Glossary

Barriers to entry: Barriers to entry are the existence of high start up costs or other obstacles that prevent new competitors from easily entering an industry or area of business. Barriers to entry benefit existing firms already operating in an industry because they protect an established company's revenues and profits from being whittled away by new competitors. Common barriers to entry include special tax benefits to existing firms, patents, strong brand identity or customer loyalty, and high customer switching costs.

Barriers to exit: Obstacles or impediments that prevent a company from exiting a market. Typical barriers to exit include highly specialized assets, which may be difficult to sell or relocate, huge exit costs, such as asset write-offs and closure costs, and inter-related businesses, making it infeasible to sell a part of it. Another common barrier to exit is loss of customer goodwill.

Competitive advantage: Competitive advantage is a condition that allows a company or country to produce a good or service at a lower price or in a more desirable fashion for customers. These conditions allow the productive entity to generate more sales or superior margins than its competition. Competitive advantages are attributed to a variety of factors, including cost structure, brand, and quality of product offerings, distribution network, intellectual property and customer support.

Economic welfare: The overall level of financial satisfaction and prosperity experienced by participants in an economic system. The economic welfare of a nation or business can often be assessed by reviewing the level of employment and the average financial compensation that is received by workers employed within the system.

Economies of scale: Economies of scale is the cost advantage that arises with increased output of a product. Economies of scale arise because of the inverse relationship between the quantity produced and per-unit fixed costs; i.e. the greater the quantity of a good produced, the lower the per-unit fixed cost because these costs are spread out over a larger number of goods. Economies of scale may also reduce variable costs per unit because of operational efficiencies and synergies.

Innovation economics: Innovation economics is a growing economic theory that emphasizes entrepreneurship and innovation. Innovation economics is based on two fundamental tenets: that the central goal of economic policy should be to spur higher productivity through greater innovation, and that markets relying on input resources and price signals alone will not always be as effective in spurring higher productivity, and thereby economic growth.

Market equilibrium: A situation in which the supply of an item is exactly equal to its demand. Since there is neither surplus nor shortage in the market, price tends to remain stable in this situation.

Market power: Market power refers to a company's relative ability to manipulate the price of an item in the marketplace by manipulating the level of supply, demand or both. A company with substantial market power has the ability to manipulate market price and thereby control its profit margin, and possibly the ability to increase obstacles to potential new entrants into the market. Firms that have market power are often described as "price makers" because they have the ability to establish or adjust the marketplace price of an item without relinquishing market share.

Perfect competition: Perfect competition is a market structure in which the following five criteria are met: 1) All firms sell an identical product; 2) All firms are price takers - they cannot control the market price of their product; 3) All firms have a relatively small market share; 4) Buyers have complete information about the product being sold and the prices charged by each firm; and 5) The industry is characterized by freedom of entry and exit. Perfect competition is sometimes referred to as "pure competition".

Royalty: A payment to the owner for the use of property, especially patents, copyrighted works, franchises or natural resources.