Economics
Microeconomics: Doing Business in a Market Economy
Key Terms

**Circular Flow** - a model that shows the movement of money, factors of production, and products among households and businesses throughout the economy. Government may also appear on the model.

**Household** - a person or group of individuals that occupy a housing unit like an apartment, condominium, or single-family house.

**Market** - any situation that brings producers (sellers) and consumers (buyers) together for voluntary exchange.

**Business** - a person or group that produces goods and/or services.

**Product Market** - producers sell and consumers buy goods and services.

**Factor Market** - households provide land, labor, and capital to producers for a return on their labor or investment.

**Goods and Services** - produced for sale in the product market

**Money** - a medium of exchange used to buy goods and services.

**Barter** - exchange of goods and service without using money. People trade goods and services they have for those they want.

**Medium of Exchange** - anything that is accepted and recognized as money

**Store of Value** - a characteristic of money that allows it to be saved for use later.

**Fiat money** - currency that is not backed by specie (gold or silver) and is recognized because of faith in the government that creates it.

**Commodity Money** - items used as a medium of exchange (in the past, fur, tea, tobacco, wampum, salt, gold, silver)

**Velocity of Money** - the rate at which money is exchanged in the circular flow, how frequently it changes hands in a period of time.

**Fractional Reserve** - the percentage of deposits banks have to keep on hand. They lend out the rest.

**M1** - money in circulation that is liquid, easily accessed and used (cash, checking, travelers checks)

**M2** - M1 plus savings accounts, money market funds, and timed deposits

**Voluntary exchange** - willingly trading goods and services for money or other items

**Business Forms** - the way firms are organized, ex. Sole proprietorship.

**Sole Proprietorship** - business owned and managed by one individual.

**Partnership** - business owned and managed by two or more individuals who share profits and responsibility for the business.

**Limited Partnership** - one or more of the partners contributes capital and shares in the profits, but does not share in the responsibility of day-to-day operations.

**Corporation** - legal entity for doing business owned by shareholders and governed by a board of directors.

**S Corporation** - special structure, owners are taxed like sole proprietors or partners, but have liability like a corporation.

**Profit** - money a business has left over after paying all of its expenses.
**Profit motive** - incentive to make a profit, the reason to start business.

**Stock** - part ownership in a company (shares)

**Bond** - a loan to a company or government entity. (Ex. Municipal and Corporate bonds)

**Dividends** - payments made to shareholders or bond owners from the profits of a company.

**Cooperative** - consumer or producer businesses jointly owned by their members for the benefit of their members. (Ex. Credit Union)

**Non-profit** - functions like a business but is not for profit. (Ex. Red Cross)

**Professional Associations** - represent people who work in a particular field. (Ex. American Medical Association, National Education Association)

**Labor Unions** - organizations of workers that bargain with employers for higher wages, benefits, and better working conditions.

**Market Structure** - how markets work based on competition

**Perfect Competition** - a market that has many producers of identical products, prices are set by supply and demand.

**Monopolistic Competition** - many producers make similar but not identical products.

**Oligopoly** - a few very large companies dominate the market making similar but not identical products.

**Monopoly** - a market where there is only one producer of a good or service.

**Cartel** - a producer organization that establishes prices and sets production levels for its industry. OPEC is an example. These are illegal in the U.S.