

# ECONOMICS DICTIONARY

**Terms: 28**

## Syllabus 2.1: Level of economic activity

### Submariner Dictionary: Unit 4 (2.1, 2.2, 4.1+4.2)

<b>Term</b>	<b>Definition</b> note the use of key terms to explain the term	<b>Diagram.</b> Probably better to add by hand!	<b>Example.</b> Add examples as appropriate.
<b>Term</b>	<b>Definition:</b>	<b>Diagram to use:</b>	<b>Example:</b>
business cycle	useful diagram to show trends in the macroeconomy over time. The cycle shows the relationship between real GDP and Time. Be sure to put in a trend line to highlight the that the economy grows over the long run but in short run there may be a recession or even a depression		see webnote 214 and take a look at Business Cycle 2 which shows that with good macromanagement the economy may recover from a slow down more rapidly
recession	this is a key macroeconomic term and a strict definition is where the economy records a fall in GDP in 2 consecutive quarters. (Year is divided into 4 quarters, January to March etc) The key thing to note is that a recession represents a fall in one or more of the components of spending in a macroeconomy: $(C+I+G+(X-M))$		see webnote 214
depression	economic depression is a sustained long run fall in macroeconomic spending represented by $(C+I+G+(X-M))$ .		see webnote 214 The most well known example is the Great Depression following the 1929 Wall Street Crash. The Great Depression persisted into the early 1940's.

**Term +Explanation****Diagram + Example**

circular flow of income	the circular flow of income used in microeconomics (see circular flow in the Introduction dictionary) is also applied to macroeconomics with the key difference of recording the (J) injections (G, I and X) and leakages (L) of money represented by S, T and M. G=government I=investment X=exports S=savings T=taxes M=imports		see webnotes 211 and 212
closed economy	this is a term used for theoretical purposes to explain an economy without a foreign trade sector.		No real world example and even countries such as N Korea have trade links with foreign nations e.g. China
expenditure flow	$(C+I+G+ (X-M) = AD$ or aggregate demand which in turn = national income. This is a common expenditure flow used in macroeconomics.		
gdp and real gdp	gdp is the gross domestic product of a macroeconomy and represents the value of the output of a macroeconomy over a given period usually per annum or per quarter of a year. Note the importance of inflation here and therefore the need to use a gdp deflator to calculate the growth in real output in the economy over time. This then represents growth in the economy.		see webnote 213 for the gdp deflator
gdp deflator	see gdp		see webnote 213
gni	gross national income is a key macroeconomic indicator and records the total domestic and foreign output claimed by residents of a country, consisting of gross domestic product (GDP) plus factor incomes earned by foreign residents, minus income earned in the domestic economy by nonresidents		

**Term + Explanation****Diagram + Example**

gnp	the total value of goods produced and services provided by a country during one year, equal to the gross domestic product plus the net income from foreign investments (add value from investment (firms / profit) operating outside of the country and subtract the value of investment (firms/profit) operating inside the country.		
green gdp	green gross domestic product (green GDP or GGDP) is an index of economic growth with the environmental consequences of that growth factored into a country's conventional GDP. Green GDP estimates the cost of a loss of biodiversity, and accounts for costs caused by climate change.		Take a look here: <a href="http://stats.oecd.org/Ind ex.aspx?DataSetCode =GREEN_GROWTH">http://stats.oecd.org/Ind ex.aspx?DataSetCode =GREEN_GROWTH</a>
growth	this is a key macroeconomic term highlighting increased output of final goods and services in an economy over a given period of time. Most often represented by real gdp.		
national income	national income is the income of a nation representd by any of the following 3 options: 1) output of final goods and services 2) income of all the income of all 4 factors of production in an economy/nation 3) expenditure or aggregated demand is a key measure of income using the formula $C+I+G+(X-M)$		
injection	Injection denoted by the letter (J) represents an increase in spending from one of three sources: 1) exports (X) 2) government (G) 3) investment (I)		see circular flow webnote 213

**Term +Explanation****Diagram + Example**

LEDC	less economically developed country. The LEDC(Less Economically Developed Country) sector includes countries with a lower GDP and a lower standard of living than MEDC (More Economically Developed Country) countries. Composite indicators are used to classify countries as LEDC or MEDC include levels of health care, education and gdp per capita at PPP (purchasing power parity dollars). See dictionary for 4.2 Measuring Development		
leakage	Leakage refers to an outward flow of money from the circular flow of income represented by any of the following: 1) imports (M) 2) taxes (T) 3) savings (S)		see webnote 213 in section 2.1 of the syllabus
macro model	A macroeconomic model is an analytical tool designed to describe the operation of the economy of a country or a region.		e.g. circular flow of income
macroeconomics	macroeconomics is the study of the main components/issues of a national economy which impact the level of spending. Spending is a key issue in the macroeconomy as it affects all of these components. It is important to understand that spending affects the key components/issues such as: 1) growth 2) inflation 3) development 4) (un)employment.		spending is critical for growth and is represented by the formula $(C+I+G+ (X-M)) = AD$ or aggregate demand.

## Term + Explanation

## Diagram + Example

national income at market prices	this records the value of national income based on the prices of final goods and services but it will include the impact of intervention by government such as indirect taxation and subsidies.		in europe indirect taxes are typically much higher than in the USA and therefore indirect taxes should be excluded for comparison. In the USA typical rates are circa 5% but in the EU rates of 20+% are not uncommon.
national income at factor prices	this records factor cost or national income by type of income is a measure of national income or output based on the cost of factors of production, instead of market prices. This allows the effect of any subsidy or indirect tax to be removed from the final measure.		
national income statistics	national income statistics represent government calculations of key variables in the economy such as output (gdp), inflation and unemployment.		unemployment in Germany: take a look here: <a href="https://tradingeconomics.com/germany/unemployment-rate">https://tradingeconomics.com/germany/unemployment-rate</a>
nominal	this is a key word in macroeconomics and connects with the word 'real'. The nominal figure for inflation or income or interest rates is the number that is NOT adjusted for inflation. A number that is adjusted for inflation is considered 'real'		see 213 for gdp deflator
open economy	open economy refers to an economy that is open to trade and records an export and import sector.		
wealth	wealth is not the same as income. Wealth is a term to explain the total value of the household in terms of the amount or value of the goods and services that the household can afford. It includes all types of goods and services and property is a key component in many countries		Wealth relates to all assets (items of value) owned by the household and this wealth is accumulated over a number of years e.g. value of house and property etc
per capita income	total income of the country divided by the population of the country		take a look here: <a href="http://data.worldbank.org/indicator/NY.GDP.PCAP.CD">http://data.worldbank.org/indicator/NY.GDP.PCAP.CD</a>

### Term +Explanation

## Diagram + Example

2.1 - Level of Economic Activity			
1. business cycle			
2. circular flow of income			
3. closed economy			
4. expenditure flow			
5. GDP			
6. GDP deflator			
7. GNI			
8. GNP			
9. 'green' GDP			
10. growth			
11. income			
12. injection			
13. LDC			
14. Leakage			
15. macroeconomic model			
16. macroeconomics			
17. MDC			
18. national Income			