Glossary term	Glossary definition
Abnormal profit	This arises when average revenue is greater than average cost (greater than the minimum return required by a firm to remain in a line of business).
Absolute advantage	A country has an absolute advantage in the production of a good if it can produce more of it with the same resources or, equivalently, if it can produce the same amount using fewer resources compared to another country.
Absolute poverty	People living below the minimum income necessary to satisfy basic physical needs (food, clothing, and shelter); as of October 2015, the World Bank international poverty line is set at US$1.90 PPP per day.
Abuse of market power	When a firm acts with the intention to eliminate competitors or to prevent entry of new firms in a market.
Actual growth	Occurs when real output (real GDP) increases through time and is a result of greater or better use of existing resources. In the PPC model it can be illustrated by a movement from a point inside a PPC to another point in the northeast direction.
Administrative barriers	Trade barriers in the form of regulations that aim to limit imports into a country. These barriers may take the form of product safety standards, sanitary standards or pollution standards but may also include more stringent than necessary application of customs procedures.
Adverse selection	A type of market failure involving asymmetric information, where the party with the incomplete information is induced to withdraw from the market. The buyer, for example, of a used car, may hesitate to buy without knowing about the quality of the vehicle. The seller, for example of health insurance, may hesitate to sell a policy without knowing the health of the buyer.
Aggregate demand (AD)	Planned spending on domestic goods and services at different average price levels, per period of time. Consists of consumption, investment and government expenditures plus net exports.
Aggregate demand curve	A curve showing the planned level of spending on domestic output at different average price levels.
Aggregate supply (AS)	The planned level of output domestic firms are willing and able to offer at different average price levels.

Aggregate supply curve	A curve showing the planned level of output that domestic firms are willing and able to offer at different average price levels.
Allocative efficiency	Achieved when just the right amount of goods and services are produced from society's point of view so that scarce resources are allocated in the best possible way. It is achieved when, for the last unit produced, price (P) is equal to marginal cost (MC), or more generally, if marginal social benefit (MSB) is equal to marginal social cost (MSC).
Allocative inefficiency	When either more or less than the socially optimal amount is produced and consumed so that misallocation of resources results. MSB ≠≠ MSC.
Anchoring	Refers to situations when people rely on a piece of information that is not necessarily relevant as a reference point when making a decision.
Anti-dumping	Typically refers to tariffs that aim at raising the artificially low price of a dumped imported good to the level of the higher domestic price. A dumped good is one that is exported at a price below the cost of producing it.
Anti-monopoly regulation	Laws and regulations that are intended to restrict anti-competitive behaviour of firms that are abusing their market power.
Appreciation	When the price of a currency increases in a floating exchange rate system.
Appropriate technology	Technology that relies mostly on the relatively abundant factor an economy is endowed with.
Asymmetric information	A type of market failure where one party in an economic transaction has access to more or better information than the other party.
Automatic stabilizers	Institutionally built-in features (like unemployment benefits and progressive income taxation) that tend to decrease the short-term fluctuations of the business cycle without the need for governments to intervene.
Average costs	Total costs per unit of output produced.
Average revenue	Revenue earned per unit sold; average revenue is thus equal to the price of the good.

Average tax rate	The ratio of the tax paid by an individual over their income expressed as a percentage.
Balance of payments	A record of the value of all transactions of a country with the rest of the world over a period of time.
Balance of trade in goods	Part of the balance of payments, it is the value of exports of goods of a country minus the value of imports of goods over a given period of time.
Balance of trade in services	Part of the balance of payments, it is the value of exports of services of a country minus the value of imports of services over a given period of time.
Barriers to entry	Anything that deters entry of new firms into a market, for example, licenses or patents.
Behavioural economics	A subdiscipline of economics that relies on elements of cognitive psychology to better understand decision-making by economic agents. It challenges the assumption that economic agents (consumers or firms) will always make rational choices with the aim of maximizing with respect to some objective.
Biases	Systematic deviations from rational choice decision-making.
Bilateral trade agreement	An agreement between two countries to phase-out or eliminate trade related barriers.
Bounded rationality	A term introduced by Herbert Simon that suggests consumers and businesses have neither the necessary information nor the cognitive abilities required to maximize with respect to some objectives (such as utility), and thus choose to satisfice. They therefore are rational only within limits.
Bounded self-control	The idea that individuals, even when they know what they want, may not be able to act in their interests. Findings of bounded self-control include evidence of procrastination (for example, among students, professionals and others) that may result in self-harm, and submitting to temptation (for example, dieters).
Bounded selfishness	The idea that people do not always maximize self-interest but also have concern for the well-being of others as shown by volunteer work and charity contributions.

Budget deficit	When government expenditures exceed government (tax) revenues usually over a period of a year.
Business confidence	A measure of the degree of optimism that businesses have about the economic future.
Business cycle	The short-term fluctuations of real GDP around its long-term trend (or potential output).
Business tax	Tax levied on the income of a business or corporation.
Capital	Physical capital refers to means of production that include machines, tools, equipment and factories; the term may also refer to the infrastructure of a country. Human capital refers to the education, training, skills and experience embodied in the labour force of a country.
Capital account	A subaccount of the balance of payments that includes credit and debit entries for non-produced, non-financial assets as well as capital transfers between residents and non-residents.
Capital flight	Occurs when money and other assets flow out of a country to seek a “safe haven” in another country.
Capital gains tax	A tax on the profits realized from the sale of financial assets such as stocks or bonds.
Capital transfers	Include financial or non-financial assets for items including debt forgiveness, investment, non-life insurance claims. They are part of the capital account of the balance of payments.
Carbon (emissions) taxes	Taxes levied on the carbon content of fuel. They are a type of Pigouvian tax.
Central bank	An institution charged with conducting monetary and exchange rate policy, regulating behaviour of commercial banks, and providing banking services to the government and commercial banks.
Ceteris paribus	A Latin expression meaning “other things being equal”.

Choice architecture	The design of environments based on the idea that the layout, sequencing, and range of choices available affect the decisions made by consumers.
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 illustration that shows the flows of income and expenditures in an economy.
Collective self-governance	In the case of a common pool resource, such as a fishery, users solve the problem of overuse by devising rules concerning the obligations of the users, the monitoring of the use of the resource, penalties of abuse, and conflict resolution.
Collusive oligopoly	A market where firms agree to fix price and/or to engage in other anticompetitive behaviour.
Common market	When a group of countries agree not only to free trade of goods and services but also to free movement of capital and labour.
Common pool resources	A diverse group of natural resources that are non-excludable, but their use is rivalrous, for example, fisheries.
Comparative advantage	When a country can produce a good at a lower opportunity cost compared to another country.
Competitive market	A market with many firms acting independently where no firm has the ability to control the price.
Competitive market equilibrium	Occurs if in a free competitive market, quantity demanded is equal to quantity supplied.
Competitive supply	When goods that a firm is producing use the same resources in their production process. The goods thus compete with each other for the use of the same resources.
Complements	Goods that are jointly consumed, for example, coffee and sugar.

Composite indicator	An indicator that is comprised as an average of more than one economic variable, for example, the HDI.
Concentration ratios	The proportion of industry sales accounted for by the largest firms; the greater this proportion, the greater the degree of market power of the firms in the industry.
Consumer confidence	A measure of the degree of optimism that households have about their income and economic prospects.
Consumer nudges	Small design changes that include positive reinforcement and indirect suggestions that can influence the behaviour of consumers.
Consumer price index (CPI)	The average of the prices of the goods and services that the typical consumer buys expressed as an index number. The CPI is used as a measure of the cost of living in a country and to calculate inflation.
Consumer surplus	The difference between how much a consumer is at most willing to pay for a good and how much they actually pay.
Consumption (C)	Spending by households on durable and non-durable goods and on services over a period of time.
Contractionary fiscal policy	Refers to a decrease in government expenditures and/or an increase in taxes that aim at decreasing aggregate demand and thus reducing inflationary pressures.
Contractionary monetary policy	A policy employed by the central bank involving an increase in interest rates and aimed at decreasing aggregate demand and thus inflationary pressures. Referred to also as tight monetary policy.
Corporate indebtedness	The sum of what a corporation owes to banks or other holders of its debt.
Corporate social responsibility	A corporate goal adopted by many firms that aims to create and maintain an ethical and environmentally responsible image.
Cost-push inflation	Inflation that is a result of increased production costs (typically because of rising money wages or rising commodity prices) and illustrated by a leftward shift of the SRAS curve.

Credit items	Refers to transactions within the balance of payments of a country that lead to an inflow of currency (for example, the export of goods); these transactions enter the account with a plus sign.
Credit rating	A grade assigned by certain agencies (such as Moody’s or Standard and Poor’s) on the borrowing risks a prospective issuer of debt (for example, of a bond) presents to lenders.
Crowding out	The idea that expansionary fiscal policy is not very effective in increasing aggregate demand because the increased borrowing needs of the government to finance the increased expenditures could lead to increased interest rates. Thus, reducing private sector investment, consumer spending, and other components of AD.
Current account	A subaccount of the balance of payments that records the value of net exports in goods and services, net income and net current transfers of a country over a period of time.
Current account deficit	Exists when the sum of net exports of goods and services plus net income plus net current transfers is negative (or simply when debits or outflows are greater than credits or inflows).
Current account surplus	Exists when the sum of net exports of goods and services plus net income plus net current transfers is positive (or simply when credits or inflows are greater than debits or inflows).
Current transfers	An entry in the current account that records payments between residents and non-residents of a country without something of economic value being received in return and that affect directly the level of disposable income (for example, workers remittances, pensions, aid and grants, and so on).
Customs union	An agreement between countries to phase out or eliminate tariffs and other trade barriers and establish a common external barrier toward non-members.
Cyclical (demand-deficient) unemployment	Unemployment that is a result of a decrease in aggregate demand and thus of economic activity; it occurs in a recession.
Debit items	Refers to transactions within the balance of payments of a country that lead to an outflow of currency (for example, the import of services); these transactions enter the account with a minus sign.

Debt relief (cancellation)	A reduction of the debt burden of developing countries organized by the World Bank and the IMF.
Debt servicing	Refers to the repayment of principal and interest on the debt of a person, a firm or a country.
Default choice	When a choice is made by default, meaning that when given a choice it is the option that is selected when one does not do anything.
Deflation	A sustained decrease in the average price level of a country.
Deflationary/recessionary gap	Arises when the equilibrium level of real output is less than potential output as a result of a decrease in AD.
Demand	The relationship between possible prices of a good or service and the quantities that individuals are willing and able to buy over some time period, *ceteris paribus*.
Demand curve	A curve illustrating the relationship between possible prices of a good or service and the quantities that individuals are willing and able to buy over some time period, *ceteris paribus*. It is normally downward sloping.
Demand management	Policies that aim at manipulating aggregate demand through changes in interest rates (monetary policy) or changes in government expenditures and taxation in order to influence growth, employment and inflation.
Demand-pull inflation	Inflation that is caused by increases in aggregate demand.
Demand side policies	Refers to economic policies that aim at affecting aggregate demand and thus macroeconomic variables such as growth, inflation and employment; demand side policies include fiscal policy and monetary policy.
Demerit goods	Goods or services that not only harm the individuals who consume these but also society at large, and that tend to be overconsumed. Usually they are due to negative consumption externalities.
Depreciation	A decrease in the value of a currency in terms of another currency in a floating or managed exchange rate system.

Deregulation	Policies that reduce or eliminate regulations related to the operation of firms so that production costs decrease—resulting in increased competition and higher levels of output.
Devaluation	A decrease in the value of a currency in a fixed exchange rate system.
Development aid	Aid aimed at assisting developing countries in their development efforts. Includes project aid, program aid and debt relief. It is concessional meaning there are low interest rates and long repayment periods.
Direct taxes	Taxes on income, profits or wealth paid directly to the government.
Discount rate	The interest rate that a central bank charges commercial banks for short-term loans (also referred to as the refinancing rate).
Disinflation	When the average price level continues to rise but at a slower rate so that the rate of inflation is positive but lower.
Dumping	When a firm sells abroad at a price below average cost or below the domestic price.
Economically least developed countries (ELDCs)	According to the UN these are low-income countries facing severe structural constraints to sustainable development, with low levels of human assets, highly vulnerable to economic and environmental shocks.
Economic development	A multidimensional concept involving a sustained increase in living standards that implies higher levels of income and thus greater access to goods and services, better education and health, a better environment to live in as well as individual empowerment.
Economic growth	Refers to increases in real GDP over time.
Economic integration	Economic interdependence between countries usually involving agreements between two or more countries to phase-out or eliminate trade and other barriers between them.
Economics	Economics is the study of how to make the best possible use of scarce or limited resources to satisfy unlimited human needs and wants.
Economic well-being	A multidimensional concept relating to the level of prosperity and quality of living standards in a country.

Economies of scale	Falling average costs that a firm experiences when it increases its scale of operations.
Efficiency	In general, involves making the best use of scarce resources. May refer to producing at the lowest possible cost or to allocative efficiency where marginal social costs are equal to marginal social benefits or where social surplus is maximum.
Elasticity	A measure of the responsiveness of an economic variable (such as the quantity demanded of a product) to a change in another economic variable (such as its price or income).
Elasticity of demand for exports	A measure of the responsiveness of the volume of exports to a change in their price.
Elasticity of demand for imports	A measure of the responsiveness of the volume of imports to a change in their price.
Engel curve	A curve showing the relationship between consumers' income and quantity demanded of a good. It indicates whether a good is normal or inferior.
Entrepreneurship	Refers to the ability of certain individuals to organize the other factors of production (land, labour, capital) and their willingness to take risks.
Equilibrium	A state of balance that is self-perpetuating in the absence of any outside disturbance.
Equity	The concept or idea of fairness.
Excess demand	Occurs when quantity demanded at some price is greater than quantity supplied.
Excess supply	Occurs when quantity supplied at some price is greater than quantity demanded.
Exchange rate	The value of one currency expressed in term of another currency; for example, €1 = US$1.5.

Excludable	A characteristic that most goods have that refers to the ability of producers to charge a price and thus exclude whoever is not willing or able to pay for it from enjoying it.
Expansionary fiscal policy	Refers to an increase in government expenditures and/or a decrease in taxes that aim at increasing aggregate demand and thus real output and employment.
Expansionary monetary policy	Monetary policy aiming at increasing aggregate demand through a decrease in interest rates; also referred to as easy monetary policy.
Expenditure approach	One of three analytically equivalent approaches of measuring GDP that adds all the expenditures made on final domestic goods and services over a period of time by households, firms, the government and foreigners.
Expenditure reducing	Contractionary demand side policies aiming at decreasing national income and thus expenditures on imports so that a current account deficit narrows.
Expenditure switching	Policies aimed at switching expenditures away from imports towards domestically produced goods and services by making imports more expensive in order to narrow a current account deficit. It includes lowering the exchange rate as well as adopting trade protection.
Exports	Goods and services produced in one country and purchased by consumers in another country.
Export promotion	Growth policies aiming at expansion of export revenues as the vehicle of economic growth; often contrasted to import substitution.
Export revenue	The revenues collected by exporting firms.
Export subsidy	Payments made by the government to exporting firms on the basis of the number of units exported.
External balance	A situation where the value of a country’s exports is balanced by the value of its imports over a period of time, such that a current account surplus or deficit does not persist over long periods.
Externalities	External costs or benefits to third parties when a good or service is produced or consumed. An externality arises when an economic activity

	imposes costs or creates benefits on third parties for which they are not compensated or do not pay for respectively.
Factors of production	Resources used in the production of goods and services; include land (natural resources), labour, capital and entrepreneurship.
Financial account	In the balance of payments this records inflows and outflows of portfolio and FDI funds over a period of time, official borrowing and changes in reserve assets.
Firm	An entity such as a business that uses factors of production in order to produce and sell goods and services and earn profits. It is an important decision maker in a market economy.
Firms	Productive units that transform inputs (factors of production) into output (goods and services), usually aiming at earning profits.
Fiscal policy	A demand-side policy using changes in government spending and/or direct taxation to influence aggregate demand and thus growth, employment and prices.
Fixed exchange rate	An exchange rate system where the exchange rate is fixed, or pegged, to the value of another currency (or to the average value of a selection of currencies) and maintained there with appropriate central bank intervention.
Floating exchange rate	An exchange rate system where the exchange rate is determined solely by the market demand and market supply of the currency in the foreign exchange market without any central bank intervention.
Foreign aid	Refers to flows of grants or loans from developed to developing countries that are non-commercial from the point of view of the donor and for which the terms are concessional (that is, the interest rate is lower than the market rate and the repayment period longer).
Foreign direct investment (FDI)	When a firm establishes a productive facility in a foreign country or acquires controlling interest (at least 10% of the ordinary shares) in an existing foreign firm.
Foreign sector	In an open economy the term refers to exports and imports.
Framing	In behavioural economics, the term refers to the way choices are presented as a simple change of the “frame”, that may affect the choice

	made. For example, highlighting the positive or the negative aspects of the same choice may lead to different decisions.
Free goods	Goods such as air or sea water that are not considered scarce and thus do not have an opportunity cost.
Free market economy	An economy where the means of production are privately owned and where market forces determine the answers to the fundamental questions (what/how much, how and for whom) that all economies face.
Free rider problem	Arises when individuals consume a good or service without paying for it because they cannot be excluded from enjoying it.
Free trade	International trade that is not subject any kind of trade barriers, such as tariffs or quotas.
Free trade area/agreement	An agreement between two or more countries to phase-out or eliminate trade barriers between them, members of the agreement are free to maintain their own trade policy towards non-members.
Frictional unemployment	Unemployment of individuals who are in-between jobs, as people quit to find a better job or to move to a different location.
Full employment	A goal of macroeconomic policy that aims at fully utilizing the scarce factor of production labour. Full employment exists when the economy is producing at its potential level of real output and thus there is only natural unemployment (the AD–AS model considers the AD and AS curves together). In the production possibilities curve (PPC model), full employment exists when the economy is producing on the PPC.
Full employment level of output	The level of output that is produced by the economy when there is only natural unemployment.
Game theory	A branch of mathematics that studies the strategic interaction of decision-makers that may be individuals, firms, countries, and so on.
Gender inequality index (GII)	A composite indicator that measures gender inequalities in three dimensions of human development, namely reproductive health, empowerment and economic status.
Gini coefficient	A measure of the degree of income inequality of a country that ranges from zero (perfect income equality) to one (perfect inequality).

	Diagrammatically it is the ratio of the area between the Lorenz curve and the diagonal over the area of the half-square.
Government (national) debt	The sum of all past budget deficits minus any budget surpluses; the total amount the government owes to domestic and foreign creditors.
Government spending (G)	Refers to all spending by the government that is distinguished into current expenditures, capital expenditures and transfer payments.
Gross domestic product (GDP)	The value of all final goods and services produced within an economy over a period of time, usually a year or a quarter.
Gross national income (GNI)	The income earned by all national factors of production independently of where they are located over a period of time; it is equal to GDP plus factor income earned abroad minus factor income paid abroad.
Growth in production possibilities	When the production possibilities of a country increase because of more/better resources and/or better technology becoming available; illustrated by a shift outwards of the PPC.
Happiness Index	An index that is used to measure economic well-being of a population using several quality of life dimensions.
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.
Homogeneous product	Goods that are considered identical across firms in the eyes of consumers; examples include mostly primary sector goods like corn, wheat or copper.
Household indebtedness	The money that households owe.
Households	Groups of individuals in the economy who share the same living accommodation, who pool their income and jointly decide the set of goods and services to consume.
Human capital	The education, training, skills, experience and good health embodied in the labour force of a country.

Human Development Index (HDI)	A composite index of development that reflects the three basic goals of development, which are 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$).
Humanitarian aid	Aid given to alleviate short-term suffering, consisting of food aid, medical aid, and emergency relief aid usually as a result of a natural catastrophe or war.
Imperfect competition	A market structure where firms have a degree of market power as they face a negatively sloped demand curve and can thus set price.
Imperfect information	When the information about a market or a transaction is incomplete.
Import expenditure	The value of imports of goods and services.
Imports	The value of goods and services purchased domestically that are produced abroad.
Import substitution	A growth strategy where domestic production is substituted for imports in an attempt to shift production away from the primary sector and industrialize. This strategy requires that the domestic industry is protected from import competition.
Incentive-related policies	Policies that aim at improving economic incentives of individuals and firms.
Incentive role of prices	Prices provide producers and consumers the incentive to respond to price changes. Given a price change, producers have the incentive to change the quantity supplied in accordance with the law of supply, while consumers have the incentive to change the quantity demanded based on the law of demand.
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.
Income approach	One of the three equivalent ways that GDP can be measured, by adding all the incomes generated in the production process (wages, profits, interest and rent) for a given time period.

Income effect	The law of demand is explained by the substitution and the income effect. The income effect states that if the price of a good increases then the real income of consumers decreases and, typically, they will tend to buy less of the good—thus working in the same direction as the substitution effect.
Income elasticity of demand (YED)	The responsiveness of demand for a good or service to a change in income.
Indirect taxes	Taxes on expenditure to buy goods and services.
Industrial policies	A type of interventionist supply-side policies whereby the government chooses to support specific industries through preferential tax cuts, subsidies, subsidized loans and other means as they are considered pivotal in the growth prospects of the economy.
Inequality adjusted Human Development Index (IHDI)	A composite indicator consisting of an average of a country's achievements in health, education and income all adjusted for the degree of inequality characterizing each.
Infant industry	Refers to 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. It is used as an argument in favour of trade protection in developing countries.
Inferior goods	Lower quality goods for which higher quality substitutes exist; if incomes rise, demand for the lower quality goods decreases.
Inflation	A sustained increase in the average level of prices.
Inflationary gap	The case where equilibrium real output exceeds potential output as a result of an increase in AD.
Inflation rate	The percentage change between two periods of the average price level, usually measured through the CPI.
Informal economy	Refers to the part of an economy where activity is not officially recorded, regulated or taxed. The activities of the informal economy are not included in a country's national income figures.
Infrastructure	Physical capital typically financed by governments that is essential for economic activity to take place, including roads, power,

	telecommunications and sanitation, generating significant positive externalities.
Injections	Within the circular flow model these refer to spending on domestic output that does not originate from households and thus includes investment spending by firms, government expenditures and exports.
Interest rate	The cost of borrowing money or the reward for saving money over a period of time expressed as a percentage.
International Monetary Fund (IMF)	An international financial institution of 189 countries whose objectives include to improve global monetary cooperation and secure financial stability by monitoring the economic and financial policies of its members and providing them with advice and with loans, if they face balance of payments difficulties.
International trade	Trade that involves the exports and imports of goods or services between countries.
Interventionist supply side policies	A set of policies that aim to increase an economy's productive capacity that relies on a greater role for the government; these include expenditures on infrastructure, education, health care, research and development, and all industrial policies.
Investment (I)	Spending by firms on capital goods such as machines, tools, equipment and factories.
J-curve	Following devaluation or a sharp depreciation, a trade deficit will typically widen before it starts improving thus tracing the letter "J" if plotted against time, because the Marshall-Lerner condition is satisfied only after a period of several months following the decreased value of the currency.
Joint supply	Goods jointly produced, for example beef and cattle hides; producing one automatically leads to the production of the other.
Keynesian aggregate supply curve	An aggregate supply curve that shows the level of real output produced in an economy in relation to the price level. It consists of three sections: a horizontal section, an upward-sloping section and a vertical section. Changes in real GDP or the price level depend on aggregate demand and how close to capacity the economy is operating.
Keynesian multiplier	The idea that an increase (or, more generally, a change) in any injection will lead to a greater increase (change) in real GDP or national income because an increase in spending generates additional income that leads to further spending, and thus more income. Its size depends on the size of

	the withdrawals from the circular flow, as these reflect income not spent on domestic output.
Keynesian revolution	An economic school of thought based upon the works of John Maynard Keynes, challenging the classical (*laissez faire*) viewpoint and advocating an interventionist role for the government in managing the level of aggregate demand and thus of economic activity.
Labour	One of the four factors of production that refers to the physical and mental contribution of workers to the production process.
Labour market flexibility	The labour market is considered flexible if it can adjust fast and fully to changes in labour demand and labour supply conditions.
Labour union	An organization of workers whose goals include improving working conditions and achieving higher compensation for members. Unions permit workers to negotiate more effectively with employers.
Laissez faire	The view that if market forces are left alone unimpeded by government intervention the outcome will be efficient.
Land	One of the four factors of production that refers to the natural resources with which an economy is endowed; also referred to as “gifts of nature”.
Land rights	Property (ownership) legal rights over land holdings that include rights to possess, occupy and use the land.
Law of demand	A law stating that as the price of a good falls, the quantity demanded will increase over a certain period of time, *ceteris paribus*.
Law of diminishing marginal returns	A short-run law of production stating that as more and more units of the variable factor (usually labour) are added to a fixed factor (usually capital) there is a point beyond which total product continues to rise but at a diminishing rate or, equivalently, marginal product starts to decrease.
Law of diminishing marginal utility	The idea that as an individual consumes additional units of a good, the additional satisfaction enjoyed decreases.
Law of supply	A law stating that as the price of a good rises, the quantity supplied will rise over a certain period of time, *ceteris paribus*.

Leakages	Income not spent on domestic goods and services. It includes savings, taxes and import expenditure.
Long-run aggregate supply (LRAS)	Aggregate supply that is dependent upon the resources and technology in the economy, thus being independent of the price level. It is vertical at the level of potential output. It can only be increased by improvements in the quantity and/or quality of factors of production as well as improved technology.
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 at the level of potential output.
Long run in microeconomics	The period of time when all factors of production are variable.
Long run in macroeconomics	The period of time when the prices of all factors of production, especially wages, change to match changes in the price level.
Long-term growth	Growth over long periods of time. In the PPC model this is shown by outward shifts of the PPC. When shown in the AD–AS model (the AD–AS model considers the AD and AS curves together), it is shown by rightward shifts in the LRAS curve.
Long-term growth trend	Refers to average growth over long periods of time shown in the business cycle diagram as the line that runs through short-term fluctuations, indicating changes in potential output
Lorenz curve	A curve showing what percentage of the population owns what percentage of the total income or wealth in the economy. It is calculated in cumulative terms. The further the curve is from the line of absolute equality (along the diagonal), the more unequal the distribution of income.
Loss (economic)	Occurs when total costs of a firm are greater than total revenues. It is equal to total cost minus total revenue.
Luxury goods	Goods that are not considered essential by consumers therefore they have a price elastic demand (PED > 1), or income elastic demand (YED > 1).
Macroeconomics	The study of aggregate economic activity. It investigates how the economy as a whole works.

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 prevent undesirable movements in the exchange rate.
Mandated choices	Choices made by consumers who are required to state whether or not they wish to take part in an action.
Manufactured products	Products or goods that have been produced by workers often working with capital goods.
Marginal benefit	The extra or additional benefit enjoyed by consumers that arises from consuming one more unit of output.
Marginal costs	The extra or additional costs of producing one more unit of output.
Marginal propensity to consume (MPC)	The proportion of extra or additional income that is spent by households on goods and services (consumption).
Marginal propensity to import (MPM)	The proportion of extra or additional income that is spent by households on imported goods and services.
Marginal propensity to save (MPS)	The proportion of extra or additional income that is saved by households.
Marginal propensity to tax (MPT)	The proportion of extra or additional income that is paid in taxes, also referred to as the marginal tax rate.
Marginal revenue	The extra or additional revenue that arises for a firm when it sells one more unit of output.
Marginal social benefit (MSB)	The extra or additional 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 or additional cost to society of producing an additional unit of output, including both the private cost and the external costs.
Marginal tax rate	The proportion of a person’s extra or additional income that is paid in tax, usually expressed as a percentage.

Marginal utility	The extra or additional utility derived from consuming one more unit of a good or service.
Market	Any arrangement where buyers and sellers interact to carry out an economic transaction.
Market-based supply side policies	A set of policies based on well-functioning competitive markets in order to promote long-term economic growth, shown by increases in long-run aggregate supply.
Market concentration	The extent to which the total sales in a market are accounted for by the largest firms, providing an indication of the degree of market power in the industry. It is measured by the concentration ratio.
Market demand	The sum of the individual demand curves for a product of all the consumers in a market.
Market equilibrium	In a market this occurs at the price where the quantity of a product demanded is equal to the quantity supplied. This is the market clearing price since there is no excess demand or excess supply.
Market failure	The failure of markets to achieve allocative efficiency. Markets fail to produce the output at which marginal social benefits are equal to marginal social costs; social or community surplus (consumer surplus + producer surplus) is not maximized.
Market mechanism	The system in which the forces of demand and supply determine the prices of products. Also known as the price mechanism.
Market-oriented approaches	Approaches or policies that are based on the actions of private decision-makers operating in markets with a minimum amount of government intervention.
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 (or P > MC).
Market share	The percentage of total sales in a market accounted for by one firm.
Market supply	The horizontal sum of the individual supply curves for a product of all the producers in a market.

Marshall-Lerner condition	A condition stating that a depreciation or devaluation of a currency will lead to an improvement in the current account balance if the sum of the price elasticity of demand for exports plus the price elasticity of demand for imports is greater than one.
Maximum price	A price set by a government or other authority that is below the market equilibrium price of a good or service, also known as a price ceiling.
Merit goods	Goods or services considered to be beneficial for people that are under-provided by the market and so under-consumed, mainly due to positive consumption externalities.
Microeconomics	The study of the behaviour of individual consumers, firms, and markets and the determination of market prices and quantities of goods, services, and factors of production.
Microfinance	The provision of small loans to poor entrepreneurs who lack access to traditional banking services.
Minimum income standards	A measure of poverty that is based on the beliefs of people regarding what is essential in order to achieve a minimum acceptable standard of living.
Minimum lending rate	The interest rate that is charged by a central bank when it lends to commercial banks. Also known as discount rate or refinancing rate.
Minimum price	A price set by a government or other authority above the market equilibrium price of a good or service, also known as a price floor.
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.
Minimum wage	A type of price floor where the wage rate or the price of labour is set above the market equilibrium wage rate.
Mixed economy	An economy that has elements of a planned economy and elements of a free market economy. In reality, all economies are mixed. What is different is the degree of the mix from country to country.
Monetarist/new classical counter revolution	An economic school of thought arguing that the price mechanism along with well-functioning competitive markets are sufficient to lead the

	economy to full employment. In this school of thought, government intervention is not necessary to manage the level of aggregate demand.
Monetary policy	A demand-side policy using changes in the money supply or interest rates to achieve economic objectives relating to output, employment and inflation.
Monetary union	Where two or more countries share the same currency and have a common central bank.
Money	Anything that is generally accepted as a means of payment for goods and services. It usually consists of currency and checking accounts.
Money creation	The process of creating new money by commercial banks, which occurs when they make loans.
Money supply	The total amount of money available at a particular time, consisting of currency plus checking accounts.
Monopolistic competition	A market structure where there are many sellers, producing differentiated products, with no barriers to entry.
Monopoly	A market structure where there is only one firm in the industry, so the firm is the industry. There are high barriers to entry.
Moral hazard	A type of market failure involving asymmetric information where a party takes risks but does not face their full costs by changing behaviour after a transaction has taken place. It is very common in insurance markets.
Multidimensional Poverty Index (MPI)	An international measure of poverty covering over 100 of the 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.
Multilateral development assistance	Assistance provided by multilateral organizations such as the World Bank when they lend to developing countries for the purpose of helping them in their development objectives.
Multilateral trade agreement	An agreement between many countries to lower tariffs or other protectionist measures, currently carried out within the framework of the WTO.

National income	The income earned by the factors of production of an economy, equal to wages plus interest, plus rents, plus profits.
National income accounting	The services provided by a statistical entity in every country that measure the economy’s national income and output as well as other economic activity.
National income statistics	The statistical data used to measure a nation’s income and output, and perform national income accounting.
Natural monopoly	A monopoly that can produce enough output to cover the entire needs of a market while still experiencing economies of scale. Its average costs will therefore be lower than those of two or more firms in the market.
Natural rate of unemployment	The rate of unemployment that occurs when the economy is producing at its potential output or full employment level of output. It is equal to the sum of structural, frictional and seasonal unemployment.
Necessity	The degree to which a good is necessary or essential. If the increase in demand for a necessity good is less than proportional to the rise in income; then the necessity good is income elastic. If the change in quantity demanded for a necessity good is less than proportional to a change in price; then the necessity good is price inelastic.
Negative externalities of consumption	Negative effects suffered by a third party whose interests are not considered when a good or service is consumed, so the third party are therefore not compensated.
Negative externalities of production	Negative effects suffered by a third party whose interests are not considered when a good or service is produced, so the third party are therefore not compensated.
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 gross national income	The total income earned by all the residents of a country (regardless of where their factors of production are located) in a given time period, usually a year, at current prices (not adjusted for inflation).

Nominal interest rates	Interest rates that have not been adjusted for inflation.
Non-collusive oligopoly	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	A characteristic of a good, service or resource where it is impossible to prevent a person, or persons, from using it.
Non-governmental organization (NGO)	Organizations that are not part of the government that promote economic development and/or humanitarian ideals and/or sustainable development.
Non-price competition	Competition between firms that is based on factors other than price, usually taking the form of product differentiation.
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).
Non-rivalrous	A characteristic of some goods such that their consumption by one individual does not reduce the ability of others to consume them. It is a characteristic of public goods.
Normal goods	A good where the demand for it increases as income increases.
Normal profit	The minimum return that must be received by a firm in order to stay in business. A firm earns normal profit when total revenue is equal to total cost, or when average revenue or price is equal to average cost.
Normative economics	Deals with areas of the subject that are open to personal opinion and belief, thus not subject to refutation.
Nudge theory	Nudges (prompts, hints) are used to influence the choices made by consumers in order to improve the well-being of people and society.
OECD Better Life Index	An index to compare well-being across countries, based on several dimensions 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, often undertaken to help cover a current account deficit.

Official Development Assistance (ODA)	Aid that is provided to a country by another government or multilateral agency. It is the most important part of foreign aid.
Oligopoly	A market structure where there are a few large firms that dominate the market, with high barriers to entry.
Open market operations	A tool of monetary policy involving the buying or selling of (short-term) government bonds by the central bank in order to increase or decrease the money supply, thus influencing the rate of interest.
Opportunity cost	The next best alternative foregone when an economic decision is made.
Output approach	One of the three equivalent ways that GDP can be measured, it adds up the value of final goods and services produced in a given time period.
Overvalued currency	A currency whose value or exchange rate is greater than its equilibrium exchange rate, usually achieved through central bank intervention; may occur in a pegged or managed exchange rate system.
Payoff matrix	A table showing all possible outcomes of decisions taken by decision-makers in game theory.
Per capita	Per person. Per capita values are found by dividing the variable by the size of the population.
Perfect competition	A market structure where there is a very large number of small firms, producing identical products, with no barriers to entry or exit, and perfect information. All the firms are thus price takers.
Perfect information	Where all stakeholders in an economic transaction have access to the same information.
Perfectly elastic demand	Occurs with a horizontal demand curve signifying that any amount can be bought at a particular price. (PED is infinite.)
Perfectly elastic supply	Occurs with a horizontal supply curve signifying that any amount can be offered at a particular price. (PES is infinite.)
Perfectly inelastic demand	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 is equal to zero.)

Perfectly inelastic supply	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 is equal to zero.)
Personal income taxes	Taxes paid by individuals or households on their incomes, regardless of the source of the income, such as wages, salaries, interest income or dividends.
Phillips curve	A curve showing the relationship between the rate of unemployment and the rate of inflation.
Pigouvian taxes	An indirect tax that is imposed to eliminate the external costs of production or consumption.
Planned economy	An economy where the means of production (land and capital) are owned by the state. The state determines what/how much to produce, how to produce, and for whom to produce.
Portfolio investment	The purchase of financial assets such as shares and bonds in order to gain a financial return in the form of interest or dividends. Appears in the financial account of the balance of payments.
Positive economics	Deals with areas of the subject that are capable of being falsified, or shown to be correct or not.
Positive externalities of consumption	The beneficial effects that are enjoyed by third parties whose interests are not accounted for when a good or service is consumed, therefore they do not pay for the benefits they receive.
Positive externalities of production	The beneficial effects that are enjoyed by third parties whose interests are not accounted for when a good or service is produced, therefore they do not pay for the benefits they receive.
Potential output	Output produced by an economy when it is at full employment equilibrium, or long-run equilibrium according to the monetarist/new classical model.
Poverty	Arises when the lack of material possessions or money prevent an individual or a family from achieving a minimum satisfactory standard of living.
Poverty line	A level of income determined by a government or international body (such as the World Bank) that is just enough to ensure a family can satisfy minimum needs in terms of food, clothing and housing.

Poverty trap/cycle	Any circular chain of events starting and ending in poverty—for example, low income leads to low savings, leads to low investment, leads to low growth, leads to low income.
Preferential trade agreement	Where a country agrees to give preferential access (for example, reduced tariffs) for certain products to one or more trading partners.
Price ceiling (maximum price)	A price imposed by an authority and set below the equilibrium price. Prices cannot rise above this price.
Price competition	Competition between firms that is based on price, for example, a firm that wants to increase its sales at the expense of other firms will lower its price.
Price controls	Prices imposed by an authority, set above or below the equilibrium market price.
Price deflator	A price index that removes the impact of changes in the price level when measuring nominal economic variables.
(Price) elastic demand	Where a change in the price of a good or service leads to a proportionately larger change in the quantity demanded of the good or service in the opposite direction. (PED is greater than one.)
Price elasticity of demand (PED)	A measure of the responsiveness of the quantity demanded of a good or service to a change in its price.
Price elasticity of supply (PES)	A measure of the responsiveness of the quantity supplied of a good or service to a change in its price.
(Price) elastic supply	Where a change in the price of a good or service leads to a proportionately larger change in the quantity supplied of the good or service in the same direction. (PES is greater than one.)
Price expectations	The forecasts or views that consumers or firms hold about future price movements that play a role in determining demand.
Price floor (minimum price)	A price imposed by an authority and set above the market price. Prices cannot fall below this price.

(Price) inelastic demand	Where a change in the price of a good or service leads to a proportionately smaller change in the quantity demanded of the good or service in the opposite direction. (PED is less than one.)
(Price) inelastic supply	Where a change in the price of a good or service leads to a proportionately smaller change in the quantity supplied of the good or service in the same direction. (PES is less than one.)
Price maker	A firm that is able to influence the price at which it sells its product. Includes firms in all market structures except perfect competition.
Price mechanism	The system where the forces of demand and supply determine the prices of products. Also known as the market mechanism.
Price taker	A firm that is unable to influence the price at which it sells its product, being forced to accept the price determined in the market. It includes firm in perfect competition.
Price war	Occurs when firms successively cut their prices in an effort to match the price cuts of other firms, resulting in lower profits, possibly losses.
Primary commodities	Raw materials that are produced in the primary sector. Examples include agricultural products, metals and minerals.
Primary sector	Anything derived from the factor of production land. Includes agricultural products, metals and minerals.
Privatization	The sale of public assets to the private sector. May be a type of supply-side policy.
Producer surplus	The benefit enjoyed by producers by receiving a price that is higher than the price they were willing to receive.
Product differentiation	The process by which firms try to make their products different from the products of other firms in an effort to increase their sales. Differences involve product quality, appearance, services offered and many others.
Production possibilities 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.

Productive capacity	The greatest capability of an economy to produce, usually measured by maximum possible output of an economy.
Profit maximization	A possible objective of firms that involves producing the level of output where profits are greatest: where total revenue minus total cost is greatest or where marginal revenue equals marginal cost.
Progressive taxation	Taxation where the fraction of tax paid increases as income increases. The average tax rate increases.
Property rights	The exclusive, legal, authority to own property and determine how that property is used, whether it is owned by the government or by private individuals.
Proportional tax	A system of taxation where tax is levied at a constant rate as income rises.
Public goods	Goods or services that have the characteristics of non-rivalry and non-excludability, for example, flood barriers.
Purchasing power parity (PPP)	A method used to make the buying power of different currencies equal to the buying power of US$1. PPP exchange rates are used to make comparisons of income or output variables across countries while eliminating the influence of price level differences.
Quantitative easing	An expansionary monetary policy where a central bank buys (long term) government bonds or other financial assets, in order to stimulate the economy and increase the money supply.
Quantity demanded	The quantity of a good or service demanded at a particular price over a given time period, *ceteris paribus*.
Quantity supplied	The quantity of a good or service supplied at a particular price over a given time period, *ceteris paribus*.
Quota	An import barrier that set limits on the quantity or value of imports that may be imported into a country.
Rational consumer choice	Occurs when consumers make choices based on the following assumptions: they have consistent tastes and preferences, they have perfect information and they arrange their purchases so as to make their

	utility as great as possible (maximize it). It is assumed in standard microeconomic theory.
Rational producer behaviour	Occurs when firms try to maximize profit. This is an assumption in standard microeconomic theory.
Rationing	A method used to divide or apportion goods and services or resources among the various interested parties.
Real GDP	The total 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.
Recession	Occurs when real GDP falls for at least two consecutive quarters.
Refutation	A method used in the natural sciences and social sciences where any proposition must be subjected to an empirical test in order to see if it can be disproven or refuted. If it is disproven or refuted, then the proposition must be rejected.
Regional trade agreement	An agreement between a group of countries usually within a geographical region to lower or eliminate trade barriers.
Regressive taxation	Taxation where the fraction of tax paid decreases as income increases. The average tax rate decreases. All indirect taxes are regressive.
Relative poverty	A comparative measure of poverty according to which income levels do not allow people to reach a standard of living that is typical of the society in which they live. It is defined as a percentage of society's median income.
Remittances	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 central banks as a result of international trade. Reserves may be used to maintain or influence the exchange rate for the country’s currency. Reserves appear as an item in the financial account of the balance of payments.
Resource allocation	Apportioning available resources or factors of production to particular uses for production purposes.
Restricted choices	This is when the choice of a consumer is restricted by the government or other authority.
Revaluation	An increase in the value of a currency in a fixed exchange rate system.
Revenues	Payments received by firms when they sell their output.
Rivalrous	Goods and services are considered to be rivalrous when the consumption by one person, or group of people, reduces the amount available for others.
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	A business or firm objective to achieve a satisfactory outcome with respect to one or several objectives, rather than to pursue any one objective at the possible expense of others by optimizing (maximizing), for example, profit, revenue or growth. It is essentially a mix of the words “satisfy” and “suffice”.
Say’s Law	A proposition stating that the supply of goods creates its own demand.
Scarcity	The limited availability of economic resources relative to society’s unlimited needs and wants of goods and services.
Screening	In asymmetric information, the use of a screening process by the participant with less information to gain more information regarding a transaction, and so reduce adverse selection.
Seasonal unemployment	Unemployment that arises when people are out of work because their usual job is out of season, for example, agricultural workers during winter months.

Shortage	Arises when the quantity demanded of a good or services is more than the quantity supplied at some particular price.
Short-run aggregate supply (SRAS)	The total quantity of real output (real GDP) offered at different possible price levels in the short run (when wages and other resource prices are constant).
Short run in macroeconomics	The period of time when the prices of factors of production, especially wages, are considered fixed.
Short run in microeconomics	The period of time when at least one factor of production is fixed.
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.
Short-term fluctuations of economic activity	Periods of growth of real GDP followed by periods of contraction, which are part of the business cycle.
Signalling	In asymmetric information, the participant with more information sending a signal revealing relevant information about a transaction to the participant with less information, to reduce adverse selection.
Social/community surplus	The sum combination of consumer surplus and producer surplus.
Social enterprise	A company 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.
Socially optimum output	This occurs where there is allocative efficiency, or where the marginal social cost of producing a good is equal to the marginal social benefit of the good to society. Alternatively, 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 for the last unit produced).
Social sciences	Academic studies of human societies and how people in society interact with each other.
Specialization	Refers to when a firm or country focuses on the production of one or a few goods or services. This forms the basis of theory of comparative advantage in international trade.

Speculation	Refers to a process where something is bought or sold with a view to making a short term profit, for example, currency speculation where currencies are bought or sold so that a profit can be made when the exchange rate changes.
Stakeholder	An individual or group of individuals who have an interest, or stake, in an economic activity or outcome.
Structural unemployment	A kind of long-term unemployment that arises from a number of factors including: technological change; changes in the patterns of demand for different labour skills; changes in the geographical location of industries; labour market rigidities.
Subsidies	An amount of money paid by the government to a firm, per unit of output, to encourage production and lower the price to consumers.
Subsidy (international)	An amount of money paid by the government to a firm, per unit of output, to encourage production and provide the firm an advantage over foreign competition.
Substitutes	Goods that can be used in place of each other, as they satisfy a similar need.
Substitution effect	When the price of a product falls relative to other product prices, consumers purchase more of the product as it is now relatively less expensive. This forms part of an explanation of the law of demand.
Supply	Quantities of a good that firms are willing and able to supply at different possible prices, over a given time period, *ceteris paribus*.
Supply curve	A curve showing the relationship between the price of a good or service and the quantity supplied, *ceteris paribus*. It is normally upward sloping.
Supply-side policies	Government policies designed to shift the long-run aggregate supply curve to the right, thus increasing potential output in the economy and achieving economic growth.
Surplus	An excess of something over something else. It occurs: • when quantity supplied is greater than quantity demanded at a particular price • when tax revenues are greater than government spending (budget surplus)

	• on an account when credits are greater than debits in the balance of payments. See also “consumer surplus” and “producer surplus”.
Sustainability	Refers to the preserving the environment so that it can continue to satisfy needs and wants into the future. Relates to the concept of “sustainable development”.
Sustainable debt	Refers to a level of government debt such that the borrowing government can make its payments of interest and debt repayment while at the same being able to meet the economy’s growth objectives.
Sustainable development	Refers to the degree to which the current generation is able to meet its needs today but still conserve resources for the sake of future generations.
Tariff	A tax that is placed on imports to protect domestic industries from foreign competition and to raise revenue for the government.
Total costs	All the costs of a firm incurred for the use of resources to produce something.
Total revenue	The amount of revenue received by a firm from the sale of a particular quantity of output (equal to price times quantity sold).
Tradable permits	Permits to pollute, issued by a governing body, that sets a maximum amount of pollution allowable. These permits may be traded (bought or sold) in a market for such permits.
Trade creation	In international trade it occurs when higher cost imports are replaced by lower cost imports due to the formation of a trading bloc or a trade agreement.
Trade diversion	In international trade it occurs when lower cost imports are replaced by higher cost imports due to the formation of a trading bloc or a trade agreement.
Trade liberalization	The process of reducing barriers to international trade.
Trade protection	Government intervention aiming to limit imports and/or encourage exports by setting up trade barriers that protect from foreign competition.

Trading bloc	A group of countries that have agreed to reduce protectionist measures like tariffs and quotas between them.
Tragedy of commons	A situation with common pool 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.
Transfer payments	Payments made by the government to vulnerable groups in a society, including older people, low income people, unemployed and many more. The objective is to transfer money from taxpayers to those who cannot work, to prevent them from falling into poverty.
Undervalued currency	A currency whose value or exchange rate is lower than its equilibrium exchange rate, usually achieved through central bank intervention; may occur in a pegged or managed exchange rate system.
Unemployment	When a person (who is above a specified age and is available to work) is actively looking for work, but is 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.
Unfair competition	In international trade this refers to practices of countries trying to gain an unfair advantage through such methods as undervalued exchange rates.
Unitary elastic demand	Occurs when 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 = 1).
Unitary elastic supply	Occurs when 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 = 1).
Universal basic income	A regular cash payment given to all persons in an economy that is independent of any other source of income they may have. It is intended to reduce poverty and income inequality.

Sustainable development goals (SDGs)	The UN set out 17 global goals including those that aim to end all forms of poverty, fight inequalities and tackle climate change.
Utility	A measure of the satisfaction derived from consuming a good or service.
Wage	Payment received by the factor of production labour, which is a certain amount per unit of time.
Wealth	The total value of all assets owned by a person, firm, community, or country minus what is owed to banks or other financial institutions.
Weighted price index	A measure of average prices over a period of time that gives a weight to each item according to its relative importance in the consumers' budgets. It is used to measure changes in the price level.
Welfare loss	A loss of a part of social surplus (consumer plus producer surplus) that occurs when there is market failure so that marginal social benefits are not equal to marginal private benefits.
World Bank	An international organization that provides loans and advice to economically less developed countries for the purpose of promoting economic development and reducing poverty.
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.