Economics Glossary
Economics +Business Terms

The terms are categorised by unit. When a term appears in more than one unit, the term is listed where it first appears.

Unit 1: Introduction to Economics

Actual growth
This occurs when previously unemployed factors of production are brought in to use. It is represented by a movement from a point within a PPC to a new point nearer to the PPC.

Behavioural economics
This is a branch of economic research that adds elements of psychology to traditional models in an attempt to better understand decision-making by economic actors. It challenges the assumption that actors will always make rational choices with the aim of maximising utility.

Ceteris paribus
A Latin expression meaning “other things being equal”.

Circular economy
An economic system that looks beyond the linear take-make-dispose model and aims to redefine growth, focusing on society-wide benefits. It is based on three principles: design out waste, keep products and materials in use, and regenerate natural systems.

Circular flow of income
A simplified model of the economy that shows the flow of money through the economy.

Economic well-being
A multi-dimensional concept relating to the level of prosperity and quality of living standards in a country.

Economics
“Economics is the science that studies human behaviour as a relationship between ends and scarce resources which have alternative uses”. Lionel Robbins (1932)

Efficiency
Efficiency is a quantifiable concept, determined by the ratio of useful output to total input.

Entrepreneurship
The factor of production involving organising and risk-taking.

Equity
The concept or idea of fairness.

Factors of production
The four resources that allow an economy to produce its output: land, labour, capital and entrepreneurship (management).

Firms
Firms represent the productive units in the economy that turn the factors of production into goods and services.

Foreign sector
The segment of the circular flow of income that includes exports and imports.

Free market economy
An economy where the means of production are privately held by individuals and firms. Demand and supply (market forces) determine what/how much to produce, how to produce, and for whom to produce.

Growth in production possibilities
This occurs when the PPC curve shifts outwards, caused by an increase in the quantity and/or quality of factors of production.

Households
Households represent the groups of individuals in the economy who perform two functions. They are the consumers of goods and services and they are the owners and providers of the factors of production that are used to make the goods and services.

Income
A flow of earnings from using factors of production to produce goods and services. Wages and salaries are the factor reward to labour and interest is the flow of income for the ownership of capital.

Injections
The investment, government expenditure and export revenues that add spending to the circular flow of income.

Keynesian revolution
An economic school of thought based upon the works of John Maynard Keynes, challenging the classical (laissez faire) viewpoint and advocating the role of government in managing the level of aggregate demand.

Labour
The human factor of production. It is the physical and mental contribution of the existing work force to production.

Laissez faire
The view that markets should be left alone, with minimal intervention by government.

Land
The physical factor of production. It consists of natural resources, some of which are renewable (for example, wheat) and some of which are non-renewable (for example, iron ore).

Leakages
The savings, taxes and import expenditure that remove spending from the circular flow of income.

Macroeconomics

The study of aggregate economic activity. It investigates how the economy as a whole works.

Market
A market is where buyers and sellers come together to carry out an economic transaction.

Microeconomics
The study of the behaviour of individual consumers, firms, and industries and the determination of market prices and quantities of good, services, and factors of production.

Mixed economy
An economy that has elements of planning and elements of the free market. In reality, all economies are mixed. What is different is the degree of the mix from country to country.

Monetarist/new classical revolution
An economic school of thought which argues that changes in the money supply are the most significant determinants of the rate of economic growth and the behaviour of the business cycle. In this school of thought, policy makers should not intervene to manage the level of aggregate demand.

Normative economics
This deals with areas of the subject that are open to personal opinion and belief.

Opportunity cost
The next best alternative foregone when an economic decision is made.

Planned economy
An economy where the means of production are collectively owned (except labour). The state determines what/how much to produce, how to produce, and for whom to produce.

Positive economics
Positive economics deals with areas of the subject that are capable of being proven to be correct or not.

Production possibility curve (PPC)
A curve showing the maximum combinations of goods or services that can be produced by an economy in a given time period, if all the resources in the economy are being used fully and efficiently and the state of technology is fixed.

Say's Law
Say's Law states that the production of goods creates its own demand.

Scarcity
This is the limited availability of economic resources relative to society's unlimited demand for goods and services.

Social sciences
Studies of people in society and how they interact with each other.

Unit 2: Microeconomics

Adverse selection
This occurs when a buyer and seller do not have the same information, causing a transaction to take place based upon uneven terms.

Allocative efficiency
The level of output where marginal cost is equal to average revenue. The firm sells the last unit it produces at the amount that it cost to make it. The socially optimum level of output.

Allocative inefficiency
This occurs where the marginal social cost of producing a good is not equal to the marginal social benefit of the good to society. In different words, it occurs where the marginal cost of producing a good (including any external costs) is not equal to the price that is charged to consumers.

Anchoring
Anchors are mental reference points, relating to ideas or values, which are used to make decisions. Value is often set by anchors or imprints in our minds that we then use as mental reference points when making decisions. When an idea or a value is firmly anchored in a person's mind, it can lead to automatic decisions and behaviours.

Anti-monopoly regulation
Policies that are intended to regulate the market share of an individual company in order to enforce competition

Asymmetric information
This is where one party in an economic transaction has access to more or better information than the other party.

Bounded rationality
This suggests that most consumers and businesses do not have enough information to make fully-informed choices and so opt to satisfice, rather than maximise their utility.

Bounded self-control
In reality, consumers are often not rational in their self-control and do not stop consuming, even when it is sensible to stop. They consume even though the price of the good or service is greater than the marginal utility they gain from consumption.

Bounded selfishness
Concern for the well-being of others.

Carbon (emissions) taxes
Taxes levied on the carbon contents of fuel.

Choice architecture
Choice architecture suggests that the decisions that we make are affected by the layout, sequencing, and range of choices that are available.

Coase theorem
This theorem states that when an externality is created and there is a conflict due to assigned property rights, the two parties can bargain with each other to reach an efficient

outcome regardless of who actually has the initial property rights. In this theorem, it is assumed that there are no costs associated with the bargaining that takes place between the two parties.

Collusive oligopoly
This is where a few firms act together to avoid competition by resorting to agreements to fix prices or output in an oligopoly.

Common access resources
Common access resources are natural resources over which there is no established private ownership—they are non-excludable, but rivalrous.

Competitive supply
This exists where products are produced by the same factors of production, and so compete for these resources for their production.

Complements
Goods are used in combination with each other. For example, digital cameras and memory cards.

Concentration ratios
Functions showing the percentage of market share (or output) held by the largest X firms in an industry, expressed in the form CRX, where X represents the number of the largest firms. Most commonly, it is expressed as CR4.

Consumer nudges
Positive reinforcement and indirect suggestions used to influence the behaviour and decision making of consumers.

Consumer surplus
The additional benefit/utility received by consumers by paying a price that is lower than they are willing to pay.

Consumption (C)
Spending by households on consumer goods and services over a period of time.

Corporate social responsibility
An approach taken by firms where they attempt to produce responsibly/ethically towards the community and environment, demonstrating a positive impact on society.

Default choices
This is when consumers are automatically enrolled in a system, so that the consumer will “make” this choice if he/she takes no action.

Demand
The willingness and ability of consumers to purchase a quantity of a good or service.

Demand curve
This shows the relationship between the price of a good or service and the quantity demanded. It is normally downward sloping.

Demerit goods

Goods or services considered to be harmful to people that would be over-provided by the market and so over-consumed.

Economies of scale
Unit cost advantages that a business may experience as an outcome of increasing its scale of operations.

Elasticity
A measure of the responsiveness of something to a change in one of its determinants.

Elasticity of demand for exports
A measure of the responsiveness of the quantity demanded of exports when there is a change in the price of exports.

Elasticity of demand for imports
A measure of the responsiveness of the quantity demanded of imports when there is a change in the price of imports.

Engel curve
A curve showing the relationship between income and quantity demanded.

Equilibrium
A state of rest, self-perpetuating in the absence of any outside disturbance.

Excess demand
This occurs where the price of a good is lower than the equilibrium price, such that the quantity demanded is greater than the quantity supplied.

Excess supply
This occurs where the price of a good is higher than the equilibrium price, such that the quantity supplied is greater than the quantity demanded.

Externalities
External costs or benefits to a third party, when a good or service is produced or consumed.

Fiscal policy
A demand-side policy using changes in government spending and/or direct taxation to achieve economic objectives relating to inflation and unemployment.

Framing
This is the way that choices are described and presented. Changing the framing of a choice may affect tastes and preferences.

Free goods
The few things, such as air and salt water, that are not limited in supply (relatively scarce) and so do not have an opportunity cost.

Free rider problem
This occurs when people who benefit from consuming resources, goods, or services do not have to pay for them, which results in overconsumption.

Imperfect competition
A market structure showing some, but not all, features of perfect competition.

Imperfect information
This exists where some stakeholders in an economic transaction have more access to knowledge than others.

Incentive effect
Prices give producers the incentive to either increase or decrease the quantity that they supply. A rising price gives producers the incentive to increase the quantity supplied, as the higher price may allow them to earn higher revenues.

Income effect
When a decrease in the price of a good or service that is being consumed means that consumers experience an increase in real income, usually allowing them to purchase more of the product. The income effect may be negative.

Income elasticity of demand (YED)
A measure of the responsiveness of the demand for a good or service to a change in income.

Indirect taxes
These are taxes on expenditure. They are added to the selling price of a good or service.

Inferior goods
A good where the demand for it decreases as income increases and more superior goods are purchased.

Investment (I)
The addition of capital stock to the economy or expenditure by firms on capital.

Joint supply
Goods which are produced together, or where the production of one good involves the production of another product (for example, as a by-product of production).

Law of demand
As the price of a good falls, the quantity demanded will normally increase.

Law of supply
As the price of a good rises, the quantity supplied will normally rise.

Mandated choices
Mandated choices are when consumers are required to state whether or not they wish to take part in an action.

Manufactured goods
Goods that have been processed by workers.

Marginal costs
Marginal costs are the additional costs of producing one more unit of output.

Marginal social benefit (MSB)
The extra benefit/utility to society of consuming an additional unit of output, including both the private benefit and the external benefit.

Marginal social cost (MSC)
The extra cost to society of producing an additional unit of output, including both the private cost and the external costs.

Marginal utility
The extra utility derived from consuming one more unit of a good or service.

Market demand
The horizontal sum of the individual demand curves for a product of all the consumers in a market.

Market equilibrium
The point where the quantity of a product demanded is equal to the quantity of a product supplied. This creates the market clearing price and quantity where there is no excess demand or excess supply.

Market failure
The failure of markets to produce at the point where community surplus (consumer surplus + producer surplus) is maximised.

Market mechanism
This is the system in which the forces of demand and supply determine the prices of products. Also known as the price mechanism.

Market power
The ability of a firm (or group of firms) to raise and maintain price above the level that would prevail under perfect competition.

Market supply
The horizontal sum of the individual supply curves for a product of all the producers in a market.

Merit goods
Goods or services considered to be beneficial for people that would be under-provided by the market and so under-consumed.

Monopolistic competition
A market structure where there are many buyers and sellers, producing differentiated products, with no barriers to entry or exit.

Monopoly
A market structure where there is only one firm in the industry, so the firm is the industry. Monopolies may, or may not, have barriers to entry.

Moral hazard
This occurs when a party provides misleading information and changes behaviour after a transaction has taken place.

Necessity goods
A good where the demand for it increases as income increases, but the increase in demand is less than proportional to the rise in income.

Negative externalities of consumption

They are the negative effects that are suffered by a third party when a good or service is consumed.

Negative externalities of production
They are the negative effects that are suffered by a third party when a good or service is produced.

Non-collusive oligopoly
This is where firms in an oligopoly do not resort to agreements to fix prices or output. Competition tends to be non-price. Prices tend to be stable.

Non-excludable
Non-excludability exists when it is impossible to prevent a person, or persons, from consuming a good or service.

Normal goods
A good where the demand for it increases as income increases.

Nudge theory
This is generally used to describe situations where nudges (prompts, hints) are used to improve the life and wellbeing of people and society.

Oligopoly
A market structure where there are a few large firms that dominate the market.

Perfect competition
A market structure where there are a very large number of small firms, producing identical products that are incapable of affecting the market supply curve. Because of this, the firms are price takers. There are no barriers to entry or exit and all the firms have perfect knowledge of the market.

Perfect information
This exists where all stakeholders in an economic transaction have access to the same knowledge.

Perfectly elastic demand
This is where an increase in the price of a good or service leads to a fall in the quantity demanded of the good or service to zero. (PED would be infinity.)

Perfectly elastic supply
This is where a fall in the price of a good or service leads to a fall in the quantity supplied of the good or service to zero. (PES would be infinity.)

Perfectly inelastic demand
This is where a change in the price of a good or service leads to no change in the quantity demanded of the good or service. (PED would be equal to zero.)

Perfectly inelastic supply
This where a change in the price of a good or service leads to no change in the quantity supplied of the good or service. (PES would be equal to zero.)

Pigouvian taxes
An indirect tax that is imposed to eliminate the external costs of negative externalities.

Porter hypothesis
This hypothesis states that strict environmental regulations can lead to efficiency and encourage innovations for firms that help improve commercial competitiveness.

Positive externalities of consumption
The beneficial effects that are enjoyed by a third party when a good or service is consumed.

Positive externalities of production
The beneficial effects that are enjoyed by a third party when a good or service is produced.

Poverty
The scarcity or the lack of a certain amount of material possessions or money.

Price ceiling (maximum price)
A price imposed by an authority and set below the equilibrium price. Prices cannot rise above this price.

Price controls
Prices imposed by an authority, set above or below the equilibrium market price.

(Price) elastic demand
This is where a change in the price of a good or service leads to a proportionally larger change in the quantity demanded of the good or service. (PED would be greater than one.)

(Price) elastic supply
This is where a change in the price of a good or service leads to a proportionally larger change in the quantity supplied of the good or service. (PES would be greater than one.)

(Price) inelastic demand
This is where a change in the price of a good or service leads to a proportionally smaller change in the quantity demanded of the good or service. (PED would be less than one.)

(Price) inelastic supply
This is where a change in the price of a good or service leads to a proportionally smaller change in the quantity supplied of the good or service. (PES would be less than one.)

Price elasticity of demand (PED)
A measure of the responsiveness of the quantity demanded of a good or service when there is a change in its price.

Price elasticity of supply (PES)
A measure of the responsiveness of the quantity supplied of a good or service when there is a change in its price.

Price expectations
The forecasts or views that consumers hold about future price movements that play a role in determining consumer demand.

Price floor (minimum price)
A price imposed by an authority and set above the market price. Prices cannot fall below this price.

Price mechanism
The system where the forces of demand and supply determine the prices of products. Also known as the market mechanism.

Primary commodities
Raw materials that are produced in the primary sector.

Producer surplus
The additional benefit received by producers by receiving a price that is higher than the price they were willing to receive.

Profit maximisation
Profit maximisation is producing at the level of output where profits are greatest: where marginal revenue equals marginal cost.

Quantity demanded
The willingness and ability to purchase a quantity of a good or service at a certain price over a given time period.

Quantity supplied
It is the willingness and ability to produce a quantity of a good or service at a given price over a given time period.

Quasi-public goods
Goods which may satisfy the two public good conditions (non-rivalry and non-excludability) only to a certain extent or only some of the time.

Rationing
An artificial control on the distribution of scarce resources.

Restricted choices
This is when the choice of a consumer is restricted, but still exists.

Rivalrous
Goods and services are considered to be rivalrous when the consumption by one person, or group of people, prevents others from consuming the good.

Rules of thumb
Rules of thumb are mental shortcuts (heuristics) for decision-making to help people make a quick, satisfactory, but often not perfect, decision to a complex choice.

Satisficing
This occurs when entrepreneurs endeavour to cover their opportunity costs, but do not push themselves significantly further, even though they might be able to earn higher profits. It is essentially a mix of the words “satisfy” and “suffice”.

Screening
The use of a screening process to gain more information regarding a participant in a transaction, in order to reduce asymmetric information, and so reduce adverse selection.

Signalling
The sending of a signal revealing relevant information to a participant in a transaction in order to reduce asymmetric information, and so reduce adverse selection.

Signalling effect
Prices give signal to both producers and consumers. A rising price gives a signal to producers that they should increase their quantity supplied, and signals to consumers that they should decrease the quantity demanded and vice versa.

Social conformity
The prevailing social norms or social customs will influence our daily behaviour/choice making.

Social/community surplus
The combination of consumer surplus and producer surplus.

Socially optimum output
This occurs where the marginal social cost of producing a good is equal to the marginal social benefit of the good to society. In different words, it occurs where the marginal cost of producing a good (including any external costs) is equal to the price that is charged to consumers. (P=MC)

Stakeholder
This is someone who has an interest, or stake, in an economic activity.

Subsidies
Subsidies are financial support paid by governments to firms.

Substitutes
Goods which can be used in place of each other. For example, Adidas running shoes and Nike running shoes.

Substitution effect
When the price of a product falls, relative to other products, there is an incentive to purchase more of the product, since the marginal utility/price ratio has improved.

Supply
This is the willingness and ability of producers to produce a quantity of a good or service.

Supply curve
This shows the relationship between the price of a good or service and the quantity supplied. It is normally upward sloping.

Sustainability
Meeting the needs of the present generation without compromising the ability of future generations to meet their own needs.

Tastes
The subjective, individual preferences of consumers.

Total revenue
The aggregate revenue gained by a firm from the sale of a particular quantity of output (equal to price times quantity sold).

Tragedy of commons

A situation with common access resources, where individual users acting independently, according to their own self-interest, go against the common good of all users by depleting or spoiling that resource through their collective action.

Unitary elastic demand
This is where a change in the price of a good or service leads to an equal and opposite proportional change in the quantity demanded of the good or service. (PED would be equal to one.)

Unitary elastic supply
This is where a change in the price of a good or service leads to an equal proportional change in the quantity supplied of the good or service. (PES would be equal to one.)

Utility
A measure of the satisfaction derived from purchasing a good or service.

Wealth
The total value of all assets owned by a person, firm, community, or country.

Welfare loss
A loss of economic efficiency that can occur when equilibrium for a good or service is not allocatively efficient.

Unit 3: Macroeconomics

Absolute poverty
Absolute poverty is measured in terms of the basic need for survival. It is the amount of income a person needs to have in order to stay alive.

Aggregate demand
The total spending in an economy consisting of consumption, investment, government expenditure and net exports.

Aggregate demand curve
A curve showing the relationship between the average price level and real GDP.

Aggregate supply (AS)
The total amount of domestic goods and services supplied by businesses and the government, including both consumer goods and capital goods.

Automatic stabilizers
The features of government fiscal policy (for example, unemployment benefits and direct tax revenues) that automatically counter-balance fluctuations in economic activity. For example, government spending on unemployment benefits automatically rise and direct tax revenues automatically fall when economy activity is slow.

Average tax rate
The proportion of a person's income that is paid in tax, usually expressed as a percentage.

Budget deficit

A situation that exists when planned government spending exceeds planned government revenue. A government may “run a budget deficit” in order to increase aggregate demand in the economy.

Business confidence
An economic indicator that measures the degree of optimism that business managers feel about the state of the economy and the prospects of their companies/ organizations.

Business cycle
A diagram showing the periodic/cyclical fluctuations in economic activity. The business cycle shows that economies typically move through a pattern of economic growth with the phases: recovery, boom, slowdown, recession.

Capital
The factor of production that comes from investment in physical capital and human capital. Physical capital is the stock of manufactured resources (e.g. factories, roads, tools) and human capital is the value of the workforce (improved through education or better health care).

Central bank
The government’s bank. The institution that is responsible for an economy’s monetary policy.

Consumer confidence
An economic indicator that measures the degree of optimism that consumers feel about the state of the economy and their own personal financial situation.

Consumer price index (CPI)
A measure of the average rate of inflation which calculates the change in the price of a representative basket of goods and services purchased by the “average” consumer.

Contractionary monetary policy
A monetary policy designed to decrease aggregate demand and thus the level of economic activity.

Cost-push inflation
Inflation that is caused by an increase in the costs of production in an economy, i.e. a shift of the SRAS curve to the left.

Credit creation
The ability of commercial banks to expand the deposits of money that they receive by lending multiples of the amount, thus increasing the overall money supply.

Crowding out
A situation where the government spends more than it receives in revenue and needs to borrow money, forcing up interest rates and “crowding out” private investment and private consumption.

Cyclical (demand-deficient) unemployment
Disequilibrium unemployment that exists when there is insufficient demand in the economy and wages do not fall to compensate for this.

Deflation
A persistent fall in the average level of prices in an economy.

Deflationary/recessionary gap
The situation where total spending (aggregate demand) is less than the full employment level of output, thus causing unemployment.

Demand management
A (Keynesian) policy emphasising the importance of government intervention in managing the level of aggregate demand in the economy, through fiscal and monetary policies.

Demand-pull inflation
Inflation that is caused by increasing aggregate demand in an economy, i.e. a shift of the AD curve to the right.

Deregulation
A type of supply-side policy where the government reduces the number or type of regulations governing the behaviour of firms.

Disinflation
A fall in the rate of inflation.

Disposable income
The remaining income available for an individual to spend or save, after taxation.

Economic growth
The growth of the real value of output in an economy over time. Usually measured as growth in real GDP.

Expansionary monetary policy
A monetary policy designed to increase aggregate demand and thus the level of economic activity.

Exports
Goods and services produced in one country and purchased by consumers in another country.

External balance
The value of exports of goods and services minus the value of imports of goods and services.

Frictional unemployment
Equilibrium unemployment that exists when people have left a job and are in the process of searching for another job.

Full employment level of output
The level of output that is produced by the economy when there is only natural unemployment.

Gini coefficient (index)
A coefficient (index) that measures the ratio of the area between a Lorenz curve and the line of absolute equality to the total area under the line of equality. The higher the figure, the more unequal is the distribution.

Government (national) debt

The total outstanding borrowing of a government, made up of internal debt (owing to national creditors) and external debt (owing to foreign creditors).

Government spending (G)
Spending by governments on goods and services.

Gross domestic product (GDP)
The total money value of all final goods and services produced in an economy in a given time period, usually one year.

Gross national income (GNI)
The total money value of all final goods and services produced in an economy in one year, plus net property income from abroad (interest, rent, dividends and profit).

Happiness Index
An index which is used to measure the collective happiness and well-being of a population.

Happy Planet Index
An index that combines four elements to show how efficiently residents of different countries are using environmental resources to lead long, happy lives. The elements are well-being, life expectancy, inequality of outcomes, and ecological footprint.

Imports
Goods and services purchased by consumers in one country that have been produced in another country

Inflation
A sustained increase in the general or average level of prices and a fall in the value of money.

Inflation rate
The percentage change of a price index over a certain time period.

Inflationary gap
The situation where total spending (aggregate demand) is greater than the full employment level of output, thus causing inflation.

Infrastructure
The large-scale capital usually provided by government that is necessary for economic activity to take place.

Interest rate
The price of credit/borrowed money.

Keynesian multiplier
The ratio of an induced change in the level of national income to an original change in one or more of the injections into the circular flow of income (i.e. investment, government spending, or export revenue).

Labour market flexibility
This refers to the speed with which labour markets adapt to fluctuations and changes in production, the economy, or society.

Labour union
An organization of workers whose goals include the improvement of working conditions and payments to workers. Unions work on behalf of workers through negotiations (collective bargaining) with management.

Long run aggregate supply (LRAS)
Aggregate supply that is dependent upon the resources in the economy and that can only be increased by improvements in the quantity and/or quality of factors of production.

Long-run Phillips curve
A curve showing the monetarist view that there is no trade-off between inflation and unemployment in the long run and that there exists a natural rate of unemployment that can only be affected by supply-side policies.

Lorenz curve
A curve showing what percentage of the population owns what percentage of the total income in the economy. It is calculated in cumulative terms. The further the curve is from the line of absolute equality (45-degree line), the more unequal is the distribution of income.

Marginal propensity to consume (MPC)
The proportion of each extra amount of income that is spent by households on domestically produced goods and services, (consumption), expressed as a decimal.

Marginal propensity to import (MPM)
The proportion of each extra amount of income that is spent by households on imported goods and services, expressed as a decimal.

Marginal propensity to save (MPS)
The proportion of each extra amount of income that is saved by households, expressed as a decimal.

Marginal propensity to tax (MPT)
The proportion of each extra amount of income that is taken in tax, expressed as a decimal.

Marginal tax rate
The proportion of a person’s additional income that is paid in tax, usually expressed as a percentage.

Minimum reserve requirements
A requirement by the central bank that sets the minimum amount of reserves that commercial banks must maintain to back their loans.

Monetary policy
A demand-side policy using changes in the money supply or interest rates to achieve economic objectives relating to inflation and unemployment.

Money supply
The total value of monetary assets available in an economy at a specific time.

Multidimensional Poverty Index (MPI)
An international measure of acute poverty covering over 100 economically least developed countries. It complements traditional income-based poverty measures by capturing the

deprivations that each person faces at the same time with respect to education, health and living standards.

National income
The total value of the final output of all new goods and services produced in a country in one year.

Natural rate of unemployment
The rate of unemployment that is consistent with a stable rate of inflation. It is the rate where the long run Phillips curve touches the x-axis.

Net exports (X-M)
Export revenues minus import expenditure.

Nominal gross domestic product
The total money value of all final goods and services produced in an economy in a given time period, usually one year, at current values (not adjusted for inflation).

Nominal interest rates
Interest rates that have not been adjusted for inflation.

Open market operations
The buying or selling of government securities in the open market in order to increase or decrease the amount of money in the economy.

Phillips curve
A curve showing the relationship between the rate of unemployment and the rate of inflation.

Positive discrimination
The practice of giving advantage to groups that have been treated unfairly in the past.

Price deflator
A coefficient that removes the impact of inflation when measuring economic statistics.

Privatisation
A type of supply-side policy where the government sells public assets to the private sector.

Productive capacity
The maximum possible output of an economy.

Proportional tax
A system of taxation in which tax is levied at a constant rate as income rises.

Public goods
Goods or services which would not be provided at all by the market. They have the characteristics of non-rivalry and non-excludability, for example, flood barriers.

Public/private partnerships
A contractual arrangement between a public agency (federal, state or local) and a private sector firm.

Purchasing power parity (PPP)

A theory which states that exchange rates between currencies are in equilibrium when their purchasing power is the same in each of the two countries.

Quantitative easing
An expansionary monetary policy where a central bank buys predetermined amounts of government bonds, or other financial assets, in order to stimulate the economy and increase the money supply.

Real GDP
The total money value of all final goods and services produced in an economy in a given time period, usually one year, adjusted for inflation.

Real GDP per person (per capita)
Real GDP divided by the population of the country.

Real GNI per person (per capita)
Real GNI divided by the population of the country.

Real interest rates
Interest rates that have been adjusted for inflation.

Relative poverty
Relative poverty is a comparative measure of poverty. A person is said to be in relative poverty if they do not reach some specified level of income, for example, 50% of average earnings for the country.

Seasonal unemployment
Equilibrium unemployment that exists when people are out of work because their usual job is out of season, for example, a ski instructor in the summer.

Short-run aggregate supply (SRAS)
Aggregate supply that varies with the level of demand for goods and services and that is shifted by changes in the costs of factors of production.

Short-run Phillips curve
A curve showing the inverse relationship between the rate of unemployment and the rate of inflation, which suggests a trade-off between inflation and unemployment.

Social safety net
A collection of social welfare services provided by the state, or other institutions, targeted to to vulnerable, resource-deprived households, to prevent them from falling into poverty.

Standard of living
The level of wealth, comfort, material goods, and necessity goods available to a certain socioeconomic class in a country.

Structural unemployment
Equilibrium unemployment that exists when in the long-term the pattern of demand and production methods change and there is a permanent fall in the demand for a particular type of labour. There is a mismatch between skills and the jobs available.

Supply-side policies

Government policies designed to shift the long run aggregate supply curve to the right, thus increasing potential output in the economy.

Unemployment
The state of being eligible for work, actively looking for work, but without a job.

Unemployment benefits
Payments, usually made by the government, to people who are unemployed (and actively seeking employment).

Unemployment rate
The number of unemployed workers expressed as a percentage of the total workforce.

Universal basic income
A regular cash payment given to all on an individual basis, without means test or work requirement.

Weighted price index
An approach to calculating the change in the price level by giving a weight to each item according to its importance in the consumers' budgets.

Unit 4: The Global Economy

Absolute advantage
This is where a country is able to produce more output than other countries using the same input of factors of production.

Appreciation
An increase in the value of one currency in terms of another currency in a floating exchange rate system.

Appropriate technology
Technology that caters to the particular economic, social, and environmental characteristics of its users.

Balance of payments
It is a record of the value of all the transactions between the residents of a country with the residents of all other countries over a given period of time.

Balance of trade in goods
A measure of the revenue received from the exports of tangible (physical) goods minus the expenditure on the imports of tangible goods over a given period of time.

Balance of trade in services
A measure of the revenue received from the exports of services minus the expenditure on the imports of services over a given period of time.

Capital account
A measure of the buying and selling of assets between countries. The assets are often separated to show assets that represent ownership and assets that represent lending.

Capital flight
This occurs when money and other assets flow out of a country to seek a “safe haven” in another country.

Capital transfers
A measure of net monetary movements gained or lost through actions such as the transfer of goods and financial assets by migrants entering or leaving the country, transfers relating to the sale of fixed assets, gift taxes, inheritance taxes, and death duties.

Common market
A customs union with common policies on product regulation, and free movement of goods, services, capital, and labour.

Comparative advantage
This is where a country is able to produce a good at a lower opportunity cost of resources than another country.

Current account
A measure of the flow of funds from trade in goods and services, plus net investment income flows (profit, interest, and dividends) and net transfers of money (foreign aid, grants, and remittances).

Current account deficit
This is where revenue from the exports of goods and services and income flows is less than the expenditure on the import of goods and services and income flows in a given year.

Current account surplus
This is where the revenue from the export of goods and services and income flows is greater than the expenditure on the import of goods and services and income flows in a given year.

Current transfers
These are recorded in the balance of payments whenever an economy receives goods, services, income, or financial items without something in return. All transfers not considered to be capital are current.

Customs union
An agreement made between countries, where the countries agree to trade freely among themselves, and they also agree to adopt common external barriers against any country attempting to export to the customs union.

Debt relief (cancellation)
The act of eliminating the debt owed by an economically least developed country in order to allow it to achieve development objectives.

Depreciation
A fall in the value of one currency in terms of another currency in a floating exchange rate system.

Devaluation
A decrease in the value of a currency in a fixed exchange rate system.

Development aid
Aid that consists of grants, concessional long-term loans, project aid, and programme aid.

Dumping
It is the selling of a good in another country at a price below its unit cost of production.

Economic development
A broad concept involving improvement in standards of living, reduction in poverty, improved health and education along with increased freedom and economic choice.

Economically least developed countries (ELDC's)
Those countries classified by the UN as being "low-income countries confronting severe structural impediments to sustainable development. They are highly vulnerable to economic and environmental shocks and have low levels of human assets".

Exchange rate
The value of one currency expressed in terms of another, for example, €1 = US$1.5.

Expenditure reducing
Policies implemented by the government that attempt to reduce overall expenditure in the economy, including expenditure on imports.

Expenditure switching
Policies implemented by the government that attempt to switch the expenditure of domestic consumers away from imports towards domestically produced goods and services.

Export promotion
Strategies based on openness and increased international trade. Growth is achieved by concentrating on increasing exports, and export revenue, as a leading factor in the AD of the economy. Growth in the international market should be translated into growth in the domestic market, over time.

Export revenue
Value of exports earned by producers

Fairtrade
A scheme where products from producers in economically least developed countries can be certified to display the registered Faifinancirtrade mark encouraging consumers to buy them because they know that the producers of the products have been paid a fair price and the products have been produced under approved conditions.

Financial account
A measure of the net change in foreign ownership of domestic financial assets.

Fixed exchange rate
An exchange rate regime where the value of a currency is fixed, or pegged, to the value of another currency, or to the average value of a selection of currencies, or to the value of some other commodity, such as gold.

Floating exchange rate
An exchange rate regime where the value of a currency is allowed to be determined solely by the demand for, and supply of, the currency on the foreign exchange market.

Foreign aid

The international transfer of capital, goods, or services from a country, or international organization, for the benefit of a recipient country and its population.

Foreign direct investment (FDI)
A long-term investment by a multinational corporation in a foreign country, (where the foreign investor owns more than 10% of the domestic company).

Free trade
International trade that takes place without any barriers, such as tariffs, quotas, or subsidies.

Free trade agreement
An agreement made between countries, where the countries agree to trade freely among themselves, but are able to trade with countries outside the free trade area in whatever way they wish.

Human Development Index (HDI)
A composite index that brings together three variables that reflect the three basic goals of development, a long and healthy life, improved education, and a decent standard of living. The variables measured are life expectancy at birth, mean years of schooling and expected years of schooling, and GNI per capita (PPP US$).

Human Opportunity Index (HOI)
This index measures how individual circumstances, such as place of residence, gender, and education of the household head, can affect a child's access to basic opportunities such as water, education, electricity and sanitation. It is created by the World Bank.

Humanitarian aid
Aid given to alleviate short-term suffering, consisting of food aid, medical aid, and emergency relief aid.

Import expenditure
Value of spending on imports.

Import substitution
Strategies to encourage the domestic production of goods, rather than importing them. It should mean that industries producing the goods domestically should grow, as will the economy, and then should be competitive on world markets in the future. The strategies encourage protectionism.

Infant industry
A new industry that should be protected from foreign competition until it is large enough to achieve economies of scale that will allow it to be internationally competitive.

Informal market
The part of an economy that is neither taxed nor monitored by the government. The activities of the informal economy are not included in a country's national income figures.

International Monetary Fund (IMF)
An organization working to foster global monetary cooperation, secure financial stability, facilitate international trade, and reduce poverty.

International trade
Trade that involves the exchange of goods or services between two countries.

J-curve
The J-curve suggests that in the short term, even if the Marshall-Lerner condition is fulfilled, a fall in the value of the currency will lead to a worsening of the current account deficit, before things improve in the long term.

Managed exchange rate
An exchange rate that floats in the foreign exchange markets but is subject to intervention from time to time by domestic monetary authorities, in order to resist fluctuations that they consider to be undesirable. Also known as a “dirty float”.

Marshall-Lerner condition
This condition states that a depreciation, or devaluation, of a currency will only lead to an improvement in the current account balance if the sum of the elasticity of demand for exports plus the elasticity of demand for imports is greater than one.

Microfinance
The provision of small loans to poor entrepreneurs who lack access to traditional banking services.

Monetary union
This is where two or more countries share the same currency and have a common central bank.

Non-government organization (NGO)
A non-government organization that exists to promote economic development and/or humanitarian ideals and/or sustainable development.

Non-produced, non-financial assets
A measure of the net international sales and purchases of non-produced assets, such as land, and intangible assets, such as patents and copyrights.

OECD Better Life Index
An index to compare well-being across countries, based on 11 topics that the OECD has identified as essential, in the areas of material living conditions and quality of life.

Official borrowing
International borrowing by a government to help to cover a current account deficit.

Official foreign aid
Aid that is provided to a country by another government or multilateral agency.

Portfolio investment
The purchase of financial investments such as shares and bonds in order to gain a financial return in the form of interest or dividends.

Poverty trap/cycle
Any circular chain of events starting and ending in poverty, such as low income means low savings means low investment means low growth means low incomes.

Preferential trade agreement
This is where a country agrees to give preferential access (for example, reduced tariffs) to certain products from one or more trading partners.

Primary sector
Extracts or harvests products directly from the earth in order to produce raw materials or food.

Property rights
The exclusive, legal, authority to own and determine how a resource is used, whether that resource is owned by the government or by individuals.

Quota
Import barriers that set limits on the quantity or value of imports that may be imported into a country.

Remittances
Remittances are the transfer of money by foreign workers to individuals, often family members, in their home country.

Reserve assets
Foreign currencies and precious metals held by governments (central banks) as a result of international trade. Reserves may be held so that the government may maintain a desired exchange rate for the country's currencies.

Revaluation
An increase in the value of a currency in a fixed exchange rate system.

Social enterprise
A company in the social economy, whose main objective is to have a social impact rather than to make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives.

Subsidy (international)
An amount of money paid by the government to a firm, per unit of output, to encourage output and to give the firm an advantage over foreign competition.

Sustainable development
The level of development needed to meet the needs of the present generation without compromising the ability of future generations to meet their own needs.

Tariff
A duty (tax) that is placed upon imports to protect domestic industries from foreign competition and to raise revenue for the government.

Tradable permits
Permits to pollute, issued by a governing body, which sets a maximum amount of pollution allowable. Firms may trade these permits for money.

Trade liberalisation
The process of reducing barriers to international trade.

Trade protection
Trade protection is an economic policy aiming to limit imports and/or encourage exports by setting up trade barriers.

UN sustainable development goals (SDGs)
A collection of 17 global goals set by the United Nations to mobilize efforts to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind.

World Bank
An organization whose main aims are to provide aid and advice to economically least developed countries, as well as reducing poverty levels and encouraging and safeguarding international investment.

World Trade Organization (WTO)
An international body that sets the rules for global trading and resolves disputes between its member countries. It also hosts negotiations concerning the reduction of trade barriers between its member nations.