[Glossary]

Role of the state and the market in economic growth and development

Subject:	Business Economics
Course:	B. A. (Hons.), 6^{th} Semester, Undergraduate
Paper No. & Title:	Paper – 641 Elective PaperE2 – Economic Growth and Policy
Unit No. & Title:	Unit – 5 State and the Market
Lecture No. & Title:	Lecture – 1 Role of the state and the market in economic growth and development

Glossary

Efficient Allocation: Allocation of all factors in an economy in the production of goods in such a way that no stakeholder can be made better off without making anybody worse off. It is a situation of equilibrium where all stake holders are performing at an optimum level of benefits and costs. Hence, if any stakeholder group is given extra benefits, some other group is made worse off. If resources are not allocated efficiently then some people may be made better off without making others worse off. Such an optimality principle was explained by Vilfredo Pareto, an Italian economist.

Externalities: The positive and negative spill-over effects of any economic activity are called externalities. These are the influences in the form of benefits or costs occurring to people other than the actual buyer or the producer of goods. In short, these are the positive and negative effects on the people who are outside the process of consumption or production of certain goods.

Institutional Rent: 'Institutional rent' may be termed as the undue or exploitative charges collected by the government or state institutions for certain services. For example, undue tolls, fees, ticket charges and so on.

Market: Market is an organization which co-ordinates the activities of production and consumption through the forces of demand and supply. In economics, market is an invisible process.

Normative Decision making: Economic decision making is called normative decision making when it is made keeping some welfare and development norms into consideration Decisions are viewed against some standard norms.

Principle of Non-Exclusion: The principle explaining situations under which people cannot be excluded from the consumption or use of goods once they are provided for is called the principle of non-exclusion. The purpose of many public goods is non-exclusion.

Private Goods: A good which is purchased by paying a market price for private consumption, and to buy such a good in the market the buyers have to compete by paying a price. This means these goods are marked by the characteristic of 'rivalry' among buyers. Sellers also compete to sell such goods in the market. Besides, once an individual buys such a good, it falls under her/his exclusive ownership and others are excluded from getting this particular unit of good. Hence, these goods also have the characteristic of excludability.

Public Goods: These are goods provided by the state for the public. They are provided for all citizens and therefore are characterized by non-rivalry and non-excludability.

Socially Desirable Output: Output which is produced at minimum average cost of production and whose price is also equal to minimum average cost of production is the socially desirable output. It is called socially desirable level of output because people cannot get goods at a price lower than the minimum average cost of production. At all other levels of output, average cost will be higher than the minimum cost and so a higher price will be charged to recover this cost. Higher price means lower consumer welfare.

Value Judgements: The subjective assessment of any economic decision making in the context of overall welfare, growth and development is called value judgement in economics.