442

positive statements (Chapter 2)
claims that attempt to describe the world as it is p. 30

poverty line (Chapter 20)
an absolute level of income set by the federal government for each family size, below which a family is deemed to be in poverty p. 439

poverty rate (Chapter 20)
the percentage of the population whose family income falls below an absolute level called the poverty line p. 439

price ceiling (Chapter 6)
a legal maximum on the price at which a good can be sold p. 120

price discrimination (Chapter 15)
the business practice of selling the same good at different prices to different customers p. 328

price elasticity of demand (Chapter 5)
a measure of how much the quantity demanded of a good responds to a change in the price of that good, computed as the percentage change in quantity demanded divided by the percentage change in price p. 96

price elasticity of supply (Chapter 5)
a measure of how much the quantity supplied of a good responds to a change in the price of that good, computed as the percentage change in quantity supplied divided by the percentage change in price p. 105

price floor (Chapter 6)
a legal minimum on the price at which a good can be sold p. 120

principal (Chapter 22)
a person for whom another person, called the agent, is performing some act p. 488

prisoners’ dilemma (Chapter 17)
a particular “game” between two captured prisoners that illustrates why cooperation is difficult to maintain even when it is mutually beneficial p. 370

private goods (Chapter 11)

goods that are both excludable and rival in consumption p. 230

producer surplus (Chapter 7)
the amount a seller is paid for a good minus the seller's cost p. 152

production function (Chapter 13)
the relationship between quantity of inputs used to make a good and the quantity of output of that good p. 273, 394

production function (Chapter 18)
the relationship between quantity of inputs used to make a good and the quantity of output of that good p. 273, 394

production possibilities frontier (Chapter 2)
a graph that shows the combinations of output that the economy can possibly produce given the available factors of production and the available production technology p. 26

productivity (Chapter 1)
the quantity of goods and services produced from each hour of a worker's time p. 14

profit (Chapter 13)
total revenue minus total cost p. 270

progressive tax (Chapter 12)
a tax for which high–income taxpayers pay a larger fraction of their income than do low–income taxpayers p. 259

property rights (Chapter 1)
the ability of an individual to own and exercise control over scarce resources p. 12

proportional tax (Chapter 12)
a tax for which high–income and low–income taxpayers pay the same fraction of income p. 259

public goods (Chapter 11)
goods that are neither excludable nor rival in consumption p. 230

quantity demanded (Chapter 4)
the amount of a good that buyers are willing and able to purchase p.77

quantity supplied (Chapter 4)
the amount of a good that sellers are willing and able to sell p. 77

rational people (Chapter 1)

people who systematically and purposefully do the best they can to achieve their objectives p. 8

regressive tax (Chapter 12)
a tax for which high–income taxpayers pay a smaller fraction of their income than do low–income taxpayers p. 259

rival in consumption (Chapter 11)
the property of a good whereby one person's use diminishes other people's use p. 230

scarcity (Chapter 1)
the limited nature of society's resources p. 4

screening (Chapter 22)
an action taken by an uninformed party to induce an informed party to reveal information p. 492

shortage (Chapter 4)
a situation in which quantity demanded is greater than quantity supplied p. 82

signaling (Chapter 22)
an action taken by an informed party to reveal private information to an uninformed party p. 490

strik (Chapter 19)
the organized withdrawal of labour from a firm by a union p. 422

substitutes (Chapter 4)
two goods for which an increase in the price of one leads to an increase in the demand for the other p.75

substitution effect (Chapter 21)
the change in consumption that results when a price change moves the consumer along a given indifference curve to a point with a new marginal rate of substitution p. 470

sunk cost (Chapter 14)
a cost that has already been committed and cannot be recovered p. 299

supply curve (Chapter 4)
a graph of the relationship between the price of a good and the quantity supplied p. 78

supply schedule (Chapter 4)
a table that shows the relationship between the price of a good and the quantity supplied p. 78

surplus (Chapter 4)
a situation in which quantity supplied is greater than quantity demanded p. 82

tariff (Chapter 9)
a tax on goods produced abroad and sold domestically p. 187

tax incidence (Chapter 6)
the manner in which the burden of a tax is shared among participants in a market p. 131

total cost (Chapter 13)
the market value of the inputs a firm uses in production p. 270

total revenue (Chapter 5)
(in a market) the amount paid by buyers and received by sellers of a good, computed as the price of the good times the quantity sold p. 99

total revenue (Chapter 13)
(for a firm) the amount a firm receives for the sale of its output p. 270

Tragedy of the Commons (Chapter 11)
a parable that illustrates why common resources get used more than is desirable from the standpoint of society as a whole p. 237

transaction costs (Chapter 10)
the costs that parties incur in the process of agreeing and following through on a bargain p. 223

union (Chapter 19)
a worker association that bargains with employers over wages and working conditions p. 422

utilitarianism (Chapter 20)
the political philosophy according to which the government should choose policies to maximize the total utility of everyone in society p. 444

utility (Chapter 20)
a measure of happiness or satisfaction p. 444

value of the marginal product (Chapter 18)
the marginal product of an input times the price of the output p. 397

variable costs (Chapter 13)
costs that vary with the quantity of output produced p. 277

vertical equity (Chapter 12)
the idea that taxpayers with a greater ability to pay taxes should pay larger amounts p. 258

welfare (Chapter 20)
government programs that supplement the incomes of the needy p. 448

welfare economics (Chapter 7)
the study of how the allocation of resources affects economic well–being p. 146

willingness to pay (Chapter 7)
the maximum amount that a buyer will pay for a good p. 146

world price (Chapter 9)
the price of a good that prevails in the world market for that good p. 183