

Conservation Strategy Fund Training Course

Economics Terminology

Capital – those goods produced or supplied by the economic system that are used as inputs to produce other goods and services in the future.

Compliments – goods that are used in tandem with each other; when the price of one increases, the demand for the other goes down.

Constrained maximization – individuals and firms try to do the best they can given the constraints they face. Consumers want to maximize utility given their budget constraints, and firms want to maximize profits given their costs.

Consumer surplus – the difference between the maximum amount a person is willing to pay for a good and its current market price.

Demand curve – a graph illustrating how much of a given product a household or all households would be willing to buy at different prices.

Discount rate – interest rate that banks pay to the Federal government to borrow from it.

Efficiency – the condition in which the economy is producing what people want at least possible cost.

Elasticity – a general concept used to quantify the response in one variable when another variable changes.

Equilibrium – a state that occurs when there is no tendency for change.

Externality – a situation in which an individual or firm takes an action but does not bear all the costs (negative externality) or receive all the benefits (positive externality). Costs or benefits that fall on third parties.

Existence Value – value from knowing environmental goods exist independent of use or option value. If we lose a species in the wild, such as the Bengal tiger, very few of us will have our welfare directly affected by not being able to see it, photograph it or hear it. That "use value" is very small. But many people will lose the option to do that in the future, should they care to. Economists call that "option value." Further, many people around the world derive some benefit just from knowing that Bengal tigers exist in the wild. That is "existence value."

Fixed cost – any cost that does not depend on the firm's level of output. These costs are incurred even if the firm is producing nothing. There are no fixed costs in the long run.

Hedonic Pricing Approach – Derives values by decomposing market prices into components encompassing environmental and other characteristics through studying property values, wages and other phenomena. The premise of the approach is that the value of an asset depends on the stream of benefits derived, including environmental amenities.

Conservation Strategy Fund Training Course

Economics Terminology

Hypothetical Bias – Difference in actual willingness to pay and willingness to pay revealed in a survey arising from the fact that in actual markets purchasers suffer real costs, while in surveys they do not.

Income – the sum of all of households' wages, salaries, profits, interest payments, rents, and other forms of earnings in given period of time.

Indifference curve – a set of points, each representing a combination of some amount of different goods, that all yield the same level of utility, or happiness.

Inferior goods – goods for which demand tends to fall when income rises.

Inputs – the goods and services that firms purchased to turn into output.

Intrinsic Values – value that resides 'in' something and that is unrelated to human beings altogether.

Law of demand – the negative relationship between price in quantity demanded: as price rises, quantity demanded decreases. As price falls, quantity demanded increases.

Law of diminishing marginal utility – the more of any one good consumed in a given period, the less satisfaction (utility) generated by consuming each additional (marginal) unit of the same good.

Law of supply – the positive relationship between price in quantity of a good supplied: an increase in market price will lead to an increase in quantity supplied, and a decrease in market price will lead to a decrease in quantity supplied.

Long run – that period of time for which there are no fixed factors of production. Firms can increase or decrease scale of operation, and new firms can enter and existing firms can exit the industry.

Marginal benefit – the additional benefit associates with the production of one more unit of something. For example, the societal benefit associated with reducing air pollution by one more unit.

Marginal cost – the increase in total cost that results from producing one more unit of output. Marginal costs reflect changes in variable costs.

Marginal revenue – the additional revenue that a firm makes when it increases output from one additional unit. In perfect competition, P (price) equals MR (marginal revenue).

Marginal utility – the additional satisfaction gained by the consumption or use of one more unit of something.

Conservation Strategy Fund Training Course

Economics Terminology

Marginal willingness to pay – the additional amount consumers are willing to pay for one more unit of a particular good. This is marginal utility in monetary amounts.

Market supply – the sum of all that is supplied each period by all producers of a single product.

Maximization – getting the most possible given the available resources. Consumers maximize utility. Firms maximize profits.

Monopoly – in industry structured in which there is only one large firm that produces a product for which there are no close substitutes. Monopolies can set prices but are subject to market discipline.

Monopsony – a market in which there is only one buyer for a good or service.

Normal goods – goods for which demand goes up when income is higher and for which demand goes down when income is lower.

Opportunity cost – that which we give up, or forego, when we make a choice or a decision.

Option Value – Potential benefits of the environment not derived from actual use. This expresses the preference or willingness to pay for the preservation of an environment against some probability that the individual will make use of it at some later date. If we lose a species in the wild, such as the Bengal tiger, very few of us will have our welfare directly affected by not being able to see it, photograph it or hear it. That "use value" is very small. But many people will lose the option to do that in the future, should they care to. Economists call that "option value." Further, many people around the world derive some benefit just from knowing that Bengal tigers exist in the wild. That is "existence value."

Pareto Optimum – Situation in which it is impossible to make any individual better off without making someone else worse off, where better off means more preferred and worse off means less preferred. Every competitive market equilibrium is a Pareto optimum and every Pareto optimum is a competitive equilibrium if a set of assumptions (e.g. perfect information, absence of externalities, etc.) holds true.

Perfect competition – an industry structure in which there are many firms, that are each small relative to the industry, producing virtually identical products and in which no firm is large enough to have any control over prices. In perfectly competitive industries, new competitors can freely enter and exit the market.

Price – the amount that a product sells for per unit. It reflects what society is willing to pay.

Producer surplus – the difference between a producers marginal cost curve and market price.

Production possibility frontier – a graph that shows all the combinations of goods and services that can be produced if all of society's resources are used efficiently.

Conservation Strategy Fund Training Course

Economics Terminology

Profit – the difference between total revenue and total cost. Profit = (price – average cost) x quantity.

Public goods or social goods – goods or services that bestow collective benefits on members of society. Generally, no one can be excluded from enjoying their benefits. The classic example is national defense.

Short run – the period of time for which two conditions hold: the firm is operating under fixed scale (fixed factor) of production, and firms can neither enter nor exit an industry.

Strategic Bias – causes survey results to differ from actual willingness to pay because individuals have an incentive to not reveal the truth because they can secure a benefit in excess of the costs they have to pay. This arises from the free rider problem. For example, if individuals are told that a service will be provided if the total sum they are willing to pay exceeds the cost of provision and that each will be charged a price according to their maximum willingness to pay then individuals will have an incentive to understate his or her demand.

Substitutes – goods that can serve as replacements for one another; when the price of one increases, demand for the other goes up.

Supply curve – a graph illustrating how much of a product a firm will supply at different prices.

Sustainable Development – a principle which states that a development plan must not compromise the welfare of future generations for the benefit of present generations.

Total revenue – the total amount that a firm takes in from the sale of its product: the price per unit times the quantity of output the firm decides to produce.

Total utility – the total amount of satisfaction obtained from consumption of a good or service.

Total variable cost – the total of all costs that vary with output in the short run.

Travel Cost Method – derives values by evaluating expenditures of recreationists'. Travel costs are used as a proxy for price in deriving demand curves for the recreation site.

Utility – the satisfaction, or reward, a product yields relative to its alternative. It is the basis for choice.

Variable cost – the cost that depends on the level of production chosen.

WTA (Willingness To Accept) – minimum amount of money one would accept to forgo some good or to bear some harm.

WTP (Willingness To Pay) – maximum amount of money one would give up to buy some good.