

## Unit 2 Vocabulary

**Demand:** A schedule of how much consumers are willing and able to buy at all possible prices during some time period.

**Supply:** A schedule of how much producers are willing and able to sell at all possible prices during some time period.

**Market:** A setting where buyers and sellers establish prices for identical or very similar products, and exchange goods and/or services.

**Voluntary exchange:** the act of buyers and sellers freely and willingly engaging in market transactions

**Law of demand:** The principle that price and quantity demanded are inversely related.

**Quantity demand:** The amount of a product consumers will purchase at a specific price

**Real income effect:** the change in an individual's or economy's income and how that change will impact the quantity demanded of a good or service

**Substitutes:** Products that can replace one another such as butter and margarine.

**Complementary good:** Products that are used with one another such as hamburger and hamburger buns

**Elasticity:** the measurement of how responsive an economic variable is to a change in another

**Price of elasticity of demand:** measures the rate of response of quantity demanded due to a price change.

**Law of supply:** The principle that price and quantity supplied are directly related.

**Quantity supplied:** The amount of a product producers will produce and sell at a specific price.

**Law of diminishing returns:** used to refer to a point at which the level of profits or benefits gained is less than the amount of money or energy invested.

**Circular Flow of economic activity:** economic model that pictures income as flowing continuously between businesses and consumers

**Equilibrium price:** The market clearing price at which the quantity demanded by buyers equals the quantity supplied by sellers.

**Shortage:** The situation resulting when the quantity demanded exceeds the quantity supplied of a good or service, usually because the price is for some reason below the equilibrium price in the market.

**Surplus:** The situation resulting when the quantity supplied exceeds the quantity demanded of a good or service, usually because the price is for some reason below the equilibrium price in the market.

**Price ceiling:** a government-imposed price control or limit on how high a price is charged for a product

**Rationing:** allow each person to have only a fixed amount of (a particular commodity).

**Black market:** an illegal traffic or trade in officially controlled or scarce commodities.

**Price floor:** the lowest price that a government allows a good to be sold for