

Concepts and definitions in economics



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- Supply and demand

Supply and demand are perhaps one of the most fundamental concepts of economics and it is the backbone of a market economy. Demand refers to the product which has more value in the market. Supply represents to the price of a product according to it's value. The correlation between price and how much of a good or service is supplied to the market is known as the supply relationship.

- Costs and benefits

A cost-benefit analysis is a process by which business decisions are analyzed. The benefits of a given situation or business-related action are summed, and then the costs associated with taking that action are subtracted.

Some consultants or analysts also build the model to put a dollar value on intangible items, such as the benefits and costs associated with living in a certain town, and most analysts will also factor opportunity cost into such equations.

- Opportunity costs

Opportunity cost refers to a benefit that a person could have received, but gave up, to take another course of action. Stated differently, an opportunity cost represents an alternative given up when a decision is made. This cost is, therefore, most relevant for two mutually exclusive events. In investing, it is the difference in return between a chosen investment and one that is necessarily passed up.

- The paradox of Value

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The irony that rational decision-making in game theory situations often has poorer payoffs or outcomes than choices made illogically or naively. The paradox of rationality underscores the contradiction between intuition and reasoning per game theory. This paradox arises because the rational outcomes predicted by backward induction, the main form of game theory analysis, diverge widely from intuitive choices.

- Incentives

An incentive fee is a fee paid to a fund manager by investors. Incentive fees are typically dependent upon the manager's performance over a given period and are usually taken in relation to a benchmark index. For instance, a fund manager may receive an incentive fee if his or her fund outperforms the S&P 500 Index over a calendar year, and may increase as the level of outperformance grows.

- Money supply

Money supply is the entire stock of currency and other liquid instruments circulating in a country's economy as of a time. Also, referred to as money stock, money supply includes safe assets, such as cash, coins, and balances held in checking and savings accounts that businesses and individuals can use to make payments or hold as short-term investments.

- Interest rates

The interest rate is the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets. Interest rates are typically noted on an annual basis, known as the annual percentage rate (APR). The assets borrowed could include, cash, consumer goods, large

assets, such as a vehicle or building. Interest is essentially a rental, or leasing charge to the borrower, for the asset's use. In the case of a large asset, like a vehicle or building, the interest rate is sometimes known as the "lease rate". When the borrower is a low-risk party, they will usually be charged a low-interest rate; if the borrower is considered high risk, the interest rate that they are charged will be higher.

- Inflation

Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling. Central banks attempt to limit inflation and avoid deflation, to keep the economy running smoothly.

- The unemployment rate

The unemployment rate is the value of the labor force of jobless, expressed as a percentage. This will normally rise and fall in the economic conditions. When the economic is in poor and jobs are scarce the employment will be rise the economy is growing healthy rate the unemployment rate will decrease.

- Free

The free market is a summary description of all voluntary exchanges that take place in each economic environment. Free markets are characterized by a spontaneous and decentralized order of arrangements through which individuals make economic decisions. Based on its political and legal rules, a country's free market economy may range between very large or entirely black market.