CARSHALTON BOYS SPORTS COLLEGE

Economics Department

Year 12 Vocabulary Booklet

Tier 2 and Tier 3 Economics Vocabulary

Units 1–5 — AQA A Level Economics

Academic Year 2026–2027

Excellence • Character • Aspiration

A Note for Parents and Pupils

This booklet contains the key Tier 2 (academic) and Tier 3 (subject-specific) vocabulary for Year 12 Economics — covering the core AQA AS content across microeconomics and introductory macroeconomics. Knowing these words — not just recognising them, but being able to use them accurately and fluently in extended writing — is one of the most important things a pupil can do to improve their performance at A Level. High marks in AQA Economics consistently depend on confident, accurate use of subject vocabulary.

Words marked E (Expected) are the core vocabulary every pupil must master. Words marked A (Aspirational) are stretch terms for pupils targeting A/A* grades. All pupils are encouraged to attempt the A words as part of weekly study.

How to learn vocabulary: Metacognitive strategies

Research is unambiguous: the most effective ways to learn vocabulary are not simply re-reading the list. The strategies below are recommended by cognitive science:

- Look–Cover–Write–Check: Look at the word and definition. Cover them. Write both from memory. Check. Repeat for any you could not recall.
- The Leitner System (flashcards): Word on one side; definition and example on the other. Sort into three piles: know well (review weekly), know fairly (review daily), don't know (review every session). Promote and demote cards based on performance.
- Dual coding: Draw a small diagram or graph next to each word. Especially powerful for economics processes — supply and demand shifts, the PPF, externality diagrams.
- Self-quizzing: Ask a parent or friend to test you using the word list. This is significantly more effective than reading alone.
- Use in writing: Once you can define a term, use it in an exam-style sentence. Pupils who deploy Tier 3 vocabulary accurately in extended answers consistently score in the top mark band.
- Spaced retrieval: Revisit words at increasing intervals (1 day, 3 days, 7 days, 14 days). The single most effective study habit for long-term retention.

Suggested weekly routine

Spend 15 minutes per night, four to five nights per week, on vocabulary for the current unit and revisiting earlier units. Rotate through the strategies above. By the end of each unit, aim to have covered every E word at least five times and every A word at least three times. Pupils targeting A/A* should use the A words confidently in extended writing by the mock examinations.

E	Expected — core vocabulary every pupil must learn.
A	Aspirational — stretch vocabulary for higher-level performance (targeting A grades and beyond).

Unit 1: The Nature of Economics — Vocabulary

Word	Type	Tier	E/A	Definition	Geographical Example
scarcity	*noun*	T3	E	The fundamental economic problem: unlimited wants face limited resources, forcing choices.	*Because oil is scarce, countries must decide how much energy to produce from fossil fuels.*
opportunity cost	*noun*	T3	E	The value of the next best alternative forgone when a choice is made.	*Building a new hospital has an opportunity cost of the school that cannot be built with the same money.*
PPF	*noun*	T3	E	Production Possibility Frontier — a curve showing maximum output combinations with given resources.	*A point inside the PPF indicates productive inefficiency; a point outside is currently unattainable.*
factors of production	*noun*	T3	E	The four inputs used in production: land, labour, capital and enterprise.	*A factory uses all four factors: the land it stands on, workers, machinery and an entrepreneur.*
ceteris paribus	*phrase*	T3	E	Latin: 'all other things being equal' — a simplifying assumption isolating one variable.	*Demand rises when price falls, ceteris paribus — assuming income and tastes are unchanged.*
free market	*noun*	T3	E	An economic system where resource allocation is determined by price signals and private decisions.	*The USA has a predominantly free market economy with limited government intervention.*
mixed economy	*noun*	T3	E	An economy combining market forces and government intervention to allocate resources.	*The UK operates a mixed economy: private firms coexist with the NHS and state schools.*
microeconomics	*noun*	T3	E	The study of individual consumers, firms and markets.	*Microeconomics explains why petrol prices differ across regions.*
macroeconomics	*noun*	T3	E	The study of the economy as a whole — output, inflation, unemployment and growth.	*Macroeconomics examines why the UK's GDP fell during the 2008 financial crisis.*
normative statement	*noun*	T3	E	A value judgement about what ought to be; cannot be tested empirically.	*'The government should raise the minimum wage' is normative — it reflects a value judgement.*
positive statement	*noun*	T3	E	A factual claim about what is that can be tested against evidence.	*'Raising the minimum wage increases unemployment' is a positive statement — it can be tested.*
specialisation	*noun*	T3	E	Concentrating on producing the good or service in which one has a comparative advantage.	*UK firms specialise in financial services, exporting them in exchange for manufactured goods.*
allocate	*verb*	T2	E	To distribute resources, goods or tasks between competing uses.	*Prices allocate scarce goods to those willing and able to pay.*

Word	Type	Tier	E/A	Definition	Geographical Example
incentive	*noun*	T2	**E**	A factor that motivates a particular course of economic behaviour.	*Higher wages act as an incentive for more workers to supply their labour.*
rational	*adj*	T2	**E**	Acting logically to maximise self-interest given available information.	*Rational consumers compare marginal benefit and marginal cost before making a purchase.*
normative	*adj*	T2	**E**	Based on value judgements about what ought to happen.	*Whether inequality is 'too high' is a normative question with no single correct answer.*
constraint	*noun*	T2	**A**	A limitation or restriction on what an economic agent can achieve.	*A budget constraint limits how much a consumer can spend on any combination of goods.*

Unit 2: How Markets Work — Vocabulary

Word	Type	Tier	E/A	Definition	Geographical Example
demand	*noun*	T3	E	The quantity of a good consumers are willing and able to buy at each price, ceteris paribus.	*Demand for umbrellas rises when rainfall increases, shifting the demand curve right.*
supply	*noun*	T3	E	The quantity of a good producers are willing and able to sell at each price, ceteris paribus.	*Supply of electric vehicles has increased as battery production costs have fallen.*
equilibrium price	*noun*	T3	E	The price at which quantity demanded equals quantity supplied; the market clears.	*The equilibrium price of oil changes daily as demand and supply conditions shift.*
price elasticity of demand	*noun*	T3	E	Responsiveness of Qd to a price change: PED = %ΔQd ÷ %ΔP.	*Petrol has inelastic PED (approx. –0.3) because consumers have few short-run alternatives.*
price elasticity of supply	*noun*	T3	E	Responsiveness of Qs to a price change: PES = %ΔQs ÷ %ΔP.	*Agricultural supply is inelastic because farmers cannot quickly increase land or output.*
income elasticity of demand	*noun*	T3	E	Responsiveness of Qd to an income change: YED = %ΔQd ÷ %ΔY.	*Foreign holidays have a high positive YED — they are luxury goods.*
cross elasticity of demand	*noun*	T3	E	Responsiveness of demand for one good to a price change of another: XED = %ΔQdA ÷ %ΔPB.	*Butter and margarine have a positive XED because they are substitutes.*
normal good	*noun*	T3	E	A good for which demand rises as income rises (positive YED).	*New cars are normal goods — sales fall in a recession when incomes decline.*
inferior good	*noun*	T3	E	A good for which demand falls as income rises (negative YED).	*Own-brand supermarket products are inferior goods for many consumers.*
consumer surplus	*noun*	T3	E	The difference between what a consumer is willing to pay and the market price.	*When concert tickets are priced below equilibrium, consumer surplus is high.*
producer surplus	*noun*	T3	E	The difference between the price a producer receives and the minimum they would accept.	*Producer surplus falls when raw material costs rise and the supply curve shifts left.*
allocative efficiency	*noun*	T3	E	Resources produce exactly what consumers value most; achieved where P = MC.	*Perfect competition achieves allocative efficiency in the long run because P = MC.*
productive efficiency	*noun*	T3	E	Production at the lowest point on the average cost curve; no waste of inputs.	*A firm producing at minimum average total cost is productively efficient.*
composite demand	*noun*	T3	A	Demand for a good with multiple uses, so one use competes with another for supply.	*Corn faces composite demand for food, animal feed and biofuel, raising its price.*
joint supply	*noun*	T3	A	Production of one good automatically yields another as a by-product.	*Beef and hides are in joint supply — increasing beef*

Word	Type	Tier	E/A	Definition	Geographical Example
					production also raises hide output.

Unit 3: Market Failure — Vocabulary

Word	Type	Tier	E/A	Definition	Geographical Example
market failure	*noun*	T3	E	When the price mechanism misallocates resources, reducing economic welfare.	*Pollution from factories is a classic example of market failure due to negative externalities.*
negative externality	*noun*	T3	E	A cost imposed on third parties not involved in a transaction.	*Carbon emissions from power stations impose negative externalities on society via climate change.*
positive externality	*noun*	T3	E	A benefit received by third parties not involved in a transaction.	*Education generates positive externalities — a more skilled workforce benefits the whole economy.*
social cost	*noun*	T3	E	The total cost to society: private cost plus external cost.	*The social cost of driving includes private fuel costs plus external pollution and congestion.*
social benefit	*noun*	T3	E	The total benefit to society: private benefit plus external benefit.	*Vaccination has high social benefit because it also protects those not vaccinated (herd immunity).*
public good	*noun*	T3	E	A good that is non-excludable and non-rival — markets undersupply or will not supply it.	*National defence is a public good — it protects all citizens regardless of tax contributions.*
merit good	*noun*	T3	E	A good the government believes will be under-consumed if left to the free market.	*Education is a merit good — the government funds state schools to ensure adequate consumption.*
demerit good	*noun*	T3	E	A good the government believes will be over-consumed if left to the free market.	*Cigarettes are demerit goods — taxes are used to reduce consumption below market levels.*
information failure	*noun*	T3	E	Market failure arising from incomplete or inaccurate information held by buyers or sellers.	*Consumers buying unhealthy food may lack nutritional information — an example of information failure.*
free rider problem	*noun*	T3	E	When individuals benefit from a public good without contributing to its cost.	*Street lighting suffers from the free rider problem — everyone benefits but few would pay voluntarily.*
carbon tax	*noun*	T3	E	A tax on CO_2 emissions designed to internalise the negative externality of pollution.	*A carbon tax of £25 per tonne raises the price of fossil fuels to reflect their social cost.*
cap and trade	*noun*	T3	E	A policy setting a ceiling on total emissions, with firms able to buy and sell pollution permits.	*The EU Emissions Trading Scheme uses cap and trade to reduce carbon emissions cost-effectively.*
government failure	*noun*	T3	E	When government intervention creates greater inefficiency than the original market failure.	*Subsidising biofuels led to higher food prices — a case of government failure.*

Word	Type	Tier	E/A	Definition	Geographical Example
externality	*noun*	T2	E	A cost or benefit that falls on a third party outside a market transaction.	*Noise from an airport is a negative externality affecting nearby residents.*
internalise	*verb*	T2	E	To incorporate an external cost into the market price through policy.	*A tax on plastic bags internalises the environmental externality of plastic pollution.*
regulate	*verb*	T2	E	To control behaviour through rules or restrictions imposed by an authority.	*The Environment Agency regulates factory emissions to limit water pollution.*
intervene	*verb*	T2	E	To take deliberate action to change the outcome of a market process.	*Governments intervene in housing markets with rent controls and planning regulations.*
asymmetric information	*noun*	T3	A	When one party to a transaction has more or better information than the other.	*In second-hand car markets, sellers know more than buyers — a case of asymmetric information.*
quasi-public good	*noun*	T3	A	A good with some but not all characteristics of a public good.	*Roads are quasi-public goods — technically excludable with tolls, but non-rival at low usage.*

Unit 4: Labour Markets — Vocabulary

Word	Type	Tier	E/A	Definition	Geographical Example
marginal revenue product	*noun*	T3	E	Additional revenue from employing one more unit of a factor: MRP = MR × MP.	*If an extra worker produces 10 units sold at £5 each, their MRP is £50.*
derived demand	*noun*	T3	E	Demand for a factor of production that arises from demand for the final output.	*Demand for bricklayers is derived from demand for new housing.*
wage rate	*noun*	T3	E	The price of labour — the payment per unit of time or output.	*A rise in the national minimum wage increases the wage rate for the lowest-paid workers.*
trade union	*noun*	T3	E	A worker organisation that bargains collectively with employers over pay and conditions.	*Unite negotiated a 10% pay rise for workers at a major UK manufacturer.*
minimum wage	*noun*	T3	E	A legally imposed floor on wages, set above the market-clearing level.	*The UK National Living Wage is a minimum wage applying to workers aged 21 and over.*
monopsony	*noun*	T3	E	A market with a single dominant buyer — often a single employer able to depress wages.	*A hospital trust may be a monopsony employer of nurses in a remote rural area.*
economic rent	*noun*	T3	E	Payment to a factor of production above its transfer earnings.	*A star footballer earns millions in economic rent — far above what they need to remain in work.*
transfer earnings	*noun*	T3	E	The minimum payment a factor needs to keep it in its current employment.	*A teacher earning £35,000 whose next best option paid £30,000 has transfer earnings of £30,000.*
geographic immobility	*noun*	T3	E	Difficulty workers face in moving location to take up employment.	*High house prices in London cause geographic immobility for workers from lower-cost regions.*
occupational immobility	*noun*	T3	E	Difficulty workers face in switching to a different type of job or industry.	*Redundant steelworkers face occupational immobility if they lack transferable skills.*
labour productivity	*noun*	T2	E	Output produced per worker per period of time.	*Germany's high labour productivity is linked to strong apprenticeship training programmes.*
bargaining power	*noun*	T2	E	The relative ability of a party in negotiations to achieve a favourable outcome.	*Trade unions increase workers' bargaining power in wage negotiations.*
wage discrimination	*noun*	T3	A	Paying different wages to workers of equal productivity based on personal characteristics.	*The gender pay gap in finance is partly explained by wage discrimination against women.*

Unit 5: Distribution of Income & Wealth — Vocabulary

Word	Type	Tier	E/A	Definition	Geographical Example
Gini coefficient	*noun*	T3	E	A measure of income inequality from 0 (perfect equality) to 1 (maximum inequality).	*The UK Gini coefficient of around 0.35 indicates moderate income inequality.*
Lorenz curve	*noun*	T3	E	A graph showing the cumulative income share of cumulative population percentages.	*A Lorenz curve far from the 45° line of equality indicates high inequality.*
absolute poverty	*noun*	T3	E	Living below a fixed threshold insufficient to meet basic needs.	*The World Bank defines absolute poverty as living on under $2.15 per day (2022 prices).*
relative poverty	*noun*	T3	E	Living on less than a set share of median national income (commonly 60%).	*In the UK, households earning below 60% of median income are in relative poverty.*
poverty trap	*noun*	T3	E	When withdrawal of benefits as income rises reduces the financial incentive to work.	*The poverty trap occurs when a worker gains less in wages than they lose in reduced benefits.*
HDI	*noun*	T3	E	Human Development Index — a composite of health, education and income indicators.	*Norway consistently tops the HDI rankings due to its high life expectancy and education.*
income	*noun*	T2	E	The flow of money received over a period from work, investment or government transfers.	*Income includes wages, dividends and Universal Credit payments.*
wealth	*noun*	T2	E	The stock of assets — financial and physical — owned at a point in time.	*Wealth inequality is greater than income inequality in the UK — property ownership is key.*
redistribute	*verb*	T2	E	To transfer income or wealth from one group to another through taxation and benefits.	*Progressive income tax redistributes income from high earners to fund public services.*
progressive tax	*noun*	T3	E	A tax where the proportion paid rises as income or wealth increases.	*Income tax is progressive — the rate rises from 20% to 45% as earnings increase.*
regressive tax	*noun*	T3	E	A tax where lower-income earners pay a higher proportion of income than higher earners.	*VAT is regressive — poorer households spend a greater share of income on taxed goods.*
fiscal drag	*noun*	T3	A	When inflation pushes taxpayers into higher bands without a change in tax rates, raising revenue.	*Freezing income tax thresholds during high inflation causes fiscal drag.*

End of Year 12 Vocabulary Booklet

This booklet should be kept safely and used as the basis for weekly homework throughout Year 12. A digital copy is available on Google Classroom. Teachers will set vocabulary tasks regularly — please work through this booklet little and often. Vocabulary for A2 content is provided in the companion Year 13 booklet.