



INDEX

- absolute advantage 37–8, 135
- AC *see* average costs
- ACEA *see* European Automobile Manufacturers Association
- acquisition 234
- active labour market policies 315
- advantages of single European currency 277
- advertising 215, 226
- Aer Lingus 235
- AFC *see* average fixed costs
- aggregate consumer behaviour 103–7
- aggregate demand 172–5
- aggregate economic activity 170–71
- aggregate expenditure 172–3
- aggregate supply 171, 175–7, 269
- Airbus 205–6, 233
- alliance of economic perspectives 27–9
- allocation of resources 187
- ALPS *see* active labour market policies
- alternative targets for monetary policy 270–72
 - fixed and floating exchange rates 270–72
 - Taylor rules and economic judgement 272
- analysis of unemployment 291–3
 - classical approach 291–2
 - Keynesian approach 292–3
- analytical tools 138
- anti-competitive practices 17, 226, 315
- anti-pollution systems 52
- anticipated inflation 304–5
- antitrust 231
- applications of elasticity analysis 98–9
- appreciation 255, 258
- arbitrage 259–60, 277
- arc price elasticity 96
- artificial scarcity 17
- Asian Tiger 330, 337
- assembled knowledge 58–9
- assumption of rationality in economics 83–4
- ATC *see* average total cost
- attribute combination 102
- attribute model 101–3
- Austrian perspectives on competition 221–3
- Austrian School of Economics 200, 204
- automatic stabilizers 188
- autonomous consumption 104, 178–9
- autonomous investment 143
- average costs 125–31
 - explaining U-shaped cost curves 126–31
 - and profit maximization 133
- average fixed costs 123–4
- average output 120–23
- average product of labour 121
- average relationships 122–3
- average total cost 125
- BA *see* British Airways
- backward bending 71
- balance of payments 275, 305
- Bank of England 266
- Bank for International Settlements 259
- banking system 244
- bankruptcy 202, 235, 264
- banning smoking 109
- bargaining power 309, 313
- barriers to entry 135, 199, 315
- basket of goods 172
- benchmark 209
- benefits of competition 232
- benefits of international trade 184–6
- benefits of monopoly 213
- best practice 314, 325
- beyond demand 77–112
 - aggregate consumer behaviour 103–7

- beyond demand (*continued*)
 - consumer choice and product attributes 101–3
 - consumer satisfaction – utility 81–4
 - consumers’ response to price changes 93–100
 - demand, consumers and consumer surplus 90–92
 - demand and the importance of consumers 78–81
 - government policies – consumer focus 107–9
 - introduction 77–8
 - marginal utility, prices and law of demand 84–90
 - see also* consumers; demand
- beyond supply 113–54
 - firms in economic action 114–15
 - firms’ investment behaviour 142–4
 - government influence on supply and production 144–50
 - introduction 113–14
 - maximizing profits in the long run 131–8
 - organizing economic system around firms 115–31
 - producers’ response to price changes 140–42
 - supply, producers and producer supply 139
 - see also* firms; supply
- bid down price 212
- Big Mac Index 4
- black market 152
- BMW 49
- Boeing 205–6, 233
- bond rankings 265
- bonds 263–8, 304
 - inflation and interest rates 266–8
- boom 160, 273, 298, 306
- borrowing 105–6
- bounded rationality 84
- brand loyalty 212, 214–15
- breakfast cereals 101–3
- bringing AD and AS together 177–8
- British Airways 235
- broadband 348–9
- budget deficit 189, 276
- budget line 87, 89
- business cycle 158–65
 - explanations/causes of business cycles 161–4
 - implications for business and government 165
 - and real output 158–65
- business uncertainty 305
- buyers’ income 43–4
- Cambridge School of Economics 14
- capital 23, 303, 334–5, 344–5
- capital deepening 342
- capital goods 23–4
- capital intensity 191
- capital requirement 212
- capital resources 27
- capital stock investment 335–6
- capital widening 342
- cartel 216, 301
- cash market 261
- caste system 5
- Caterpillar tractors 185
- causes of business cycles 161–4
- causes of change in exchange rates 258–60
- causes of differences in natural unemployment rate 312–14
- Celtic Tiger 330
- central bank independence 255, 268
- central banks 162, 242–5
 - money multiplier 244–5
- central planning 61
- centralized decision-making 20–22
- ceteris paribus* assumption 8–9, 13, 42–4, 160, 331
- CFC gases 147
- challenges for car producers 130

- challenges for the economic system
 - 283–320
 - cross-country differences 314–17
 - inflation 296–305
 - introduction 283–4
 - linking unemployment and inflation 306–314
 - unemployment 284–96
- Chamberlin, Edward 213
- change 223
- changes in equilibrium 55
- changes in influences on demand 45–6
- changes in labour input 341–3
- changes in technology 343–4
- chlorofluorocarbons 147
- Chrysler 130
- circular flow 156–8
- classical approach to unemployment
 - analysis 291–2
- classification of dangerous substances 52
- Clayton Act 1914 231
- co-operative equilibrium 221
- Coca-Cola 90, 234
- Coke *see* Coca-Cola
- collective wage-bargaining 290–91, 315
- collusion 216–19, 301
- comfort products 45
- commodity 182–3
- Common Agricultural Policy 57
- comparative advantage 39
- comparative measures of economic activity 168
- competition 134, 197–238
 - alternative models of competition and market structure 204–221
 - Austrian and traditional perspectives: a comparison 221–3
 - benefits of 232
 - in the economic system 198–204
 - government regulation of competition 226–35
 - introduction 197–8
 - when markets fail 223–6
- competition policy 230–35
 - implementation of 232–5
 - principles 231–2
- competition spectrum 229
- competitiveness 28, 276
- complements 42–3, 51
- components of real output 165–70
 - other measures of economic activity 167–8
- computation of multiplier 179
- concentration ratio 205
- conclusions from the Solow model 345–7
- congestion charge 43
- consideration of the euro 274–8
- constant returns to scale 129
- constraints 116
- consumer choice 101–3
- consumer confidence 17, 44–5
- consumer focus 107–9
- consumer preferences 90
- consumer price index 299–300
- consumer response to price changes 93–100
 - applications of elasticity analysis 98–9
 - other elasticity examples 99–100
 - price elasticity of demand 94–8
- consumer satisfaction 81–4
 - assumption of rationality in economics 83–4
- consumer surplus 90–92, 289
- consumer theory 15
- consumer welfare 92
- consumers 77–112
 - aggregate consumer behaviour 103–7
 - choice and product attributes 101–3
 - consumer surplus and consumer welfare 92
 - demand and consumer surplus 90–92
 - demand and importance of 78–81
 - as focus of government policies 107–9
 - marginal utility 84–90
 - response to price changes 93–100
 - and utility 81–4
- consumption function 104, 107, 108

- consumption goods 77, 79–81
- consumption smoothing 261–2
- containerization 183
- contestable market 202
- contracting out 49
- convergence 337, 354, 355
- convertible bond 264
- copyright 153
- cost disadvantage 212
- cost-push inflation 296–7, 308
- costs of firm 123–5
- costs of inflation 304–5
- costs of international trade 184–6
- costs of unemployment 285–96
- countercyclical fiscal policy 188
- CPI *see* consumer price index
- CR *see* concentration ratio
- creative destruction 164, 236
- credit cards 240–42
- cross-country differences:
 - unemployment and inflation 314–17
 - employment legislation 316–17
- cross-price elasticity 100
- currency stability 273, 276
- cyclical unemployment 287
- cyclically adjusted budget 189

- Daimler 130
- deadweight loss 211, 225
- dealing with AS and AD shocks 187
- debt 303
- debt financing 264
- decentralized decision-making 61–2
- decision-making 16–22, 61–2, 70–71, 116–17, 253–5
- decisions of firms 116–17
- decline in trade barriers 182
- deflation 171, 299
- demand 35–76, 78–81, 90–92
 - consumers and consumer surplus 90–92
 - in the foreign exchange market 256
 - and importance of consumers 78–81
 - non-price determinants of demand 42–6
 - see also* beyond demand; law of demand
 - demand for balances 246–7
 - demand for bonds 265
 - demand for credit 304
 - demand curve 40–41, 46
 - demand for money 246–7
 - demand schedule 41, 46
 - demand shock 188
 - demand-deficient unemployment 292
 - demand-pull inflation 296–7
 - demography 339
 - dependency ratio 327–31
 - depreciation 142–3, 169, 255, 271, 335–6
 - depression 80
 - description of economic relationships 9–14
 - determinants of demand
 - non-price 42–6
 - determination of exchange rate 257–8
 - devaluation 271, 276
 - development of the economic system 321–60
 - economic growth over time 331–2
 - income distribution 349–56
 - introduction 322
 - living standards and labour productivity relationships 322–31
 - modelling economic growth: Solow growth model 333–49
 - differentiated product 199
 - diminishing returns 127, 215, 348
 - direct competition 233
 - direct taxes 169
 - dis-saving 105–6
 - discouraged workers 284
 - discovery 201–4
 - diseconomies of scale 127, 130
 - disequilibrium 72, 311
 - disposable income 43, 44
 - distortion 146
 - dominant strategy 217–18
 - domino effect 178

- Dr Pepper 234
- durable consumption goods 43, 79
- dynamic efficiency 26–7
- easyJet 130, 233
- ECB *see* European Central Bank
- economic action 114–15
- economic activity 155–96
 - another perspective on 190–92
 - and the circular flow 156–8
 - equilibrium economic activity 170–78
 - equilibrium economic activity and the multiplier 178–81
 - government activity 187–92
 - international integration 181–7
 - real output and the business cycle 158–65
 - real output and its components 165–70
 - see also* macroeconomy
- economic analysis 7, 138
- economic approach 6–9
- economic efficiency 3
- economic fundamentals 260–61
- economic growth 3, 330
- economic growth over time 331–2
- economic judgement 272
- economic and monetary union 275
- economic perspectives 27–9
- economic profit 46–8
 - see also* normal profit
- economic relationships 9–14
- economic resources and markets 2–6
- economic shock 161, 270, 273, 316
- economic system 1–34
 - alliance of economic perspectives 27–9
 - competition in 197–238
 - describing and interpreting economic relationships 9–14
 - economic resources and markets 2–6
 - economics approach: theory-based analysis 6–9
 - introducing the economic system 1–2
 - microeconomics and macroeconomics 14–18
 - positive/normative economics 29–30
 - resource scarcity and prices in the economic system 18–22
 - resource use, opportunity costs and efficiency 22–7
- economic theory 7
- economies of scale 127, 210–213
- economies of scope 215
- economy as a production function 190–92
- effects of inflation on income distribution 305
- effects on production of environmental taxes 147–8
- efficiency 2–3, 22–7, 133–6, 198
- efficiency wage 290
- efficient production 24
- elastic PED 96–7
- elasticity *see* price elasticity of demand
- elasticity analysis 98–9
- elderly dependency ratios 329
- employment legislation 316–17
- EMU *see* economic and monetary union
- End of Life Vehicles* EU directive 50, 52, 74
- endogenous growth 347–9
- Enron 17
- entrepreneurship 23, 201–4, 350
- environmental taxes 147–8
- equilibrium 55, 63, 71–2
 - in the labour market 71–2
- equilibrium economic activity 170–81
 - aggregate demand 172–5
 - aggregate supply 175–7
 - bringing AD and AS together: the short run 177–8
 - and the multiplier 178–81
 - price level 171–2
- equilibrium price 53–5, 91
- equity financing 264
- ERM *see* exchange rate mechanism
- euro 255–9, 274–8
 - how it scores under the four OCA factors 277–8

- European Automobile Manufacturers Association 74
- European car industry 111–12
- European Central Bank 179, 242, 250–51, 258, 271, 277
- European Monetary Union 189
- evidence on convergence 354
- ex-ante* real interest rate 253–4
- ex-post* real interest rate 253–4
- exchange 36–40, 240–41
 - and money 240–41
- exchange rate 255–60, 270–72
 - causes of changes in 258–60
 - determination 257–8
- exchange rate mechanism 275
- expansionary fiscal policy 188
- expectations of inflation 253–5
- expectations-augmented Phillips curve 306–7
- expectations-generated inflation 308
- expected future prices 44, 51
- expenditure approach 165
- expenditure categories 156
- experience curve effect 212
- experience goods 225
- explaining U-shaped cost curves 126–31
- explanation of business cycles 161–4
- explanation of growth 344–5
- explanation of international productivity differences 346
- explanation of international trade growth 182–4
- extent of competition in the economy 198–204
 - competition as a process 199–201
 - entrepreneurship, discovery and market process 201–4
- externalities 147, 224

- factor earnings 169
- factors of production 2, 48–50
- fallacy of composition 106, 186
- Federal Reserve 242, 250, 258, 272
- female participation in the workforce 316
- fertility rate 329
- fiat money 241
- final goods 168
- Finance Act 2001 108
- financial markets 239–82
 - foreign exchange market 255–60
 - international monetary integration 272–8
 - introduction 239–40
 - liquidity, central banks and money supply 242–5
 - monetary policy 268–72
 - money demand 246–7
 - money and exchange 240–41
 - money market: demand and supply 247–51
 - quantity theory of money and explaining inflation 251–5
 - speculation in markets 260–68
- firm output 120–23
 - see also* product
- firms 113–54
 - in economic action 114–15
 - government influence on supply and production 144–50
 - investment behaviour 142–4
 - maximizing profits in the long run 131–8
 - organizing economic system around 115–31
 - producers' response to price changes 140–42
 - supply, producers and producer surplus 139
- first-mover advantage 136
- fiscal drag 305
- fiscal policy 188, 298
- Fisher equation 254
- fixed costs 123–4
- fixed exchange rates 270–72
- fixed factors of production 116
- floating exchange rates 270–72
- floor prices 141
- food labelling 52, 226

- foreign bond 264
- foreign exchange market 158, 255–60
causes of changes in exchange rates 258–60
demand in 256
exchange rate determination 257–8
supply in 256–7
- fractional reserve system 244
- Franklin, Benjamin 164
- free entry 202
- free-market outcome 35
- free-market system 61–2, 204, 289
- free-rider problem 22
- frictional unemployment 286–7, 291, 308
- Friedman, Milton 306
- full employment output 272
- full-time workers 316
- functions of money 240–41
- futures market 261
- game of chance 222
- game theory 217–20
- gas emissions 147
- GDP deflator 300
- General Agreement on Tariffs and Trade 186, 354
- golden rule level of capital 340–41
- government activity 187–92
economy as a production function 190–92
- government contribution to inflation 303–4
see also inflation
- government effect on prices 56–8
price ceiling 56–7
price floor 57
problems of price ceilings and floors 57–8
- government expenditure 115
- government influence on supply and production 144–50
- government policies 107–9
- government regulation of competition 226–35
competition policy 230–35
competition spectrum 229
structure, conduct and performance 229–30
- government regulations 52, 204
- Great Depression 80–81, 164
- Greenspan, Alan 250
- grey imports 152–3
- grey market for cars 152–3
- Groningen Growth and Development Centre 193
- gross domestic product 166–70
what it does not measure 169–70
- gross national income 43, 166
- gross national product 168–70
what it does not measure 169–70
- growth accounting 344
- growth differential 258–9
- growth of the economic system 3, 321–60
- haggling 62
- hard investment 336
- Harmonized Index of Consumer Prices 193
- Hayek, Friedrich August von 60–61, 75, 200, 223, 230
- hazardous waste 74
- HDI *see* human development index
- health and safety standards 226
- Herfindahl Index 205
- Hitler, Adolf 81
- horizontal equity 351
- household saving rates 338–40
- how euro scores under the four OCA factors 277–8
- human capital 24, 296, 348
- human development index 324
- Iberia Airlines 235
- IBM 222
- idiosyncratic knowledge 59
- idle balances 246–7

- illegal accounting methods 17
- ILO *see* International Labour Organization
- imperfect competition 205
- implementation of competition policy 232–5
- implications of business cycles 165
- implications of change in influence on demand 45–6
- implications of market failure 225–6
- implicit collusion 216–17
- importance of consumers 78–81
 - consumption goods 79–81
- incentive 21, 39, 51, 142, 355
- income 168–70
- income distribution 105, 305, 321–60
 - intra-country 351–6
 - welfare perspective 349–51
- income effect 42, 87–90
- income elasticity of demand 99–100
- income injection 158, 298
- income method of measuring economic activity 167–8
- increased quality of labour 27
- increased quantity of labour 26
- increasing opportunity costs of production 25
- independence of central banks 255, 268
- index numbers 10
- indifference curve 87–8
- indirect competition 233
- indirect taxes 169
- individual supply decision 70–71
- indivisibilities in production 128
- industry labour demand curve 64
- inelastic PED 96
- inelastic PES 140
- inferior good 89, 99
- inflation 171, 251–5, 266–72, 276, 283–320
 - bonds and interest rates 266–8
 - costs of anticipated and unanticipated inflation 304–5
 - cross-country differences:
 - unemployment and 314–17
 - governments' contribution to inflation 303–4
 - inflation expectations, interest rates and decision-making 253–5
 - inflationary gap 297–9
 - linking unemployment and 306–314
 - measurement of 296–7
 - trends in international price levels 299–303
 - see also* challenges for the economic system
- inflation differential 258–9
- inflation expectations 253–5, 304
- inflationary gap 297–9
- influences on demand 45–6
- influences on supply and production 144–50
 - environmental taxes 147–8
 - international trade 145–7
 - tax incidence 149–50
 - using subsidies 145–7
- information 58–62
 - decentralized decision-making 61–2
- information asymmetries 223–6
- innovation 21, 163, 198–200
- innovation incentives 21
- input *see* labour input
- insider–outsider model 303
- intellectual property 153
- intention 40
- interest rate differential 258
- interest rate effect 174–5
- interest rates 248–51, 253–5, 266–8, 276, 304
 - bonds and inflation 266–8
 - and decision-making 253–5
- intermediate goods 168
- international business cycle 159
 - see also* business cycle
- international competitiveness 305
- international dependency ratios 328
- international inflation rates 300

- international integration 181–7
 - benefits and costs of international trade 184–7
 - explaining growing international trade 182–4
 - see also* international trade
- International Labour Organization 285
- international monetary integration 272–8
 - considering the euro 274–8
- international price level trends 299–303
- international trade 145–7, 181–7
 - benefits and costs 184–7
 - explaining growing international trade 182–4
- international trade effect 175
- interpretation of economic relationships 9–14
- intervention 226
- intra-country income distribution 351–6
 - evidence on convergence 354
 - trade and development 354–6
- introduction to the economic system 1–2
- inventory 45, 142–3, 202
- inventory investment 79
- investment behaviour of firms 142–4
- investment in bond markets 263–6
- investment function 143–4
- ‘invisible hand’ concept 60
 - see also* Smith, Adam
- Iranian Revolution 302
- Irish Special Savings Investment Accounts 108
- irrational exuberance 250

- Keynes, John Maynard 164, 292
- Keynesian approach to unemployment
 - analysis 292–3, 298
- knowledge 58–62, 201–2, 221–3, 230
 - see also* information
- Kyoto Protocol 147

- labour demand 64–70
- labour input 325, 341–5
- labour laws 165
- labour market 64–72, 289–90
 - equilibrium in the labour market 71–2
 - labour demand 64–70
 - labour supply 70–71
- labour market analysis 286–91
- labour market flexibility 316
- labour output *see* output
- labour productivity 21, 322–31, 333, 347
 - dependency ratio 327–31
 - see also* living standards
- labour supply 70–71
- lack of stability effects 305
- law of demand 84–90
 - income and substitution effects 87–90
 - see also* beyond demand; demand
- law of diminishing returns 66–7
- leakage 158, 180
- lean production 144
- legal protection 213
- liberalization 228
- licensing 204
- linking unemployment and inflation 306–314
 - causes of differences in natural unemployment rates 312–14
 - model explaining natural unemployment rate 309–312
- liquidity 242–7
- living standards 31, 322–31, 350
 - definition 3
 - dependency ratio 327–31
 - see also* labour productivity
- loan term 248–9
- lobby groups 144, 317
- logistics 184
- London ForEx 260
- long run 116–17
- long-run aggregate supply 176–7
- long-run aggregate supply curve 176–7
- long-run average cost 129
- long-run average cost curve 131, 208, 214
- long-run equilibrium 208–9
- loss of purchasing power 305
- LRAC *see* long-run average cost

- LRAS *see* long-run aggregate supply
 lumpy investment 162
- macroeconomic consumption behaviour 103–7
 macroeconomics 14–18
 environment for economic decisions 16–18
 macroeconomy 155–96, 310
 economic activity and the circular flow 156–8
 equilibrium economic activity 170–78
 equilibrium economic activity and the multiplier 178–81
 government activity 187–92
 international integration 181–7
 introduction 155–6
 real output and the business cycle 158–65
 real output and its components 165–70
 see also economic activity
 maintenance of brand loyalty in monopolistic competition 215
 margin-setting curve 310, 312
 marginal analysis 117
 marginal costs 25–6, 69, 125–31
 explaining U-shaped cost curves 126–31
 marginal output 120–23
 marginal product of capital 344
 marginal product of labour 65, 121, 345
 marginal propensity to consume 104–5, 108
 marginal rate of substitution 88
 marginal relationships 122–3
 marginal revenue 118–19
 product of labour 67, 69
 marginal revenue function 118–19
 marginal utility 82–90
 income and substitution effects 87–90
 mark-up 309
 market abuse 235
 market analysis 35–76
 demand 40–46
 equilibrium 63
 exchange 36–40
 government affecting prices 56–8
 information and knowledge in the market system 58–62
 introduction 35–6
 market interaction 52–5
 market labour 64–72
 supply 46–52
 market clearing price 52
 market concentration 204
 market economy 62
 market failure 22, 223–6
 implications of market failure 225–6
 why markets fail 223–5
 market failure implications 225–6
 market failure types 223–5
 externalities 224
 information asymmetries 224–5
 monopoly power 224
 natural monopoly 224
 public goods 223–4
 market interaction 52–5
 changes in equilibrium 55
 market power 204
 market process 201–4
 market structure 204–221
 markets 2–6, 204
 Marshall, Alfred 13–14
 maximization of profits in the long run 131–8
 maximizing profits over the short run 137–8
 profit maximization, normal profit and efficiency 133–6
 maximization of profits in the short run 137–8
 economic analysis 138
 MC *see* marginal costs
 measures of economic activity 167–70
 GNP, GDP and income 168–70
 menu costs 305
 MES *see* minimum efficient scale

- microeconomics 14–18, 356
 - environment for economic decisions 16–18
- Microsoft 222
- millennium development goals (UN) 354
- minimum efficient scale 129
- minimum wage 287–91
- mismatch 314
- Mitchell, B.R. 299
- model explaining natural unemployment rate 309–312
- modelling economic growth 333–49
 - conclusions from the Solow model 345–7
 - endogenous growth 347–9
 - explaining growth: labour, capital and technology 344–5
 - more on savings 337–41
 - Solow model and changes in labour input 341–3
 - Solow model and changes in technology 343–4
- models of competition and market structure 204–221
 - monopolistic competition 213–15
 - monopoly 209–211
 - oligopoly 215–21
 - perfect competition 206–9
 - perfect competition vs. monopoly 211–13
- monetary policy 242, 268–72
 - alternative targets 270–72
 - difficulties in targeting money supply 269–70
 - Taylor rules and economic judgement 272
- Monetary Policy Committee 271
- money 239–82
 - demand 246–7
 - and exchange 240–41
 - international monetary integration 272–8
 - liquidity, central banks and money supply 242–5
 - market: demand and supply 247–51
 - monetary policy 268–72
 - quantity theory of money and explaining inflation 251–5
 - see also* financial markets
 - money demand 246–51
 - money market 247–51
 - nominal and real interest rates 249–51
 - which interest rate 248–9
 - money multiplier 244–5
 - money supply 242–5, 247–51
 - monopolistic competition 213–15
 - maintaining and enhancing brand loyalty 215
 - monopoly 209–211
 - benefits 213
 - vs. perfect competition 211–13
 - monopoly power 224
 - Moody's 265
 - mortgages 248–9
 - MPC *see* marginal propensity to consume
 - MPPL *see* marginal physical product of labour
 - MR *see* marginal revenue
 - MSC *see* margin-setting curve
 - multiplier 178–81
 - municipal bond 264
- NAIRU *see* non-accelerating inflation rate of unemployment
- nanny state 109
- Nash equilibrium 219, 237
- Nash, John 219
- National Association of Software and Service Companies 184
- national exchange rates 15–16
- national income 78, 162
- national output 78, 299
- National Socialist Workers Party 81
- national statistics 171
- natural monopoly 210, 224

- natural rate of unemployment 286–7,
306–314
causes of differences in 312–14
explanatory model 309–312
neoclassical growth model 333
see also Solow growth model
net exports 115, 175
net investment 143
neuromarketing 90
new growth model 347
NGOs *see* non-governmental organizations
Nissan 130
nominal amounts 11
nominal inflation 249
nominal interest rates 249–51
non-accelerating inflation rate of
unemployment 286
non-durable goods 79, 81
non-governmental organizations 350
non-price competition 215
non-price determinants of demand 42–6
buyers' income 43–4
complements and substitutes 42–3
consumer confidence 44–5
expected future prices 44
implications of changes in influences on
demand 45–6
population 44
preferences 44
price of related goods/services 42–3
non-unionized workers 303, 309
normal good 89, 99
normal profit 48, 133–6
see also economic profit
normative economics 29–30
see also positive economics
number of suppliers 51
- OCA *see* optimal currency area
OECD *see* Organization for Economic
Cooperation and Development
offshore outsourcing 184–5
offshoring *see* offshore outsourcing
oil prices 42, 162, 301–2, 324
and inflation 301–2
oligopoly 215–21
and game theory 217–19
Prisoner's Dilemma 219–21
OPEC *see* Organization of Petroleum
Exporting Countries
open-market operation 243, 247, 303–4
opportunity costs 18, 22–7, 37–9, 47, 86
opposition 223
optimal currency area 273
optimal form of organization 61–2
Organization for Economic Cooperation
and Development 3, 32, 216, 301,
316, 329, 337
organization of economic system around
firms 115–31
firm costs 123–5
firm output 120–23
firm revenue 117–20
firms' decisions and role of time
116–17
marginal and average costs 125–31
marginal and average output 120–23
product 120–23
Organization of Petroleum Exporting
Countries 142
output 120–23, 158–70
output gap 160
outsourcing 49, 314
overproduction 141
overspending 303
ownership rights 203–4
- paradox of thrift 106
parallel imports 152–3
Parmalat 17
part-time workers 316, 343
patents 135, 153, 203
patterns in real output 159
PED *see* price elasticity of demand
Penn World Table 31, 79
Pepsi 90, 234
perfect competition 204–9, 222
long-run equilibrium 208–9

- short-run equilibrium 207–8
- vs. monopoly 211–13
- perfect elasticity 141
- perfect inelasticity 141
- persistent economic growth 347
- perspectives on competition compared 221–3
- PES *see* price elasticity of supply
- Phelps, Edmund 306
- Phillips curve 306–8
- Phillips, William 306
- physical capital 348
- political economy 5
- pollution 52, 147, 170
- population 44, 351
- positive economics 29–30
 - see also* normative economics
- potential output 160, 175–6
- poverty trap 326
- PPF *see* production possibility frontier
- preferences 44, 105
 - see also* consumer preferences
- present value 266–8
- price cap *see* price ceiling
- price ceiling 56–7, 142, 289
 - problems of 57–8
- price changes 93–100, 140–42
- price changes and consumer response 93–100
- price elasticity of demand 94–8
 - cross-price elasticity 100
 - income elasticity 99–100
 - other examples 99–100
 - some special cases 98
 - and total revenue 96–8
- price elasticity of supply 140, 142
- price fixing 17
- price floor 57–8
- price leadership 216–17
- price level 171–2
- price of production factors 48–50
- price and quantity effects 11, 14
- price ratios 85–6
- price of related goods/services 42–3, 51
- price sensitivity 93–4, 98–9, 302
- price-cost margin 309
- prices 18–22, 84–90
 - using resources and centralized decision-making 20–22
- principles of competition policy 231–2
- Prisoner's Dilemma 219–21
- private property rights 61
- privatization 228
- pro-competitive practices 315
- problems of price ceilings and floors 57–8
- process of competition 199–201
- process of economic analysis 7
- producer response to price change 140–42
- producer surplus 139
- producers 139
- product 120–23
 - see also* firm output
- product attributes 101–3
 - attribute model 101–3
- product differentiation 101, 135
- production function 190–92, 334, 348
- production possibility frontier 23–7, 348
- productivity advantage 38
- profit margin 309
- profit maximization in the long run 131–8
 - normal profit and efficiency 133–6
- profit maximization, normal profit and efficiency 133–6
- profit maximization in the short run 137–8
 - economic analysis 138
- profitability 290
- property bubble 250
- property rights 349
- psychology 45
- public debt 276
- public goods 21–2, 187, 223–6
- public interest 27
- public sector employment 108–9
- purchasing power parity 3–4, 41–2
 - adjustment 3

- quantity theory of money 251–5, 304
 inflation expectations, interest rates and
 decision-making 253–5
 quasi-fixing 271
 quota 182, 187
- R&D *see* research and development
 rankings of bonds 265
 rationality in economics 83–4
 real amounts 11
 real business cycle 162
 see also business cycle
 real business cycle theory 162–3
 real economic activity 166
 real interest rates 249–51
 real output 158–70
 and the business cycle 158–65
 and its components 165–70
 patterns in 159
 real wage-setting curve 310, 313
 real wealth effect 174
 realignment 275
 the real thing 153
 reasons for inflation 301
 recession 80, 160, 176, 273, 287
 recessionary gap 293–5
 redistribution effect 225
 redundancy 316
 registered design rights 153
 regulation of competition 226–35
 regulatory capture 227
 related goods/services price 42–3, 51
 relative price 86
 Renault 130
 required reserve ratio 244
 research and development 213, 349
 reservation wage 70
 reserve ratio 244
 reskilling 315
 resource scarcity 18–22
 using resources and centralized
 decision-making 20–22
 resources 18–22, 187, 297
 restrictions 199
- restructuring 49, 235
 returns to large-scale production 128
 revenue of firm 117–20
 revenue maximization 118
 risk 249
 robotics 49, 124
 robustness 236
 role of time 116–17
 Rover 49
 RWS curve *see* real wage-setting curve
 Ryanair 130, 233
- Sabena 235
 savings 337–41
 savings axis 105
 savings function 106
 scale economies 136
 scale of world poverty 354
 Schumpeter, Joseph 136, 163–4, 200, 203,
 213
 scientific knowledge 58
 SCP paradigm *see* structure, conduct,
 performance paradigm
 SEA *see* Single European Act
 seasonal unemployment 287
 self-sufficiency 38
 Sen, Amartya 354
 services 79, 81
 Sherman Act 1890 231
 shoe-leather costs 305
 short run 116–17
 short-run average cost curve 130–31
 short-run average total costs 137–8
 short-run equilibrium 207–8
 short-term fluctuation 156, 170
 shortage 53
 Single European Act 274
 Smith, Adam 3, 20, 60, 128, 184, 203
 soft investment 336
 Solow growth model 333–49, 356
 and changes in labour input 341–3
 and changes in technology 343–4
 conclusions from 345–7
 endogenous growth 347–9

- explaining growth: labour, capital and technology 344–5
- more on savings 337–41
- Solow residual 345
- Solow, Robert 333
- spare capacity 176
- special cases of price elasticity of demand 98
- special savings accounts 108
- specialization 128, 203
- spectrum of competition 229
- speculation 246, 258–68, 277
 - bonds, inflation and interest rates 266–8
 - investment in bond markets 263–6
- sports utility vehicle 45–6, 51, 55
- spot market 261
- SRAC *see* short-run average cost curve
- stabilization policy 187–8
- Standard & Poor's 265
- standardized product 199
- standardized unemployment rate 285
- Starbucks 4
- start-ups 27
- static efficiency 26
- steady state 335–7, 347
- sticky wages 292, 294, 298, 302, 308
- structural unemployment 286–7, 308
- structure, conduct, performance paradigm 229–30
- subsidies 144–7, 234–5, 355
- subsidizing 145, 349, 355
- substitutes 41–3, 51, 175, 233
- substitution effect 41, 87–90
- summary of market characteristics 220–21
- sunspot theory 164
- supernormal profit 48, 133–6, 207–211, 214
- supplier number 51
- supply 35–76, 139
 - expected future prices 51
 - in the foreign exchange market 256–7
 - government regulations 52
 - number of suppliers 51
 - prices of factors of production 48–50
 - prices of related goods 51
 - producers and producer surplus 139
- supply chain 183
- supply curve 47, 50
- supply of money 242–5
- supply schedule 47, 50
- surplus 53, 90–92, 139
- SUV *see* sports utility vehicle
- switching costs 315
- tacit knowledge 59, 201
- Tall Latte Index 4
- targeting monetary supply 269–72
 - alternative targets 270–72
 - difficulties in 269–70
- tariff 182, 184, 187, 355
- tax incidence 149–50
- tax rate 108, 303
- tax wedge 314–15
 - see also* wedge
- taxation 187
- Taylor rules 272
- technology 27, 343–5
- TFC *see* total fixed costs
- TFP *see* total factor productivity
- theory-based analysis 6–9
- time 116–17
- time-series data 12
- total costs 123–5
- total factor productivity 345, 347
- total fixed costs 123–4
- total output 120
- total revenue 96–7, 118
 - and price elasticity of demand 96–8
- total utility 82–3
- total variable cost curve 124–5
- tourism 259, 287
- trade barriers 182
- trade deficit 181, 271
- trade and development 354–6
- trade restrictions 186, 354
- trademarks 153

- traditional perspectives on competition 221–3
- transaction costs 62
- transactions 246
- transfer payment 157, 187
- transport deregulation 183
- Treaty of Maastricht 274–5
- Treaty of Rome 229, 232, 274
- trend line 14
- trends in international price levels 299–303
- TVC *see* total variable cost curve
- types of market failure 223–5
- types of unemployment 286–91

- unanticipated inflation 304–5
- unemployment 283–320
 - analysing unemployment 291–3
 - causes of differences in natural rates of 312–14
 - costs of 295–6
 - cross-country differences: inflation and 314–17
 - labour market analysis 286–91
 - linking inflation and 306–314
 - model explaining natural rate of 309–312
 - rate 284–6
 - and the recessionary gap 293–5
 - types of unemployment 286–91
 - see also* challenges for the economic system
- unemployment benefits 292
- unemployment trap 326
- United Nations 354
- unpredictability 222–3

- unregistered design rights 153
- use of resources 20–27
 - opportunity costs and efficiency 22–7
- use of subsidy 145–7
- utility 81–4

- value-added method of measuring economic activity 167–8
- variable costs 123
- velocity 251–2
- vertical equity 351
- Virgin Airlines 235

- wage rise negotiations 303–4, 313
- wage-bargaining 290–91, 302, 304, 315
- Wall Street Crash 80
- waste 50, 74
- wealth 105
- Wealth of Nations* 3
- wedge 147, 166, 314–15
- welfare economics 92, 160, 326, 356
- what GNP and GDP do not measure 169–70
- women 316
- world poverty 354
- World Trade Organization 16, 146, 186, 354
- World War Two 81, 301, 324
- WorldCom 17
- WTO *see* World Trade Organization

- Yom Kippur War 302
- young dependency ratios 329

- zero-coupon bond 264
- zero-sum game 200