

average propensity to consume (APC)	the proportion of total income that is spent on consumption
average propensity to save (APS)	the proportion of total income that is not spent, but is saved for future consumption
business firm	an organisation that uses entrepreneurial skills to combine the factors of production to produce goods and services
capital	the manufactured products used to produce goods and services, commonly described as the 'produced means of production'
complement	a good that is used in conjunction with another good e.g. DVDs would be a complement for DVD players

consumer sovereignty

the concept that consumers decide what goods and services will be produced by exercising their freedom to choose their purchases

consumption function

a graphical representation of the relationship between income and consumption for an individual or an economy

ethical decision-making

when business decisions about production methods, employment and other matters are made taking into consideration the impacts on broader society and the environment, and not simply to maximise profits of the firm

external diseconomies of scale

the disadvantages faced by a firm because of the growth of the industry in which the firm is operating and are not the result of the firm changing its own scale of operations

external economies of scale

the advantages that accrue to a firm because of the growth of the industry in which the firm is operating and are not the result of the firm changing its own scale of operations

individual demand	the demand of each consumer for a particular good or service
industry	the collection of firms involved in making a similar range of items that usually compete with each other e.g. the car industry
internal diseconomies of scale	the cost disadvantages (specifically, the increase in marginal costs per unit) faced by a firm expanding its scale of operations beyond a certain point
internal economies of scale	the cost saving advantages that result from a firm expanding its scale of operations
life cycle theory of consumption	a theory that states that consumers save according to their stage of the life cycle, where the bulk of the saving takes place during the working age

<p>marginal propensity to consume (MPC)</p>	<p>the proportion of each extra dollar earned that is spent on consumption</p>
<p>marginal propensity to save (MPS)</p>	<p>the proportion of each extra dollar earned that is not spent, but is saved for future consumption</p>
<p>niche market</p>	<p>a segment of a mass market for a good or service that can be defined by the specific tastes or characteristics of the target customers</p>
<p>productivity</p>	<p>the quantity of goods and services the economy can produce with a given amount of inputs such as capital and labour</p>
<p>profit motive</p>	<p>the process by which a business seeks to maximise profit by using the lowest-cost combination of resources and charging the highest possible price</p>

satisficing behaviour	the idea that firms will attempt to pursue a satisfactory level in all goals (profit maximisation, sales maximisation) rather than maximising any single goal
social welfare payments	payments made to increase the incomes of individuals or families in need of assistance by the government
specialisation	where the factors of production are used more intensively to complete a narrow range of tasks in the production process
substitute	a good that consumers may choose to buy in place of another good, such as butter and margarine or tea and coffee
technical optimum	the most efficient level of production for a firm; average costs being at their lowest possible level

utility

the satisfaction or pleasure
that individuals derive from
the consumption of goods
and services
