IMPORTANT ECONOMIC TERMS AND CONCEPTS

Absolute Advantage:
The ability of a country, individual, company or region to produce a good or service at a lower cost per unit than the cost at which any other entity produces that good or service. Entities with absolute advantages can produce a product or service using a smaller number of inputs and/or using a more efficient process than another party producing the same product or service.

Absolute Poverty:
Poverty defined with respect to an absolute material standard of living. Someone is absolutely poor if their income does not allow them to consume enough to purchase a minimum bundle of consumer goods and services (including shelter, food and clothing). An alternative approach is to measure relative poverty.

Automatic Stabilizers:
Government fiscal policies which have the effect of automatically moderating the cyclical ups and downs of capitalism. Examples include income taxes (which collect more or less taxes depending on the state of the economy) and unemployment insurance benefits (which automatically replace lost income for people who lose their jobs).

Automatic stabilizers act in a manner that is against the prevailing economic trend. For example, in a progressive taxation structure, the share of taxes in national income falls when the economy is booming and rises when the economy is in a slump. This has the effect of cushioning the economy from changes in the business cycle. Similarly, total net transfer payments such as unemployment insurance decline when the economy is in an expansionary phase, and rise when the economy is mired in recession.
**Balanced Budget:**

An annual budget (such as for a government) in which revenues perfectly offset expenditures, so that there is neither a deficit nor a surplus. The phrase "balanced budget" is commonly used in reference to official government budgets. It is important to understand that the phrase "balanced budget" can refer to either a situation where revenues equal expenses or where revenues exceed expenses, but not where expenses exceed revenues.

**Bank for International Settlements:**

An international financial regulatory organization based in Berne, Switzerland, which designs international regulations regarding capital adequacy and other banking practices. The BIS is governed by government appointees from the world’s largest capitalist economies. Essentially, the BIS is a central bank for central banks; it does not provide financial services to individuals or corporations. The BIS is located in Basel, Switzerland and has representative offices in Mexico City and Hong Kong.

**Banking Cycle:**

An economic cycle which results from cyclical changes in the attitudes of banks toward lending risk. When economic times are good, bankers become optimistic that their loans will be repaid and hence they expand their lending. More credit means even stronger economic times and so on. The opposite occurs when the economy becomes weaker. Bankers begin to fear more defaults on their loans, hence they issue fewer loans, and hence the economy weakens even further.

**Banks:**

A company that accepts deposits and issues new loans. It makes profit by charging more interest for the loans than it pays on the deposits, as well as through various service charges. By issuing
new loans (or credit), banks create new money which is essential to promoting economic growth and job creation.

**Barter:**

A form of trade in which one good or service is exchanged directly for another, without the use of money as an intermediary.

**Bond:**

A financial security which represents the promise of its issuer (usually a company or a government) to repay a loan over a specified time period, at a specified rate of interest. The bond can then be bought and sold to other investors, over and over again. When the rate of interest falls, bond prices rise (and vice versa) – since when interest rates are lower, the bond’s promise to repay interest at the specified fixed rate becomes more valuable. The indebted entity (issuer) issues a bond that states the interest rate (coupon) that will be paid and when the loaned funds (bond principal) are to be returned (maturity date). Interest on bonds is usually paid every six months (semi-annually). The main categories of bonds are corporate bonds, municipal bonds.

- Convertible Bonds: A convertible bond may be redeemed for a predetermined amount of the company's equity at certain times during its life, usually at the discretion of the bondholder. Convertibles are sometimes called "CVs."
- Callable Bonds: Callable bonds, also known as redeemable bonds, can be redeemed by the issuer prior to maturity. Usually a premium is paid to the bond owner when the bond is called.

The main cause of a call is a decline in interest rates. If interest rates have declined since a company first issued the bonds, it will likely want to refinance this debt at a lower rate. In this case, the company will call its current bonds and reissue new, lower-interest bonds to save money.

**Balance of Trade:**
The difference between a country's imports and its exports. Balance of trade is the largest component of a country's balance of payments. Debit items include imports, foreign aid, domestic spending abroad and domestic investments abroad. Credit items include exports, foreign spending in the domestic economy and foreign investments in the domestic economy. A country has a trade deficit if it imports more than it exports; the opposite scenario is a trade surplus. Also referred to as "trade balance" or "international trade balance."

**Business Firm:**

A business organization, such as a corporation, limited liability company or partnership. Firms are typically associated with business organizations that practice law, but the term can be used for a wide variety or business operation units.

**Capital:**

Broadly defined, capital represents the tools which people use when they work, in order to make their work more productive and efficient. Under capitalism, capital can also refer to a sum of money invested in a business in hopes of generating profit.

**Capital Adequacy:**

Capital adequacy rules are loose regulations imposed on private banks, in hope of ensuring that they have sufficient internal resources (including the money invested by the bank’s own shareholders) to be able to withstand fluctuations in lending and profitability.

**Capital Flight:**

A destructive process in which investors (both foreigners and domestic residents) withdraw their financial capital from a country as a result of what are perceived to be non-favourable changes in economic policies, political conditions, or other factors.
The consequences of capital flight can include a contraction in real investment spending, a dramatic depreciation in the exchange rate, and a rapid tightening of credit conditions. Developing countries are most vulnerable to capital flight.

**Capital Gain:**

A capital gain is a form of profit earned on an investment by reselling an asset for more than it cost to buy. Assets which may be purchased for this purpose include stocks, bonds, and other financial assets; real estate; commodities; or fine art.

**Capacity Utilization:**

A company or economy’s capacity represents the maximum amount of output it can produce. The rate of capacity utilization, therefore, represents the proportion of capacity that is actually used in production. When capacity utilization is high (so that a facility is being used fully or near-fully), pressure grows for new investment to expand that capacity. Also, high capacity utilization tends to reduce the unit cost of production.

**Capitalism:**

An economic system in which privately-owned companies and businesses undertake most economic activity (with the goal of generating private profit), and most work is performed by employed workers who are paid wages or salaries.

**Definition of ’Capitalism’:**
A system of economics based on the private ownership of capital and production inputs, and on the production of goods and services for profit. The production of goods and services is based on supply and demand in the general market (market economy), rather than through central planning (planned economy).

Capitalism is generally characterized by competition between producers. Other facets, such as the participation of government in production and regulation, vary across models of capitalism.
Capitalism is often closely associated with economic growth, as production and price are determined by the market rather than by governments. Private property rights provide individuals with the freedom to produce goods and services they can sell in the market.

Capitalism has been criticized for its underlying focus on profit, and how that focus can lead to social and economic inequality. Further, it is also criticized for its emphasis on consumption, as the constant purchase of goods and services is necessary for capitalism's success.

**Carbon Tax:**

An environmental tax which is imposed on products which utilize carbon-based materials, and hence contribute to greenhouse gas pollution (including oil, gas, coal, and other fossil fuels). The level of the tax should depend on the carbon (polluting) content of each material.

Carbon taxes offer a potentially cost-effective means of reducing greenhouse gas emissions. From an economic perspective, carbon taxes are a type of Pigovian tax. They help to address the problem of emitters of greenhouse gases not facing the full (social) costs of their actions. Carbon taxes can be a regressive tax, in that they may directly or indirectly affect low-income groups disproportionately. The regressive impact of carbon taxes could be addressed by using tax revenues to favour low-income groups.

**Central Bank:**

A public financial institution, usually established at the national level and controlled by a national government, which sets short-term interest rates, lends money to commercial banks and governments and otherwise oversees the operation of the credit system. Some central banks also have responsibility for regulating the activities of private banks and other financial institutions.
**Central Planning:**

An economic system in which crucial decisions regarding investment, consumption, interest rates, exchange rates and price determination are made by central government planners (rather than determined by market forces).

**Class:**

The different broad groups in society, defined according to what work they do, their wealth, their degree of control over production and their general role in the economy.

**Classical Economics:**

The classical economists wrote in the early years of capitalism, and they uniformly celebrated the productive, innovative actions of the new class of industrial capitalists. They focused on the dynamic economic and political development of capitalism, analyzed economics in class terms and advocated the labour theory of value.

**Collateral:**

Property or other assets that a borrower offers a lender to secure a loan. If the borrower stops making the promised loan payments, the lender can seize the collateral to recoup its losses. Because collateral offers some security to the lender in case the borrower fails to pay back the loan, loans that are secured by collateral typically have lower interest rates than unsecured loans. A lender's claim to a borrower's collateral is called a lien.

**Competition:**

Competition is the rivalry among sellers trying to achieve such goals as increasing profits, market share, and sales volume by varying the elements of the marketing mix: price, product, distribution, and promotion. Merriam-Webster defines competition in business as "the effort of two or more parties acting
independently to secure the business of a third party by offering the most favourable terms." It was described by Adam Smith in The Wealth of Nations (1776) and later economists as allocating productive resources to their most highly-valued uses efficiency. Smith and other classical economists before Cornet were referring to price and non-price rivalry among producers to sell their goods on best terms by bidding of buyers, not necessarily to a large number of sellers nor to a market in final equilibrium.

Perfect competition is a theoretical market structure. It is primarily used as a benchmark against which other, real-life market structures are compared. The industry that most closely resembles perfect competition in real life is agriculture.

Perfect competition is the opposite of a monopoly, in which only a single firm supplies a particular good or service, and that firm can charge whatever price it wants because consumers have no alternatives and it is difficult for would-be competitors to enter the marketplace. Under perfect competition, there are many buyers and sellers, and prices reflect supply and demand. Also, consumers have many substitutes if the good or service they wish to buy becomes too expensive or its quality begins to fall short. New firms can easily enter the market, generating additional competition. Companies earn just enough profit to stay in business and no more, because if they were to earn excess profits, other companies would enter the market and drive profits back down to the bare minimum.

**Conditionality:**

International financial institutions (like the World Bank and the International Monetary Fund) often attach strong conditions to emergency loans they make to developing countries experiencing economic and financial crises. These conditions require the borrowing countries to follow strict neoliberal policies, such as reducing government spending and deficits; unilaterally opening markets to foreign trade; and privatizing important public assets.
Consumers:

A consumer is a person or group of people, such as a household, who are the final users of products or services. The consumer's use is final in the sense that the product is usually not improved by the use.

Consumer Price Index:

The consumer price index (CPI) is a measure of the overall price level paid by consumers for the various goods and services they purchase. Retail price information is gathered on each type of product, and then weighted according to its importance in overall consumer spending, to construct the CPI. Monthly or annual changes in the CPI provide a good measure of the rate of consumer price inflation.

CPI is one of the most frequently used statistics for identifying periods of inflation or deflation. This is because large rises in CPI during a short period of time typically denote periods of inflation and large drops in CPI during a short period of time usually mark periods of deflation.

Consumption:

Goods and services which are used for their ultimate end purpose, meeting some human need or desire. Consumption can include private consumption (by individuals, financed from their personal incomes) or public consumption (such as education or health care – consumption organized and paid for by government). Consumption is distinct from investment, which involves using produced goods and services to expand future production.

Corporation:

A corporation is a form of business established as an independent legal entity, separate from the individuals who own it. A major
benefit, for the owners, of this form of business is that it provides for limited liability for its.

**Corporatism:**

A system for managing wage determination and income distribution, in which wage levels are determined centrally (across industries or even entire countries) on the basis of productivity growth, profitability, and other parameters, following some process of consultation or negotiation involving unions, employers, and often government. Variants of this system are used commonly in Scandinavia, parts of continental Europe, and parts of Asia.

**Credit:**

The ability to purchase something without immediately paying for it – through a credit card, a bank loan, a mortgage, or other forms of credit. The creation of credit is the most important source of new money, and new spending power, in the economy.

**Credit Squeeze:**

At times private banks become reluctant to issue new loans and credit, often because they are worried about the risk of default by borrowers. This is common during times of recession or financial instability. A credit squeeze can dramatically slow down economic growth and job-creation.

**Customer:**

A customer (sometimes known as a client, buyer, or purchaser) is the recipient of a good, service, product, or idea, obtained from a seller, vendor, or supplier for a monetary or other valuable consideration. Customers are generally categorized into two types:
- An intermediate customer or trade customer (more informally: "the trade") who is a dealer that purchases goods for re-sale.
- An ultimate customer who does not in turn re-sell the things bought but either passes them to the consumer or actually is the consumer.

**Debt:**

The total amount of money owed by an individual, company or other organization to banks or other lenders is their debt. It represents the accumulated total of past borrowing. When it is owed by government, it is called public debt, and it represents the accumulation of past budget deficits.

Bonds, loans and commercial paper are all examples of debt.

**Debt Burden:**

The real economic importance of a debt depends on the interest rate that must be paid on the debt, and on the total income of the consumer or business that undertook the loan. For public debt, the most appropriate way to measure the debt burden is as a share of national GDP.

**Deficit:**

When a government, business, or household spends more in a given period of time than they generate in income, they incur a deficit. A deficit must be financed with new borrowing, or by running down previous savings.

Large and growing deficits over prolonged periods of time are unsustainable in most cases, irrespective of whether they are incurred by an individual, corporation or government. Huge deficits over a number of years can wipe out equity for an individual or a company’s shareholders, eventually leaving bankruptcy as the only option. Although sovereign governments have a much greater capacity to sustain deficits, negative effects
in such cases include lower economic growth rates (in case of budget deficits) or a plunge in the value of the domestic currency (in case of trade deficits).

**Defined Benefit Pensions:**

A pension plan that pays a specified monetary benefit, usually based on a pensioner’s years of service and their income at the time of retirement.

**Defined Contribution Pensions:**

A pension plan that makes no specific promise about the level of pension paid out after retirement. Instead, a pensioner’s income depends on the amount of money accumulated in a pre-funded retirement account, on investment returns, and on interest rates at the time of retirement.

**Deflation:**

A general decline in prices, often caused by a reduction in the supply of money or credit. Deflation can be caused also by a decrease in government, personal or investment spending. The opposite of inflation, deflation has the side effect of increased unemployment since there is a lower level of demand in the economy, which can lead to an economic depression. Central banks attempt to stop severe deflation, along with severe inflation, in an attempt to keep the excessive drop in prices to a minimum.

The decline in prices of assets, is often known as Asset Deflation.

Declining prices, if they persist, generally create a vicious spiral of negatives such as falling profits, closing factories, shrinking employment and incomes, and increasing defaults on loans by companies and individuals.
Rising prices provide an essential lubricant for any sustained recovery because businesses increase profits and take some of the depressive pressures off wages and debtors of every kind.

**Demand:**

An economic principle that describes a consumer's desire and willingness to pay a price for a specific good or service. Holding all other factors constant, the price of a good or service increases as its demand increases and vice versa. Think of demand as your willingness to go out and buy a certain product. For example, market demand is the total of what everybody in the market wants.

Businesses often spend a considerable amount of money in order to determine the amount of demand that the public has for its products and services. Incorrect estimations will either result in money left on the table if it's underestimated or losses if it's overestimated.

**Depreciation:**

2. A decrease in an asset's value caused by unfavourable market conditions.

For accounting purposes, depreciation indicates how much of an asset's value has been used up. For tax purposes, businesses can deduct the cost of the tangible assets they purchase as business expenses.

**Depression:**

A depression is a very deep, long and painful recession, in which unemployment rises to very high levels and economic output does not bounce back.
A depression is a sustained and severe recession. Where a recession is a normal part of the business cycle, lasting for a period of months, a depression is an extreme fall in economic activity lasting for a number of years. Economists disagree on the duration of depressions; some economists believe a depression encompasses only the period plagued by declining economic activity. Other economists, however, argue that the depression continues up until the point that most economic activity has returned to normal.

**Derivatives:**

A derivative is a financial asset whose resale value depends on the value of other financial assets at different points in time. Its value is thus "derived" from the value of other financial assets, and is hence very difficult to predict. Examples of derivatives include futures, options, and swaps.

**Discrimination:**

As a result of racist and sexist attitudes and deliberate efforts of employers to play off groups of workers against each other, different groups of people (defined and divided by gender, ethnicity, language, ability or other factors) experience very different economic opportunities and incomes.

**Distribution:**

The distribution of income reflects the process by which the real output of goods and services produced by the economy is allocated to different individuals and groups of people.

Distribution can be measured across individuals (comparing high-income and low-income households), or across classes (comparing the incomes of workers, small businesses, and capitalists).

**Dividends:**
Many companies pay a cash dividend (quarterly or annually) to the owners of its shares. This is an enticement to investors to purchase that company’s shares, and represents a way of distributing some of a company’s profits to its ultimate owners. Individual investors can capture profits in other ways, as well – such as through capital gains.

**Division of Labour:**

Division of labour, the separation of a work process into a number of tasks, with each task performed by a separate person or group of persons. It is most often applied to systems of mass production and is one of the basic organizing principles of the assembly line. Breaking down work into simple, repetitive tasks eliminates unnecessary motion and limits the handling of different tools and parts. The consequent reduction in production time and the ability to replace craftsmen with lower-paid, unskilled workers result in lower production costs and a less expensive final product. Contrary to popular belief, however, division of labour does not necessarily lead to a decrease in skills—known as proletarianization—among the working population. The Scottish economist Adam Smith saw this splitting of tasks as a key to economic progress by providing a cheaper and more efficient means of producing goods.

**Durable Goods:**

Durable goods are a category of consumer products that do not need to be purchased frequently because they are made to last for a long time (usually lasting for three years or more). They are also called consumer durables or durables.

**Economic Growth:**

Economic growth is the expansion of total output produced in the economy. It is usually measured by the expansion of real GDP.

**Employment:**
Employment is a specific form of work, in which the worker performs their labour for someone else in return for a money wage or salary.

**Employment Rate:**

This measures the share of working age adults who are actually employed in a paying position. The employment rate can be a better indicator of the strength of labour markets than the unemployment rate (since the unemployment rate depends on whether or not a non-working individual is considered to be "in" the labour force).

**Exchange Rate:**

The "price" at which the currency of one country can be converted into the currency of another country. A country’s currency is "strong," or its exchange rate is "high," if it can purchase more of another country’s currency. A country’s currency appreciates when its value (compared to other currencies) grows; it depreciates when its value falls.

An exchange rate has a base currency and a counter currency. In a direct quotation, the foreign currency is the base currency and the domestic currency is the counter currency. In an indirect quotation, the domestic currency is the base currency and the foreign currency is the counter currency.

**Exports:**

An export is the sale of a product from one country (either a good or a service) to a purchaser in another country. That are essential inputs to every economic activity.

Most of the largest companies operating in advanced economies will derive a substantial portion of their annual revenues from exports to other countries. The ability to export goods helps an economy to grow by selling more overall goods and services. One of the core functions of diplomacy and foreign policy within
governments is to foster economic trade in ways that benefit both parties involved.

**Feudalism:**

A type of economy (such as that in Europe in the Middle Ages) that is primarily agricultural, but productive enough to support a class of artisans and merchants. Feudal societies are composed of two main social classes: nobles and peasants. The nobility extracted the agricultural surplus from peasants through a system of tradition, mutual obligation and (when necessary) brute force.

**Final Products:**

Products (either goods or services) which are intended for final consumption. They are distinct from intermediate products, which are products used in the production of other products (such as raw materials, capital goods, or producer services).

**Finance:**

Monetary purchasing power, typically created by a bank or other financial institution, which allows a company, household, or government to spend on major purchases (often on capital assets or other major purchases).

**Financialization:**

The trend under neoliberals through which real production in the economy is accompanied by an increasing degree of financial activity and intermediation (including various forms of lending, financial assets, and securitization). One way to measure financialization is by the ratio of total financial assets to real capital assets in an economy.

**Fiscal Policy:**
Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy space policy through which a central bank influences a nation's money supply. These two policies are used in various combinations to direct a country's economic goals. Here we look at how fiscal policy works, how it must be monitored and how its implementation may affect different people in an economy.

Before the Great Depression, which lasted from Sept. 4, 1929 to the late 1930s or early 1940s, the government's approach to the economy was laissez-faire. Following World War II, it was determined that the government had to take a proactive role in the economy to regulate unemployment, business cycles, inflation and the cost of money. By using a mix of monetary and fiscal policies (depending on the political orientations and the philosophies of those in power at a particular time, one policy may dominate over another), governments are able to control economic phenomena.

**Foreign Direct Investment:**

An investment by a company based in one country, in an actual operating business, including real physical capital assets (like buildings, machinery and equipment), located in another country.

The investing company may make its overseas investment in a number of ways - either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture.

**Foreign Exchange:**

The process by which the currency of one nation is converted into the currency of another country. Foreign exchange transactions encompass everything from the conversion of currencies by a traveler at an airport kiosk to billion-dollar payments made by corporate giants and governments for goods and services purchased overseas.
Increasing globalization has led to a massive increase in the number of foreign exchange transactions in recent decades. The global foreign exchange market is by far the largest financial market, with average daily volumes in the trillions of dollars.

**Fractional Reserve System:**

A banking system in which private banks are required to hold a specified proportion of assets on hand in their banks, to underpin a much larger amount of lending to the bank’s customers.

**Free Economic Enterprise:**

An economic system where few restrictions are placed on business activities and ownership. In this system, governments generally have minimal ownership of enterprises in the market place. This system aims for limited restrictions on trade and minimal government intervention.

The free enterprise movement started in the 1700s, when many individuals were restricted from starting and owning their own business without the permission of the government. The movement looked to reduce ownership and other related restrictions, such as how one should operate their business and who they were allowed to trade with. Over time, the focus of this movement has shifted. A lot of its causes have been incorporated in most free-market systems.

**Free Trade Agreements:**

An agreement between two or more countries which eliminates tariffs on trade between the countries, reduces non-tariff barriers to trade, cements rights and protections for investors and corporations, and takes other measures to guarantee a generally liberalized, pro-business economic environment.

To develop a free trade area, participating nations must develop rules for how the new free trade area will operate.
Free trade areas benefit consumers, who will have increased access to less expensive and/or higher quality foreign goods and who will see prices decrease as governments reduce or eliminate tariffs. Producers may struggle with increased competition, but they may also acquire a greatly expanded market of potential customers. Workers in some countries and industries are likely to lose jobs as production shifts to become more efficient overall. Free trade areas can also encourage economic development in countries as a whole, benefiting everyone who resides there through increased living standards.

**Full Employment:**

A condition in which every willing worker is able to find a paying job within a very short period of time, and hence unemployment is near zero.

**Gini Coefficient:**

A statistical measure of inequality. A Gini score of 0 implies perfect equality (in which every individual receives the same income). A Gini score of 1 implies perfect inequality (in which one individual receives all of the income).

The index is named after its developer, Corrado Gini, an Italian statistician of the early 20th century. It is typically expressed as a percentage, so a 20 coefficient would be shown as 20%.

A wealthy country and a poor country can have the same Gini coefficient, even if the wealthy country has a relatively equal distribution of affluent residents and the poor country has a relatively equal distribution of cash-strapped residents.

The Gini index is only as accurate as the gross domestic product (GDP) and income data that a country produces. Many developing nations do not produce accurate or trusted economic data, so the index becomes more of an estimate. There is also a generally negative correlation between Gini coefficients and per-capita GDP, because poorer nations tend to have higher index figures.
**Globalization:**

A generalized historical process through which more economic activity takes place across national borders. Forms of globalization include international trade (exports and imports), foreign direct investment, international financial flows, and international migration.

**Gross Domestic Product:**

The value of all the goods and services produced for money in an economy, evaluated at their market prices. Excludes the value of unpaid work (such as caring reproductive labour performed in the home). GDP is calculated by adding up the value-added at each stage of production.

**Gross Domestic Product Deflator:**

A price index which adjusts the overall value of GDP according to the average increase in the prices of all output. The GDP deflator equals the ratio of nominal GDP to real GDP.

**Gross Domestic Product Per Capita:**

The level of GDP divided by the population of a country or region.

Changes in real GDP per capita over time are often interpreted as a measure of changes in the average standard of living of a country, although this is misleading (because it doesn’t account for differences in the distribution of income across factors of production and individuals, and it doesn’t consider the value of unpaid labour).

**Gross National Product (GNP):**

An economic statistic that includes GDP, plus any income earned by residents from overseas investments, minus income earned within the domestic economy by overseas residents.

**Hyper-Inflation:**
A situation of extremely rapid inflation (reaching 100% per year or more), often resulting from a condition of economic or political breakdown.

When associated with depressions, hyperinflation often occurs when there is a large increase in the money supply not supported by gross domestic product (GDP) growth, resulting in an imbalance in the supply and demand for the money. Left unchecked this causes prices to increase, as the currency loses its value.

When associated with wars, hyperinflation often occurs when there is a loss of confidence in a currency's ability to maintain its value in the aftermath. Because of this, sellers demand a risk premium to accept the currency, and they do this by raising their prices.

**Industrial Policy:**

Government policies aimed at fostering the domestic development of particular desirable or productive industries, in order to boost productivity, create higher-paid jobs, and enhance international trade performance. Tools of industrial policy can include measures to stimulate investment in targeted industries; trade policies (such as tariffs, export incentives, or limits on imports); and technology policies.

**Inequality:**

The distribution of income across individual households typically demonstrates inequality between higher-income and lower-income households.

**Inflation:**

Inflation is defined as a sustained increase in the general level of prices for goods and services. It is measured as an annual percentage increase. As inflation rises, every dollar you own buys a smaller percentage of a good or service.
There are several variations on inflation:

Deflation is when the general level of prices is falling. This is the opposite of inflation. Hyperinflation is unusually rapid inflation. In extreme cases, this can lead to the breakdown of a nation's monetary system. One of the most notable examples of hyperinflation occurred in Germany in 1923, when prices rose 2,500% in one month!

Stagflation is the combination of high unemployment and economic stagnation with inflation. This happened in industrialized countries during the 1970s, when a bad economy was combined with OPEC raising oil prices.

**Informal Economy:**

The informal sector of the economy represents the production of goods and services for the own-use of the producers, or for informal or "underground" trade in particular communities (as opposed to the formal economy). It is particularly important in developing countries.

**Innovation:**

Producers (including private companies) will endeavour to develop new products (new goods or services) and new processes (new ways of producing those goods or services), with the goal (in a capitalist context) of enhancing market share and hence profitability. More generally, innovation simply refers to finding better ways to produce better goods and services.

**Institutionalist Economics:**

A school of heterodox economics which emphasizes the importance of institutional development and evolution (as opposed to "pure" market forces) in explaining economic and social development.

**International Monetary Fund:**
An international financial institution established after World War II with the goal of regulating and stabilizing financial relationships among countries, and ensuring free flow of finance around the world economy. Based in Washington, D.C., it is governed by a system which grants disproportionate influence to the wealthier economies (based on their contribution to the Fund’s operating resources).

**Investment:**

Investment represents production which is not consumed, but rather is utilized in the production of other additional output. Investment also represents an addition to the capital stock of an economy.

- **Capital stock:** The common and preferred stock a company is authorized to issue, according to their corporate charter. Capital stock represents the size of the equity position of a firm and can be found on the balance sheet (or notes) of a typical financial statement. Firms can both issue more capital stock, or buyback shares that are currently owned by shareholders.

- **Joint Stock:** A form of business in which the company’s assets are jointly divided among a large number of different individual owners, each of whom owns a specified share of the company’s total wealth. Joint stock companies are governed by a weighted voting system in which investors’ influence depends on the number of shares they own.

**Labour Discipline:**

Employers are interested in maximizing the extent to which employees expend effort and "follow the rules" in the workplace. The degree of labour discipline reflects the cost of job loss and other measures of employers’ power over their workers.

**Labour Extraction:**
Most employees under capitalism are paid according to the time they spend at work. But employers then face a challenge to extract genuine labour effort from their workers while they are on the job. Employer labour extraction strategies utilize a combination of labour discipline, supervision, technology (to control and monitor work), and threat of dismissal.

**Labour Force:**

The total population of working-age people who are willing and able to work, and who hence have "entered" the labour market. The labour force includes individuals who are employed, and those who are "actively" seeking employment.

**Loan:**

The act of giving money, property or other material goods to another party in exchange for future repayment of the principal amount along with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as open-ended credit up to a specified ceiling amount.

**Market economy:**

An economic system where most goods and services are exchanged through transactions by private households and businesses. Prices are determined by buyers and sellers making exchanges in private markets.

**Market Socialism:**

A form of socialism in which productive companies are owned through public or non-profit forms, but relate to each other through markets and competition (with little or no central planning).

**Microeconomics:**
The study of the economic behaviour of individual "agents" such as particular companies, workers, or households. Macroeconomics studies large-scale phenomena in the national economy and even in global economies, because they're interrelated. These would include central bank interest rates, national employment numbers, gross national product figures, trade deficits or surpluses, foreign currency exchange rates and other major economic activity and data.

**Money:**

Broadly speaking, money is anything that can be used as a means of payment (for example, to settle a debt). It includes actual currency, bank deposits, credit cards and lines of credit, and various modern electronic means of payment.

**Mortgage:**

Debt instrument, secured by the collateral of specified real estate property, that the borrower is obliged to pay back with a predetermined set of payments. Mortgages are used by individuals and businesses to make large real estate purchases without paying the entire value of the purchase up front. Over a period of many years, the borrower repays the loan, plus interest, until he/she eventually owns the property free and clear. Mortgages are also known as "liens against property" or "claims on property." If the borrower stops paying the mortgage, the bank can foreclose. Mortgages come in many forms.

Most fixed-rate mortgages have a 15- or 30-year term. If market interest rates rise, the borrower’s payment does not change. If market interest rates drop significantly, the borrower may be able to secure that lower rate by refinancing the mortgage. A fixed-rate mortgage is also called a "traditional" mortgage.

With an adjustable-rate mortgage (ARM), the interest rate is fixed for an initial term, but then it fluctuates with market interest rates. The initial interest rate is often a below-market rate, which
can make a mortgage seem more affordable than it really is. If interest rates increase later, the borrower may not be able to afford the higher monthly payments. Interest rates could also decrease, making an ARM less expensive. In either case, the monthly payments are unpredictable after the initial term.

**Mutual Fund:**

A financial vehicle which involves pooling investments in the shares of many different joint stock (or publicly traded) companies, in order to reduce the risk and overhead costs associated with investing in corporate shares. An investor buys a unit in the mutual fund, and receives a pro-rated portion of the fund’s total income (including both dividends and capital gains).

**Needs:**

Needs are based on physiological, personal or socio-economic requirements necessary for you to function and live. Transportation is a need for the modern, urban person because work, food and other necessities of daily life are too far from where they live. Wants, on the other hand, are a means to fulfilling our needs. You may be able bike to work, use public transportation or drive your own vehicle. While any of the choices will work, you want a car to fulfil your need for transportation.

**Normative economics:**

A perspective on economics that incorporates subjectivity within its analyses. It is the study or presentation of "what ought to be" rather than what actually is. Normative economics deals heavily in value judgments and theoretical scenarios. It is the opposite of positive economics.

Normative statements are often heard in the media because they tend to represent a theory or opinion rather than objective analysis. Normative economics is a valuable way to establish goals and generate new ideas, but it should not be used as a basis for policy decisions.
**Payroll Tax:**

A tax levied on current employment or payrolls (collected either as a fixed amount per employee, or as a percentage of total wages and salaries paid). Payroll taxes are most commonly used to finance employment-related social programs, such as pension or unemployment insurance programs.

Governments use revenues from payroll taxes to fund such programs as Social Security, healthcare, unemployment compensation, worker's compensation and sometimes local governments even require a small tax to maintain and improve local transportation.

**Perfect Competition:**

An abstract assumption, central to neoclassical economics, in which companies are so small that none can influence total output or price levels in an industry, none can distinguish its products from those of competing firms, and none can anticipate or interact with the actions of its competitors. Perfect competition has never existed in real life; it is a theoretical assumption developed solely in order to defend the internal logical integrity of neoclassical economic theories.

**Physical Capital:**

A tangible tool, building, machine, or other productive asset which is used to produce other goods or services. Physical capital refers to any manufactured asset that is applied production, such as machinery, buildings, or vehicles, which is one of the three primary factors of production.

In general, physical capital refers to any non-human asset made by humans and then used in production.

Often, it refers to economic capital in some ambiguous combination of infrastructural capital and natural capital. As these are combined in process-specific and firm-specific ways that
neoclassical macro-economics does not differentiate at its level of analysis, it is common to refer only to physical vs. human capital and seek so-called "balanced growth" that develops both in tandem.

**Poverty:**

A state of having inadequate income or other resources to support a household or group of households at a basic standard of living. Poverty can be measured in absolute or relative terms.

**Poverty Rate:**

The proportion of individuals or households in a jurisdiction which are defined as poor, according to either absolute or relative definitions of poverty.

**Price Level:**

The overall average level of nominal prices in the economy can be calculated, most often as a weighted average of the prices of individual goods and services (with weightings reflecting the importance of each product in overall spending or output). Price levels can be calculated for consumer spending, for wholesale trade, for producer inputs, or for any other category of production. The most common measures of the overall price level are the consumer price index and the gross domestic product deflator.

**Product Markets:**

Product marketing deals with the several of the "7 P's" of marketing, which are product, pricing, place, promotion, physical environment, process and people.

Product marketing, as opposed to product management, deals with more outbound marketing or customer-facing tasks (in the older sense of the phrase). For example, product management deals with the basics of product development within a firm,
whereas product marketing deals with marketing the product to prospects, customers and others. Product marketing, as a job function within a firm, also differs from other marketing jobs such as marketing communications ("marcom"), online marketing, advertising, marketing strategy, and public relations, although product marketers may use channels such as online for outbound marketing for their product.

A product market is something that is referred to when pitching a new product to the general public. Product market definition focuses on a narrow statement: the product type, customer needs (functional needs), customer type, and geographic area.

**Productivity:**

An economic measure of output per unit of input. Inputs include labour and capital, while output is typically measured in revenues and other GDP components such as business inventories. Productivity measures may be examined collectively (across the whole economy) or viewed industry by industry to examine trends in labour growth, wage levels and technological improvement.

Productivity gains are vital to the economy because they allow us to accomplish more with less. Capital and labour are both scarce resources, so maximizing their impact is always a core concern of modern business. Productivity enhancements come from technology advances, such as computers and the internet, supply chain and logistics improvements, and increased skill levels within the workforce.

Productivity is measured and tracked by many economists as a clue for predicting future levels of GDP growth. The productivity measure commonly reported through the media is based on the ratio of GDP to total hours worked in the economy during a measuring period; this productivity measure is produced by the Bureau of Labour Statistics four times per year.

**Progressive Tax:**
A tax is considered progressive if a larger proportionate share of its total burden falls on individuals with higher average incomes.

A system of taxation in which persons or corporations are assessed at a greater percentage of their income according to their theoretical ability to pay. That is, taxpayers pay more in taxes if they earn more in income. For example, taxpayers may pay 25% of their income in taxes up to a certain amount, and 35% of everything earned over that amount.

A theory behind progressive taxation states that persons or corporations who earn the same or a similar amount of money should be taxed in the same or a similar way. While most countries have some form of progressive taxation, it is usually coupled with other taxes, such as a sales tax, and few countries treat all income as exactly the same.

**Public-Private Partnerships (PPPs):**

A form of financing public investment, and sometimes the direct provision of public services, in which finance is provided by private investors (in return for interest), and private firms are involved in the management of the construction or operation of the publicly-owned facility. PPPs have been heavily criticized for increasing the cost of public projects and generating undue profits for private investors.

Public-private partnerships often use private-sector investments to finance a public project when sufficient public funding is not available. For example, a city government might be heavily indebted, but a private enterprise might be interested in funding the project's construction in exchange for receiving the operating profits once the project is complete.

**Quantity demanded:**

A term used in economics to describe the total amount of goods or services that are demanded at any given point in time. The quantity demanded depends on the price of a good or service in
the marketplace, regardless of whether that market is in equilibrium. The quantity demanded is determined at any given point along a demand curve in a price vs. quantity plane.

When a given quantity of a good or service is demanded, as determined by its price, it will then impact the amount of goods or services that will be purchased. The degree to which the quantity demanded changes with respect to price is called elasticity of demand.

**Real GDP:**

The value of total gross domestic product (that is, all the goods and services produced for money in the economy) adjusted for the effects of inflation. In theory, real GDP represents the physical quantity of output.

**Nominal GDP:** A gross domestic product (GDP) figure that has not been adjusted for inflation.

The main difference between nominal and real values is that real values are adjusted for inflation, while nominal values are not. As a result, nominal GDP will often appear higher than real GDP.

Nominal values of GDP (or other income measures) from different time periods can differ due to changes in quantities of goods and services and/or changes in general price levels. As a result, taking price levels (or inflation) into account is necessary when determining if we are really better or worse off when making comparisons between different time periods. Values for real GDP are adjusted for differences in prices levels, while figures for nominal GDP are not.

**The GDP Deflator:** The GDP deflator is an economic metric that converts output measured at current prices into constant-dollar GDP. This includes prices for business and government goods and services, as well as those purchased by consumers. This calculation shows how much a change in the base year's GDP relies upon changes in the price level.
If we wish to analyze the impact of price changes throughout an economy, then the GDP deflator is the preferred price index. This is because it does not focus on a fixed basket of goods and services and automatically reflects changes in consumption patterns and/or the introduction of new goods and services.

Real GDP for a given year, in relation to a "base" year, is computed by multiplying the nominal GDP for a given year by the ratio of the GDP price deflator in the base year to the GDP price deflator for the given year.

**Real Interest Rate:**

The interest rate on a loan, adjusted for the rate of inflation. The real interest rate represents the real burden of an interest payment. Real interest rates must be positive for the lender to attain any real income from the loan.

**Real Wages:**

The value of wages, adjusted for the level of consumer prices. If the nominal value of wages is growing faster than consumer prices, then real wages are growing, and hence the real consumption possibilities offered to workers are improving.

**Recession:**

A condition in which the total real GDP of an economy shrinks (usually, for at least two consecutive quarters). A significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP); although the National Bureau of Economic Research (NBER) does not necessarily need to see this occur to call a recession.

**Regressive Tax:**
A tax in which lower-income individuals or households bear a proportionately greater burden of the tax. Sales taxes are generally considered regressive (since lower-income households do not generally save, and hence must pay the sales tax on a larger proportion of their total income).

**Relative Poverty:**

A measure of poverty based on an individual or family’s relative income compared to the overall average level of income in the economy as a whole. Relative poverty thresholds change over time with growth in overall income levels. Distinct from absolute measures of poverty, which are defined according to a specified level of real consumption.

**Relative Price:**

The price of any product or commodity measured relative to the overall level of prices (for example, compared to the consumer price index).

**Securitization:**

A process in which financial relationships (such as loans) are converted into financial securities or assets (such as bonds) which can be bought and re-sold in securities markets.

Mortgage-backed securities are a perfect example of securitization. By combining mortgages into one large pool, the issuer can divide the large pool into smaller pieces based on each individual mortgage's inherent risk of default and then sell those smaller pieces to investors.

The process creates liquidity by enabling smaller investors to purchase shares in a larger asset pool. Using the mortgage-backed security example, individual retail investors are able to purchase portions of a mortgage as a type of bond. Without the securitization of mortgages, retail investors may not be able to afford to buy into a large pool of mortgages.
**Services:**

In economics, a service is an intangible commodity. That is, services are an example of intangible economic goods. Service provision is often an economic activity where the buyer does not generally, except by exclusive contract, obtain exclusive ownership of the thing purchased. The benefits of such a service, if priced, are held to be self-evident in the buyer's willingness to pay for it. Public services are those that society (nation state, fiscal union, regional) as a whole pays for, through taxes and other means.

**Intangibility:** Services are intangible and insubstantial: they cannot be touched, gripped, handled, looked at, smelled, tasted. Thus, there is neither potential nor need for transport, storage or stocking of services.

**Inventory (Perishability):** Services have little or no tangible components and therefore cannot be stored for a future use. Services are produced and consumed during the same period of time.

**Shares:**

Financial assets which represent the ownership of a small proportion of the total equity (or net wealth) of a corporation. Shares can be bought and sold on a stock market.

Shares can be broadly divided into two categories - equity and preference shares. Equity shares give their holders the power to share the earnings/profits in the company as well as a vote in the AGMs of the company. Such a shareholder has to share the profits and also bear the losses incurred by the company.

**Shortage:**

A situation where demand for a product or service exceeds the available supply. Possible causes of a shortage include miscalculation of demand by a company producing a good or
service (i.e., the company can't produce enough to keep up with demand) or government policies (i.e., price fixing/rationing). Natural disasters that devastate the physical landscape of a region can also cause shortages of such essential products as food and housing, also leading to higher prices of those goods.

A government-imposed price ceiling can create a shortage. When the government does not allow the free market to dictate the price of an item based on its supply/demand, an artificially high number of people may decide to purchase that item because the price is artificially low. For example, if the government provides free doctor visits as part of a national health care plan, consumers may experience a shortage of doctor services because when people no longer have to pay directly for them, they will be likely to increase their demand for those services.

**Standard of value:**

An agreed-upon value for a transaction in a country's medium of exchange, such as the dollar or peso. A standard of value allows all merchants and economic entities to set uniform prices for goods and services. This standard is necessary in order to maintain a stable economy.

**Stock Market:**

A place where shares of joint stock corporations are bought and sold. Most modern stock markets no longer have a physical presence, but rather consist of connected computer networks.

A stock market is the market that people use to trade (= buy and sell) shares, which are like small pieces of the company that a person can own. The value of the share depends on how many people want to buy it and how many people are selling it.

If many people want to buy a stock, the price will go up. If there are more sellers than buyers, the price will go down. People usually trade shares in stocks through a broker. A broker or stockbroker is a person who buys or sell stocks for their
customers on the stock market. A broker can also help customers make good choices in stocks. Most brokers have recommendations for most of the stocks, based on the information about companies and what is expected from them.

Brokers usually recommend customers to **BUY** (good expectations - buy the stock if you don't have it), **HOLD** (neutral expectation - if you have the stock, don't sell it yet) or **SELL** (low expectation - sell the stock if you have it).

The most important stock markets in India include:

**NSE (National Stock Exchange )**  
**BSE (Bombay Stock Exchange)**  
**MCX-SX (Multi Commodity Stock Exchange )**

**Supply:**

The total amount of a product (good or service) available for purchase at any specified price.

Supply is determined by:

- **Price**: Producers will try to obtain the highest possible price whereas the buyers will try to pay the lowest possible price both settling at the equilibrium price where supply equals demand.  
- **Cost of inputs**: The lower the input price the higher the profit at a price level and more product will be offered at that price.  
- **Price of other goods**: Lower prices of competing goods will reduce the price and the supplier may switch to more profitable products thus reducing the supply.

**Surplus:**

Any agent or sector in the economy (household, business, or government) experiences a surplus when its income exceeds its expenditure.

**Surplus Government:**
A government surplus exists when a government’s tax revenues exceed its total spending (including both interest charges and program spending).

**Sustainability:**

A condition in which the economy does not utilize more resources from the natural environment than can be replenished by the normal reproductive capacity of the environment, and does not expel more pollution into the environment than can be absorbed without ongoing deterioration in environmental quality. Only a sustainable economy can function long into the future without encountering natural or environmental limits.

At its most general level, sustainability refers to the capacity to continue an activity or process indefinitely. It can be related to any number of economic, social, or environmental activities and can have varied meanings within different disciplines. Unsurprisingly, there is a multitude of definitions of sustainability and sustainable development. The most frequently cited definition is that of the United Nations World Commission on Environment and Development 1987 (the ‘Bruntland’ Commission).

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

**Tariff:**

A tariff is a tax imposed on the purchase of imports. It is usually imposed in order to stimulate more domestic production of the product in question (instead of meeting domestic demand through imports).

**Taxes:**

Compulsory government levies collected to pay for public spending. There are many different types of taxes (income, corporate, sales, wealth and environmental taxes); each has a
different impact on the economy and on different groups within the economy.

**Trade-off:**

The definition of trade off is an exchange where you give up one thing in order to get something else that you also desire. An example of a trade off is when you have to put up with a half hour commute in order to make more money.

**Total Revenue:**

The overall measure of all sources of a company's income, including its sales, for a given period of time. This number is not the same as the profits or the earnings of the company.

It is important to note that the concept of revenue in economics usually involves two other terms:

**Average Revenue (AR)** - Average revenue refers to the revenue per unit of output sold. It is obtained by dividing the total revenue by the number of units sold.

**Marginal revenue (MR)** - Marginal revenue is the additional revenue generated from the sale of an additional unit of output. It is the change in total revenue from the sale of one more unit of a good.

**Traditional Economy:**

A traditional economy is defined by three characteristics:
1. It is based on agriculture, fishing, hunting, gathering or some combination of the above.
2. It is guided by traditions.
3. It may use barter instead of money.

For these reasons, people who live in a traditional economy appear to be living in poverty, even if their daily needs are being met.
Most traditional economies operate in emerging markets, or the Third World countries. They are usually located in Africa, Asia, Latin America and the Middle East. However, pockets of traditional economies can be found throughout the world. It is generally thought that all other economies got their starts as traditional economies. Likewise, it is generally expected that a traditional economy will evolve into either a market, command or mixed.

**Wealth Tax:**

A tax in which owners of particular forms of wealth (such as financial wealth, real estate, or inheritances) must pay a specified proportion of that wealth to the government, usually on an annual basis.

Wealth tax is imposed on the wealth possessed by individuals in a country. The tax is on a person's net worth which is assets minus liabilities. Not all countries have this type of tax; Austria, Denmark, Germany, Sweden, Spain, Finland, Iceland and Luxemburg have abolished it in recent years. The United States doesn't impose wealth tax but requires income and property taxes.

**Working Capital:**

A business requires a certain revolving fund of finance to pay for regular purchases of raw materials, initial labour, and other inputs to production. Working capital may refer to the actual physical inventory of raw materials and goods-in-production, or it may refer to the financial resources required on a normal basis to pay for those things.

\[
\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}
\]

The working capital ratio (Current Assets/ Current Liabilities) indicates whether a company has enough short term assets to cover its short term debt. Anything below 1 indicates negative W/C (working capital). While anything over 2 means that the
company is not investing excess assets. Most believe that a ratio between 1.2 and 2.0 is sufficient.

Also known as "net working capital".

**World Bank:**

An international financial organization formed after World War II and based in Washington D.C. Its supposed goal is to promote the economic development of poor regions of the world through subsidized loans, economic advice and other forms of assistance, but in practice it has played an important role in reinforcing neoliberal economic policies in developing countries, including through the aggressive use of conditionality strategies.

**Membership:** There are 184 member countries that are shareholders in the IBRD, which is the primary arm of the WBG. To become a member, however, a country must first join the International Monetary Fund (IMF). The size of the World Bank's shareholders, like that of the IMF's shareholders, depends on the size of a country's economy. Thus, the cost of a subscription to the World Bank is a factor of the quota paid to the IMF.

There is an obligatory subscription fee, which is equivalent to 88.29% of the quota that a country has to pay to the IMF. In addition, a country is obligated to buy 195 World Bank shares (US$120,635 per share, reflecting a capital increase made in 1988). Of these 195 shares, 0.60% must be paid in cash in U.S. dollars while 5.40% can be paid in a country's local currency, in U.S. dollars, or in non-negotiable non-interest bearing notes. The balance of the 195 shares is left as "callable capital," meaning the World Bank reserves the right to ask for the monetary value of these shares when and if necessary. A country can subscribe a further 250 shares, which do not require payment at the time of membership but are left as "callable capital."

**World Trade Organization:**
An international economic organization formed in 1995 and based in Geneva, Switzerland, which is dedicated to promoting greater trade and investment among its members. Most countries in the world now belong to the WTO and hence have committed to reducing tariffs on imports, reducing non-tariff barriers to trade, reducing restrictions on foreign investment, and generally following a pro-market vision of economic development.

**Trade negotiations:** The WTO agreements cover goods, services and intellectual property. They spell out the principles of liberalization, and the permitted exceptions. They include individual countries’ commitments to lower customs tariffs and other trade barriers, and to open and keep open services markets.

They set procedures for settling disputes. These agreements are not static; they are renegotiated from time to time and new agreements can be added to the package. Many are now being negotiated under the Doha Development Agenda, launched by WTO trade ministers in Doha, Qatar, in November 2001.

**Implementation and monitoring:** WTO agreements require governments to make their trade policies transparent by notifying the WTO about laws in force and measures adopted. Various WTO councils and committees seek to ensure that these requirements are being followed and that WTO agreements are being properly implemented. All WTO members must undergo periodic scrutiny of their trade policies and practices, each review containing reports by the country concerned and the WTO Secretariat.

**Wants:**

Simply the desires of citizens. Wants are different from needs as we will see below. Wants are a means of expressing a perceived need. Wants are broader than needs.