

Glossary

Absolute Advantage. The ability to produce a product at a lower cost than another person or another country.

Acreage Restriction Program. A price floor for agriculture. Farmers are paid not to grow on a certain portion of their land. The reduction in the supply of the agricultural product is to raise the price up to the government – determined target price.

Adverse Selection. Those people who would be most likely to be sick are the ones most likely to buy health insurance, if having health insurance were voluntary

Affirmative Action. Contractors were required to examine their employment patterns to determine if women and minority groups were under-represented. When this was found, they were forced to set-up goals and timetables for the hiring of women and minority groups and to make good faith efforts to reach their goals within a specified time.

Agency Shop. One does not have to “join” the union after 30 days. But one must pay the union dues.

Allocative Efficiency: Allocating the factors of production to produce just the "right quantity" of each good or service. This occurs if the price is equal to the marginal cost.

Antitrust Laws. Laws designed to promote or maintain competition

Asset Specificity. Assets here include either capital goods or workers' skills. Specificity refers to a situation in which the capital goods or the workers' skills are useful for only a small number of tasks and cannot be transferred easily to other tasks.

Autarky. The goal, in Russia, of avoiding international trade, importing only what was necessary and exporting only what had to be exported to earn the money to pay for the needed imports.

Average Fixed Cost. The cost of the capital and implicit cost per unit of the product. It is calculated as the total fixed cost divided by the quantity of the product produced

Average Physical Product. The quantity produced (total physical product) per worker. It is more commonly called **productivity**.

Average Total Cost. The cost of making each unit of the product. It is calculated as the total cost divided by the quantity of the product produced. Alternatively, it is calculated as the sum of the average variable cost and the average fixed cost

Average Variable Cost. The cost of the labor and the natural resources per unit of the product. It is calculated as the total variable cost divided by the quantity of the product produced

Black Market. Illegally charging a price above the ceiling price, when there is a price ceiling

Bundling. The act of putting two products together so that, if a buyer buys one, the buyer must also buy the other.

Bureaucracy. An organization that produces a product that is not sold through a market and which obtains at least part of its revenue from sources other than the sale of its product (usually from taxes).

Capital. Goods made by people for the purpose of increasing production.

Capitalism. Capital goods are owned by private individuals, called capitalists.

Cartel. A meeting of members of an oligopoly to coordinate decisions (especially over the price).

Clayton Act. An amendment to the Sherman Act which specified certain practices as being in restraint of trade. Examples of such practices included price fixing, interlocking directorates, tying contracts, and price discrimination. Policies restricting certain horizontal mergers were also included.

Closed Shop. A person must be a member of the labor union before one could be hired.

Coinsurance. The percent of the doctor or hospital bill that must be paid by the patient, after the deductible has been fully paid.

Collective Farm. A type of farm in the Soviet Union in which the farm was technically owned by the workers. However, most major decisions were made by the government.

Command and Control Regulation. The government sets and enforces rules which are to prevent people from harming the environment.

Common Property. Property that is owned by no one. This creates an incentive to overuse the property, as no one bears the cost if the property is overused.

Communism. A type of economy in which the capital goods and the land are owned by the government and the government is not chosen democratically.

Comparative Advantage. The ability to produce a product at a lower opportunity cost than another person or country. This need not mean that production occurs at a lower absolute cost.

Complements. Two products that are related such that, if a person buys one product, he or she will likely also buy the other product

Concentration Ratio. The percent of the total sales sold by the four largest companies.

Conglomerate. A diversified company that produces unrelated products

Constant Cost Industry. An industry in which new sellers entering the industry or existing sellers leaving the industry do not affect the costs of producing the product.

Constant Returns to Scale. After a certain size is reached, the long-run average cost is horizontal. This means that, as companies become larger and larger beyond a certain size, the cost per unit of producing the product stays the same.

Consumer Sovereignty. The goal of a market economy is to best meet the desires of consumers. The consumer is the king!

Consumer Surplus. The total that one is willing to pay for a good above the total that one actually has to pay in the market.

Consumption. The act of obtaining material goods to satisfy desires.

Contestable Market. Even though there is little actual competition, there is a great amount of potential competition because there are no barriers to entry.

Contingent Valuation Method. Valuing the environment by asking people to respond to a survey and place values on the environment.

Corporation. A legal person separate from its owners. It can be sued separately and pays taxes separately. Its owners are called **shareholders or stockholders**. The owners have **limited liability**. A **corporation is public** if the shares are sold on an open market and are available to be bought by anyone who might wish to do so. A **corporation is private** if the shares are held by a specific group of people who will not sell them to outsiders.

Craft Union. Workers are members of the labor union if they have a certain skill, regardless of the employer they work for.

Cross Elasticity of Demand. The percentage change in the quantity demanded for a product that occurs because of a given percentage change in the price of a different product

Deductible. The amount a patient must pay out-of-pocket when visiting a doctor before the insurance company will make any payments.

Demand. The quantity of a product that buyers wish to buy at all possible prices

Determinants of Demand. Those six factors that will change the demand for a product and will cause the demand curve to shift either right or left

Diamond-Water Paradox. How is it that water, which is absolutely essential to life, has virtually no value in the market whereas diamond, which has trivial value (for cutting in industry and for showing that we are married or rich), is so expensive in the market? The answer is that water is very plentiful whereas diamond is scarce. The result is that the value of a product in the market is determined by its marginal utility, not by its total utility

Diseconomies of Scale. When companies become so large (i.e., have so much capital), the cost per unit of producing the product rises.

Diversified Company. A company that produces several different products.

Dividends. Payments of the profits to the owners, usually in money form

Dumping. One definition of dumping is selling products in another country at a price below the cost of production. Another definition is selling products in another country at a price below the price charged in the native country.

Dynamic Increasing Returns to Scale. The cost per unit declines as cumulative production increases

Economic Cost. The total opportunity cost of making a product. It is the sum of both the explicit costs and the implicit costs

Economic Profits. The difference between the total revenues and the total economic costs

Economic Rents. The difference between the benefit and the opportunity cost. A baseball player paid \$1 million, who has an opportunity cost of \$100,000, earns an economic rent of \$900,000!

Economies of Scale. As the quantity of the product produced increases, the amount of capital can increase. With a greater amount of capital, the cost per unit of producing the product falls. In simpler terms, larger companies can produce a product at a lower cost per unit than smaller companies.

Economies of Scope. The costs of production are likely to be lower if a company produces several different products but these products use a common technology or common marketing channels.

Economy. An organization of people to answer the questions: what to produce, how to produce, and for whom to produce? If the government answers these questions, the economy is called a **command economy**. If the questions are answered through the interaction of the buyers and the sellers in markets, the economy is called a **market economy**.

Engel's Law. The income elasticity of the demand for food products is very low (less than one). This means that, as income rises, the demand for food products rises very little.

Entrepreneur. Someone who recognizes the desires that people have and then brings together the appropriate natural resources, labor, and capital to meet these desires, taking the risk involved.

Equity. Fairness in the distribution of income or wealth

Existence Demand. We demand environmental assets simply because we get utility just from knowing they exist!

Experience Goods. People must experience the goods first before knowing whether they want them or not.

Explicit Costs. Those paid to factors of production owned by people outside of the business

Extensive Growth. Increasing production by increasing the quantities of the factors of production.

External Benefit (Positive Externality). A benefit given to people who are not part of the decision and are not considered in any way by the decision-maker. As a result, activities that are desirable for society as a whole are not undertaken. Too little of the product is produced.

External Cost (Negative Externality). A cost imposed on people who are not part of the decision and are not considered in any way by the decision-maker. As a result, activities that are not desirable for society as a whole are undertaken. Too much of the product is produced.

Factors of Production. The natural resources, labor, capital and entrepreneurship used to create the goods and services desired by people.

Fee For Service. Doctors and hospitals are paid specifically for each service rendered.

First Mover Advantage. The companies that produce first will have advantages that make it very difficult for others to begin to compete with them. Therefore, their economic profits will persist.

Fixed Factor of Production. The quantity of the factor does not change as a result of changing the quantity of the product produced

Franchising. Many companies do not own their stores. Instead, they sell the rights to the company name and its product to a person. The person owns the store but must operate within certain guidelines set by the company.

Free Rider. One who gets the benefit of a good without paying the cost.

Free Trade Area. An area in which there are no tariffs between the countries who are part of the area.

General Agreement of Tariffs and Trade (GATT). The purpose of GATT was to find ways for countries to negotiate bilateral reductions in their tariffs as well as to eliminate other restrictions on trade between member nations.

General Factor. A factor that can be easily shifted among many different uses.

General Training. The learning of general skills – those that can easily be transferred between employers

Gini Index. A number which takes the area of inequality and divides by perfect inequality. Perfect inequality would mean that no one had any income at all except for one household, who had it all. The lower (higher) the number, the more equal (unequal) is the distribution.

Good. Any product that satisfies the desires of some person in a society

Gray Market. Finding ways around a price ceiling to get more revenue without actually raising the price. Examples include charging for other products or reducing the amount of product or service provided for the price.

Health Maintenance Organization (HMO). A health organization in which doctors are salaried employees. The HMO charges a fixed fee to the employer and then provides all necessary health services for only a low coinsurance payment.

Hedonic Pricing Method. For example, measuring the value of a view or peace and quiet by measuring the difference in housing prices between similar homes that have views (or peace and quiet) and those that do not have these

Herfindahl Index (actually the Herfindahl-Hirschman Index, or HHI). Take the percent of sales of each company (not just the top four), square each number, and then add up the squares

Homo Economicus. (Economic Man) People are rational, self-interested, maximizers.

Horizontally Integrated Company. A company that uses basically the same production methods to produce goods that are in the same industry. A **horizontal merger** is a merger of two or more companies that formerly were competitors.

Human Capital. The skills embodied in a person and learned from education, training, or experience.

Implicit Costs (also called "normal profits"). The opportunity costs of the owner.

Incidence of a Tax. The one who actually ends up paying as a result of the imposition of an excise tax. The tax can be shifted on to the buyer by raising the price of the product. If the price cannot be fully raised, the incidence of the tax is on the seller in the form of lower revenues.

Income Effect. As wages rise, income rises. Because leisure is a normal good, people desire more leisure. Therefore, they work fewer hours.

Income Elasticity of Demand. The percentage change in the demand for a product if there is a given percentage change in income

Industrial Union. Workers are members of the labor union if they work in the same industry, regardless of the type of work they do.

Increasing Marginal Opportunity Cost. As more units of anything are chosen, the marginal opportunity cost (the additional sacrifice) of an additional unit increases

Increasing Marginal Returns. If one factor of production is fixed (the capital or the land), then as more of the variable factor of production (labor) is added, the marginal physical product (addition to production) rises.

Industry. A group of companies producing a similar product (one for which the cross elasticity of demand between the products is +1 or greater).

Infant Industry Argument. If a domestic industry is new, it will produce a small quantity of the product. This will cause costs of production to be high. As the companies in the domestic industry increase production, they will be able to gain **economies of scale**. They will also be able to gain **dynamic increasing returns to scale** and **economies of scope**. Eventually, they will be able to compete with large foreign producers.

Inferior Good. A good for which as income rises, people buy less of the good

Intensive Growth. Increasing production by making labor or capital more productive, by utilizing better technologies, by organizing production more efficiently, and so forth.

International Competitiveness. The ability of a nation to design, produce, and market goods and services that are better or cheaper than those of other countries.

Intra-Industry Trade. Trading the same or very similar goods between countries.

Investment Hunger. The constant striving of managers of enterprises in the former Soviet Union to expand by increasing the amount of capital goods under their control.

Invisible Hand. The market, through the price, guides producers to produce those goods and services that consumers desire most and guides consumers to buy less of those goods and services that use factors of production that have become relatively scarce.

Labor Force Participation Rate. The percent of the relevant group who are either employed or unemployed but searching for employment.

Laissez Faire. Government should be limited in its interference in the market economy. “Hands off”.

Law of Demand. As the price of a product rises (falls), the quantity demanded of that product falls (rises)

Law of Diminishing Marginal Returns. If one factor of production is fixed (the capital or the land), then as more of the variable factor of production (labor) is added, beyond some point, the marginal physical product (addition to production) falls.

Law of Diminishing Marginal Utility. The marginal utility (additional satisfaction) is likely to diminish as more units of a product are consumed.

Law of Supply. As the price of the product rises (falls), the quantity supplied will rise (fall).

Lemon’s Principle. When the buyers know more about the need for the service than the sellers, only the lemons (those who are sickest) will be left!

Lock-In. Once a consumer has purchased the product, the cost of switching to a different product may be very high. The consumer becomes “**locked in**” to a given product or a given technology.

Long-run. A period of time in which all factors of production are variable

Long-run Average Total Cost. The cost per unit of producing every possible quantity of the product, allowing the company to produce with the amount of capital that can produce that given quantity as cheaply as possible.

Long-run Equilibrium. A condition in which the economic profits are equal to zero. There is no incentive for new sellers to enter the industry nor for existing sellers to exit the industry

Long-run Industry Supply Curve. A line connecting all possible point of long-run equilibrium. For a constant-cost industry, this line is horizontal (perfectly elastic).

Lorenz Curve. A curve which portrays the percent of households with the cumulative percent of income that they earned.

Luxury. A good for which as income rises (or falls) by a certain percent, the demand for the good will rise (or fall) by a greater percent (the income elasticity of demand is greater than one)

Marginal Benefit. The additional benefit from choosing an additional unit

Marginal Opportunity Cost. The additional opportunity cost (sacrifice made) from choosing an additional unit

Marginal Physical Product. The change in quantity produced when the number of workers is increased by one.

Marginal Resource Cost. The addition to total cost from hiring an additional worker. In perfect competition, it equals the wage.

Marginal Revenue. The addition to total revenue from producing and selling one more unit of the product

Marginal Revenue Product. The additional to total revenue from hiring an additional worker. In perfect competition, it equals the marginal physical product times the price of the product.

Means Tested. One must have a low income in order to qualify for a government program

Merger. One firm buys ownership in another and brings the two firms under common ownership and management.

Merit Goods. Private goods that people decide through a political process to have provided by the government, such as a beach or a park.

Minimum Efficient Scale. The minimum quantity of the product that needs to be produced to have the amount of capital necessary to be able to produce at the lowest possible cost per unit.

Monetary Overhang. The excess money that people were forced to save in the former Soviet Union because there were no goods to buy with their incomes.

Monopolistic Competition. An industry with one seller but a very elastic demand for the product. There are many sellers. The buyers and sellers have perfect information. And there are no barriers to entry. The difference is the fourth characteristic: in perfect competition, the products are identical whereas in monopolistic competition, the products are differentiated.

Monopoly. An industry with only one seller with high barriers to entry and relatively inelastic demand for its product.

Monopsony. One buyer of a product or of a type of labor.

Moral Hazard. Occurs when a person can unexpectedly raise the costs to the health insurance company because the company cannot fully monitor the person's behaviors.

Most – Favored – Nation (MFN) Principle. Each nation who was a member of GATT would agree to have tariff rates against all member countries that was the same as that of the most favored nation (i.e., the nation that received the lowest tariff rate).

Movement Along the Demand Curve. A change in the quantity demanded of a product caused by a change in the price of the product

National Health Insurance. A proposal in which a single payer will pay all of the health insurance claims for all Americans, according to rules that are negotiated with health care providers.

Necessity. A good for which as income rises (or falls) by a certain percent, the demand for the good will rise (or fall) by a smaller percent (the income elasticity of demand is less than one)

Negative Marginal Returns. If one factor of production is fixed (the capital or the land), then as more of the variable factor of production (labor) is added, beyond some point, the total physical product (total production) falls.

Network Externalities. The value of a product to a consumer depends on the number of other people already using it.

Normal Good. A good for which as income rises, people buy more of the good

Normative Economics. Statements involving value judgments and opinions.

Occupational Discrimination. Not allowing certain people to work in different occupations. A large portion of the differences in pay between men and women occur specifically because of differences in occupation

Oligopoly. An industry in which there are few sellers --- few enough that each seller has an ability to affect the price.

Open Shop. Anyone can be hired. After being hired, one is allowed to join a labor union if one wishes. But one can also refuse to join a labor union if that is what one wishes.

Open Standard. Companies create a standard but make it available to everyone.

Opportunism. Because no agreement can consider all possible unforeseen events, it is possible for one party to the agreement to take advantage of the other party for his or her personal gain

Opportunity Cost. The value of whatever is sacrificed when a decision is made.

Optimal Amount of Pollution. The amount of pollution at which the marginal benefit of removing one more unit of pollution is less than the marginal opportunity cost of doing so.

Optimal Tariff. A tax on a foreign product for which the demand is very elastic. Most of the incidence of this tax will be on the foreign seller.

Partnership. Similar to a sole proprietorship except that two or more people are the owners. Each owner has unlimited liability for all of the debts of the business.

Path Dependence. Where positive feedback is important, the particular technology chosen may become the “path”. All subsequent technologies will follow this path.

Perestroika. An attempt at reform of the communist economy of the former Soviet Union under Gorbachev in the late 1980s.

Perfect Competition. An industry in which there are so many sellers that no one can affect the price individually, in which there is perfect information, in which there is easy entry into and exit from the industry, and in which the products of the sellers in the industry are identical.

Perfectly Elastic Demand. The price elasticity of demand is infinitely large. The seller can sell all he or she desires to sell at the going price. At a higher price, the seller will sell zero.

Perfectly Inelastic Demand. The price elasticity of demand is equal to zero. As the price of the product rises (falls), the quantity demanded of that product stays the same.

Plant. The building in which production takes place, as well as the workers and capital goods located in that building.

Play or Pay. A proposal in which employers either had to provide health insurance coverage for their workers or pay into a government fund that would then provide such coverage.

Positive Economics. Statements that can be tested and shown to be clearly true or false.

Positive Feedback. The more people who use a product the more likely it is that other people will also use the product!

Poverty Threshold. The amount of income below which one is considered poor. It was calculated by taking the cost of a minimally adequate diet and then multiplying by three. Each year, it is adjusted for inflation.

Predatory Pricing. Charging a very low price to gain customers, even if there is a loss for a short period of time

Preferred Provider Organizations (PPOs). Health insurance companies make arrangements with a specified group of doctors, hospitals, laboratories, and other providers of health care services. Each of these agrees to provide services to patients at a discount.

Present Value. The value today of \$1 realized at some time in the future

Price Ceiling. The price is held artificially below the equilibrium price

Price Elasticity of Demand. The percentage change in the quantity demanded of a product if there is a given percentage change in the price of that product

$$\frac{\text{Percentage Change in Quantity Demanded}}{\text{Percentage Change in the Price}}$$

Price Elasticity of Supply. The percentage change in the quantity supplied of a product if there is a given percentage change in the price of that product.

$$\frac{\text{Percentage Change in Quantity Supplied}}{\text{Percentage Change in the Price}}$$

Price Fixing. The act of two or more competing companies coming together for the purpose of raising the price. This is illegal under the Clayton Act.

Price Floor. The price is held artificially above the equilibrium price, causing surpluses

Price Leadership. One large company in an oligopoly announces a price and the smaller companies automatically follow by announcing the same price

Price Support Program. A price floor for agriculture. The government sets a price above the equilibrium price. The farmers sell all they can at that price. The government buys up the surplus and then stores it.

Principal-Agent Problem. A principal (the owners) hires an agent (the management) to act in the interest of the principal (assumed to be the company's profits). But the agent (the management) may have different goals.

Privatization. Selling off enterprises that had been owned by the government to private owners.

Production. The act of using the factors of production to create those goods and services desired by people

Production Function. The relation between the quantity of the product produced and the quantities of the factors of production employed

Production Possibilities Curve. A curve showing all possible combinations of goods and services that can be produced assuming all factors of production are employed efficiently.

Productive Efficiency. Getting the most possible production of goods and services from the factors of production (natural resources, labor, capital) being used. Or using the least possible quantity of factors of production to produce a given quantity of a good or service.

Progressive Income Tax. The percent of income paid as tax rises as one's income rises.

Proprietary Standard. The standard is owned by the company that created the technology.

Public Goods. Goods that are non-rival (one person having the good does not preclude another from also having the same good) and non-excludable (one cannot be excluded from the benefits of the good if one refuses to pay for it).

Rate of Return. The interest rate at which the present value of the benefits just equals the present value of the opportunity costs

Rational Abstention. People rationally choose not to vote because the perceived marginal benefit of voting is less than the perceived marginal opportunity cost

Rational Ignorance. It is rational not be to informed on the issues because the perceived marginal benefit of becoming informed is less than the perceived marginal opportunity cost.

Relatively Elastic Demand. The price elasticity of demand is greater than one. As the price of the product rises (falls), the quantity demand of that product falls (rises) considerably.

Relatively Inelastic Demand. The price elasticity of demand is less than one. As the price of the product rises (falls), the quantity demand of that product falls (rises) very little.

Retained Earnings. The part of the profits earned that are not paid out to the owners

”Right-to-Work” Laws. Laws that make the union shop and the agency shop illegal.

Risk Averse. A person is willing to pay a specified sum to avoid the risk of large financial losses.

Scarcity. The desires for material goods and services exceed the ability to meet them

Screening (Signaling). The theory that education is used just to screen certain people out of certain kinds of jobs and allow others into them. Education is one means by which employers practice statistical discrimination.

Second Economy. An underground economy (black market) in the former Soviet Union involving sales of goods, work done by repair people, and so forth.

Seniority. Rights to higher pay, job security, and other benefits go to those who have been with the company the longest.

Shift In Demand. A change in the demand for a product at every possible price caused by a change in something other than the price of the product (the determinants of demand)

Shortage. The amount by which the quantity demanded of the product exceeds the quantity supplied

Short-Run. A period of time in which at least one factor of production (usually capital or land) is fixed. This means that we have our business in its present form and plan to continue in this manner.

Short-Run Supply Curve For One Seller. The marginal cost curve, but only that part of it above the average variable cost curve.

Shortsightedness Effect. When the benefits of a government policy come in the present while the costs are paid in the distant future (or when the costs come in the present while the benefits come in the distant future), socially desirable policies may not be undertaken.

Shut-Down Decision. If there is an economic loss in the short-run, continue to produce as long as the total revenue is greater than or equal to the total variable cost. Alternatively, if there is an economic loss in the short-run, continue to produce as long as the price is greater than or equal to the average variable cost.

Socialism. The government owns the capital goods

Soft Budget Constraint. Subsidies provided to enterprises in the former Soviet Union if they sustained losses, providing them no incentive to be efficient.

Sole Proprietorship. A business owned by one person who has unlimited liability.

Special Interest. A group that uses the political process to gain an increase in its income at the expense of others.

Specific Factor. A factor that is useful only for one type of employment and cannot be easily transferred to other uses.

Specific Training. The learning of specific skills – those that can be transferred from one employment to another. These are learned mainly from experience.

State Farm. A farm in the former Soviet Union that was owned by the government and operated in a manner similar to a factory.

Statistical Discrimination. Treating an individual as typical of a group of which the person is a member.

Storming. In the former Soviet Union, enterprises would produce at a slow rate for most of the month and then at a frantic rate for the last three days of the month in order to meet, but not exceed, the plan target.

Strategic Trade Policy. Undertaking policies, such as tariffs or export subsidies, to assure that these companies with first mover advantages are located in the United States.

Substitutes. Two products that are related such that, if a person buys one product, he or she will definitely not buy the other product

Substitution Effect. As wages rise, the opportunity cost of “not working for pay” rises. Therefore, people choose to work more hours.

Sunk Cost. Once these costs are incurred, the money spent cannot be recovered

Supplier-Induced Demand. The doctor, who is the supplier of a health care service, is also the one who "demands", i.e., determines which service will be provided

Surplus. The amount by which the quantity supplied of the product exceeds the quantity demanded

Tariff. A tax on imported goods.

Time Preference. One’s desire to have the money today rather than wait for it in the future

Total Economic Profits. The difference between the total revenues and the total economic costs.

Total Revenue. The total amount received from selling the product. It is calculated as the price of the product times the quantity of the product sold.

Transactions Costs. The costs of doing business with other firms. They include the initial costs of **negotiating** an agreement with another firm, the costs of insuring that the other company performs in the way it is supposed to (**enforcement** of the agreement), and the costs of **modifying** the agreement if unforeseen events occur.

Travel Cost Method. For example, measuring the value of a national park by measuring the amount people sacrifice to travel to get to it

Union Shop. Anyone can be hired. But once hired, a person must join the labor union with a specified period of time (usually 30 days). If one refuses to join, one will be fired.

Unit Elastic Demand. The price elasticity of demand is equal to one. As the price of the product rises (falls), the quantity demanded of that product falls (rises) the same percentage

Utility. The satisfaction received from consuming a good

Variable Factor of Production. The quantity of the factor does change if the quantity of the product produced changes.

Vertical Disintegration. The company that used to produce parts and materials for themselves are now buying them from others.

Vertical Integration. A company operates at different levels of the production process. One part of the company produces the parts and materials used by other parts of the same company. A **vertical merger** is a coming together into one company of two or more companies who formerly had bought from or sold to each other.

Voluntary Export Restraint. The United States government pressured foreign governments to “volunteer” to limit the sales of certain products in the United States.

Wage Discrimination. Different people being paid different wages despite having the same productivity.

Willingness-to-Pay Principle. The utility or satisfaction one receives from a good is typically measured in the dollars one is willing to pay for it.