Complete Economics dictionary

A

ABNORMAL PROFIT The surplus of revenue over costs enjoyed by a monopoly that is in excess of profit the same firm could expect to earn if it faced competition for its market.

ABSOLUTE ADVANTAGE The ability of a country or region to produce a good or service at a lower average cost per unit than any other country or region is able to.

ABSOLUTE POVERTY An economic condition of lacking both money and basic necessities needed to successfully live, such as food, water, education, health care and shelter.

ADULT LITERACY RATE A measure of the number of people of working age as a proportion of the total population in a country who are able to read and write.

AGGREGATE DEMAND The total demand for goods and services in an economy. It is determined by consumer spending, investment, public expenditure and spending by overseas residents on exports.

AGGREGATE SUPPLY The total output or supply of all goods and services in an economy that all producers are willing and able to supply.

ANCILLARY FIRMS Firms which provide goods and business services for other firms; they are often located near to their main business customers.

APPRECIATION (in the value of a currency) A rise in the rate at which a national currency can be exchanged for another currency or currencies, i.e. a rise in the market price of one currency in terms of other currencies.

ARTIFICIAL BARRIERS TO ENTRY Obstacles created by a powerful monopoly or oligopoly purposefully to restrict competition from new firms entering the markets they dominate.

AVERAGE COST The cost per unit of output, calculated by dividing the total cost of a given level of output by that total volume of output.

AVERAGE REVENUE The revenue per unit of output sold, found by dividing the total revenue from the sale of a given output by that volume of output.

AVERAGE TAX RATE The total amount of personal or corporate income tax a person or firm pays from their total annual income as a proportion of their total annual income.

B

BALANCE OF PAYMENTS An accounting record of all monetary transactions between a country and the rest of the world.

BALANCE OF PAYMENTS ON CURRENT ACCOUNT This section of the balance of payments of a country is used to record and monitor how well or how badly it is performing in international trade in goods and services, and other flows of incomes and transfers with other countries.

BALANCE OF TRADE The difference between the value of visible exports from a country and the value of visible imports to that country, usually measures per month and annually.

BARTER The exchange of goods and services without using money.

BASIC WAGE A guaranteed level of earnings for an employee, excluding any overtime or performance-related pay.

BEAR A stock market speculator who will buys shares in the hope they will quickly fall in value so they can buy them back at a lower price. A bear market refers to a situation in which the average prices of shares on the stock market is falling.

BIRTH RATE A measure of the number of babies born per period per 1,000 people in a population.

BOND A debt investment with a fixed time period and rate of interest issued by a government or company to sell to investors in order to raise money.

BRAND LOYALTY The extent of the faithfulness of consumers to the product or products of a particular firm, expressed through their repeat purchases and irrespective of changes in the prices and promotions of competing products from rival firms.

BREAK-EVEN LEVEL OF OUTPUT That volume of output which, if completely sold, would raise a total revenue exactly equal to the total cost of its production.

BROKER A share dealer, able to buy and sell shares on a stock exchange.

BUDGET The budget of a government is a forecast or plan of its intended tax revenues and expenditures in a financial year.

BUDGET DEFICIT This financial situation occurs if a government plans to spend more than it forecasts
to earn in tax revenues over the financial year. An actual budget deficit occurs if actual public spending exceeds actual tax revenues.

**BUDGET SURPLUS** This financial situation occurs if a government plans to spend more than it forecasts to earn in tax revenues over the financial year. An actual budget deficit occurs if actual tax revenues exceed actual public spending.

**BULL** The name given to a stock market speculator who buys shares in the hope their price will rise quickly so they can sell them for a profit. A bull market refers to a situation in which the average prices of shares on the stock market is rising.

**CAPITAL EMPLOYED** Money invested in or tied up in productive assets in a firm that enable it to produce goods and services and generate revenues.

**CAPITAL INTENSIVE** A production process that employs a significant amount of capital equipment relative to labour.

**CARTEL** A formal agreement between a group of powerful producers to control the market supply and price of their product. OPEC (the Organization of the Petroleum Exporting Countries) is one of the most widely known examples of a cartel.

**CENTRAL BANK** The main bank in an economy, responsible for managing the stability of its national currency and money supply, and for regulating its banking system.

**CETERIS PARIBUS** A term meaning ‘all other factors being unchanged’.

**CLOSED SHOP** This exists when trade union membership is made a compulsory condition of a taking a job in a particular workplace or organization.

**COLLATERAL** Security taken by a lender against a loan, such as a valuable asset owned by the borrower that the lender could sell to recover the value of the loan if the borrower is unable to repay it.

**COLLECTIVE BARGAINING** The process of negotiating pay and working conditions between trade union representatives and employers.

**COMMERCIAL BANK** A type of bank with individual and business customers that has retail branches in many towns and cities.

**COMMERCIAL LOAN** A bank loan to a firm, usually with a fixed repayment term and interest rate.

**COMMON STOCK** Also known as ordinary shares or equity, common stock are shares issued by limited companies that allow their holders to vote on company directors and policy at annual general meetings.

**COMPARATIVE ADVANTAGE** The ability of a region or country to produce a goods or services at a lower opportunity cost than another.

**COMPENSATING DIFFERENTIALS** Higher rates of pay compared with those for other occupations and required to attract labour to unpleasant, unsociable or dangerous jobs, i.e. the positive wage differential is designed to compensate workers for these unattractive features.

**COMPETITION POLICY** Government policies to prevent and reduce anti-competitive behaviour and the abuse of monopoly power.

**COMPLEMENTS** A good or service that is in joint demand with another, for example, cars and petrol, or milk and coffee.

**CONSTANT RETURNS TO SCALE** A firm or production process will have constant returns to scale if output rises in the same proportion to an increase in inputs.

**CONSUMER COOPERATIVE** A business organization owned by its customers and run for their mutual benefit.

**CONSUMER DURABLES** Goods that are consumed over a relatively long period of time such as a washing machine, computer and mobile phone.

**CONSUMER EXPENDITURE** Spending on goods and services for final consumption.

**CONSUMER PRICE INDEX (CPI)** A measure of inflation based on changes in the average price of a basket of goods and services purchased by a ‘typical’ household and which expresses these average prices as an index number series.

**CONSUMERS** People and organizations that are willing and able to buy goods and services to satisfy their needs and wants.

**CONSUMPTION** The using up of goods and services to satisfy human needs and wants.

**CONTESTABLE MARKET** A market in which a monopoly prices and acts competitively because there are low entry barriers which means new firms can easily enter the market to compete.

**CONTRACTIONARY FISCAL POLICY** A government macroeconomic policy that involves cutting public expenditure and/or increasing total taxation to reduce aggregate demand if an economy is overheating with the general level of prices rising rapidly.

**CORPORATION TAX** A tax on company profits.
**COST-PUSH INFLATION**Persistently rising general price levels caused by increasing production costs.

**CROWDING OUT**The displacement of private sector borrowing and therefore expenditure by increased public sector borrowing and spending. This happens because the interest rate increases as government borrowing rises.

**CYCLICAL UNEMPLOYMENT**Joblessness caused by deficient demand during an economic downturn or recession.

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**DEATH RATE** - A measure of the number of people who die per period per 1,000 people in a population.

**DECREASING RETURNS TO SCALE** - A firm or production process will have decreasing returns to scale if the rise in output following an increase in productive scale is proportionately less than the increase in inputs.

**DEFAULT** - A term used to describe a situation when a person, firm or government fails to meet their loan repayments on time.

**DEFLATION** - A fall in the general level of prices in an economy. If the general level of prices is sustained and continues to fall over a long period of time caused by a lack of demand it is referred to as a malign deflation.

**DEMAND-PULL INFLATION** - A persistent increase in the general level of prices resulting from a continued excess of demand over supply.

**DEMAND SIDE POLICY** - A government policy designed to manage aggregate demand in the economy in order to control the level of price inflation, employment and output.

**DEMAND** - The want or willingness of a consumer or group of consumers to buy a good or service.

**DEPENDENCY RATIO** - A measure that contrasts the number of people in the dependent population of a country with the working population in the same country.

**DEPENDENT POPULATION** - That part of a population that is economically inactive (not in paid employment) and therefore relies on others to produce the goods and services it consumes.

**DEPRECIATION** - A fall in the value of a floating exchange rate of a currency against another foreign currency.

**DEREGULATION** - The simplification or removal of complex, old or even unnecessary laws and regulations to reduce burdens on business organizations.

**DERIVED DEMAND** - When demand for one good or service occurs as a result of demand for another. The demand for labour by firms is a derived demand because labour is needed to produce goods and services.

**DEVELOPED ECONOMY** - A country with a high level of economic development, including high average incomes, good quality housing, legal and education systems, modern infrastructure and a wide range of industries.

**DEVELOPING ECONOMY** - A country with a low level of economic development and well-being.

**DIRECT INWARD INVESTMENT** - Also known as foreign direct investment (FDI), it refers the purchase of productive assets, such as a factory and equipment, in a country by overseas firms and residents for the purpose of production in that country.

**DIRECT TAX** - A tax levied on the incomes or wealth of individuals or firms that must be paid from their own funds and cannot be passed on to others to pay.

**DISECONOMIES OF SCALE** - Problems that cause unit costs to rise as a firm expands beyond its optimum size.

**DISINFLATION** - A slowdown in the rate at which the general price level is rising over time.

**DISPOSABLE INCOME** - Personal income remaining to spend or save after direct income taxes have been deducted from it.

**DISSAVING** - Withdrawing or spending from savings, for example to meet living expenses when income is not sufficient.

**DIVERSIFICATION** - Producing a range of different products for different home and/or overseas markets to spread market risks.

**DIVIDEND** - A portion of the profit of a company that is paid to its shareholders for each share they own.

**DIVISION OF LABOUR** - The separation of a production process into a series of tasks, with each one completed by a different worker or group of employees.

**DOUBLE COINCIDENCE OF WANTS** - A situation which has to exist in a barter system, where each party involved in a transaction wants something offered by the other and so the two parties can exchange their goods or services.

**DUMPING** - A form of international predatory pricing and unfair competition used by overseas producers to flood another country with cheap products to force its firms out of business.
ECONOMIC BOOM A period following economic recovery in an economic cycle, characterized by an economy working at full or near-full capacity with a low level of unemployment and aggregate demand, sales and profits at or near their peak, and often accompanied by rising inflation.

ECONOMIC CYCLE The recurrent pattern of fairly predictable fluctuations in the growth rate of real GDP over time.

ECONOMIC GOODS Products that require scarce resources to produce them to satisfy human needs and wants and are therefore limited in supply.

ECONOMIC GROWTH A sustained increase in the total output or real GDP of an economy.

ECONOMIC RECESSION A general slowdown in the rate of economic growth in an economy following an economic boom. Officially, it is usually associated with prolonged period of negative growth in real GDP.

ECONOMIC RECOVERY A period following an economic recession in an economic cycle during which aggregate demand, output, employment and incomes begin to rise.

ECONOMIC SYSTEM How an economy allocates resources to competing productive activities and assigns the outputs or products of these activities to different consumers.

ECONOMIC USE OF RESOURCES An allocation of resources that yields a total social benefit in excess of its total social cost.

ECONOMICALLY ACTIVE POPULATION – Those people in a population willing and able to participate in productive activity and are therefore either in paid employment or actively seeking employment.

ECONOMIES OF SCALE Internal or external factors that result in falling unit costs of production as the scale of production in a firm or entire industry is increased.

EFFECTIVE DEMAND A consumer want for a product backed by an ability to pay for it.

EMBARGO A ban introduced by one or more countries on the importation of a specific product or all products from another country.

EMISSION The act of leaving your country to live overseas.

ENTERPRISE The skills and willingness to take the risks required to organize productive activity in a firm.

ENTREPRENEUR A person with enterprise and the willingness to take the risks and decisions necessary to organize scarce resources into firms to produce goods and services.

EQUILIBRIUM WAGE RATE The market clearing rate of pay at which the amount of labour demanded by firms will match the amount supplied.

EXCESS DEMAND When the market demand for a product exceeds its market supply so there is upward pressure on its market price.

EXCESS SUPPLY When the market supply of a product exceeds market demand so there is downward pressure on its market price.

EXCHANGE RATE The equilibrium market price of one national currency in terms of another currency established through trade in currencies on the foreign exchange market.

EXCHANGE Trade in goods and services between producers and consumers.

EXCLUSIVE DEALING A restrictive agreement between a powerful monopoly and retailers that prevents them from stocking the products of competing firms.

EXCISE DUTY A tax or charge applied to certain goods and services based on their quantity and not their value.

EXPANSIONARY FISCAL POLICY A government policy that involves expanding public expenditure and/or cutting total taxation to boost aggregate demand during downturn in economic activity.

EXPERIENCE GOODS Products for which it is difficult to judge how much we will enjoy them until we consume them.

EXPORT A credit of flow of income into an economy from overseas in payment for goods and services sold to overseas residents.

EXTERNAL BENEFIT A benefit arising from a positive externality, such as disease prevention due to vaccinations, enjoyed at no cost by other people or organizations due to actions or decisions taken by others.

EXTERNAL COST A cost arising from a negative externality, such as pollution, that is incurred by other people or organizations and not by those responsible for the action or decision that caused it.

EXTERNAL ECONOMIES OF SCALE Cost advantages enjoyed by a firm and all other firms in the same industry as a result of the scale of the industry being large.

EXTERNAL GROWTH An increase in the size of a firm through its takeover of, or merger with, another organization.

FACTOR SUBSTITUTION Replacing one factor of production with another in a production process, for example, to make production more capital intensive.
FACTORS OF PRODUCTION Scarce resources (land, labour and capital) used in the production of goods and services to satisfy consumer needs and wants.

FAVOURABLE TRADE BALANCE The term used to describe a situation in which a country has recorded more credits from the sale of visible exports overseas than debits for the purchase of visible imports from overseas suppliers in its record of international transactions.

FULL LINE FORCING Insistence by a powerful supplier that a retailer must buy and stock the full range of its products, usually to the exclusion of rival products.

FINANCIAL ASSETS Non-physical assets, such as bank deposits, shares, bonds and other financial claims that have value.

FINANCIAL INTERMEDIARY An organization, such as a bank, that brings together customers who want to save money and others who wish to borrow it.

FIRMS Organizations in which resources are combined to produce goods and services.

FIXED CAPITAL Money invested in long-lived productive assets including factories, offices, machinery and vehicles.

FIXED COST A cost of production that does not vary with the level of output in a firm.

FLOATING EXCHANGE RATE The market price of a national currency against another currency that is determined on the foreign exchange market by the supply and demand for that particular currency.

FOREIGN EXCHANGE MARKET The global market for the exchange of national currencies.

FRICIONAL UNEMPLOYMENT An economic situation in which people find themselves voluntarily out of work usually for short periods of time as they move between jobs.

FRINGE BENEFITS Perks or non-financial rewards for employees, such as free medical insurance or use of a company car, which nevertheless have monetary value.

FULL-TIME EMPLOYMENT A contract for work that involves the employee working the full number of hours defined by his or her employer as a working week, which is normally around 40 hours each week between Monday and Friday.

G

GAINS FROM TRADE Economic benefits associated with international specialization and trade.

GENDER IMBALANCE An excess of males or females in a population, usually caused by factors other than nature, such as sex-selection bias, wars and male-dominated inward economic migration.

GENDER PAY GAP Differential in average earnings between male and female employees, which may be due to occupational choices but also discrimination.

GENERAL UNION A type of trade union with members drawn from many different industries and occupations.

GROSS DOMESTIC PRODUCT (GDP) The total market value of all final goods and services produced within an economy by its factors of production in a given period of time. It can also be measured by total expenditure on domestically produced goods and services or total factor income.

GROSS DOMESTIC PRODUCT (GDP) PER CAPITA Average income per head.

GROSS EARNINGS The total pay received by an employee for his or her labour per week or month, including a basic wage or salary and any overtime, piece rate or other performance-related payments.

GROSS VALUE ADDED (GVA) The difference between the market value of an output and the cost of non-labour inputs used to produce it. GVA is therefore broadly equal to total profits plus total wages.

HORIZONTAL INTEGRATION This occurs when two or more firms producing similar goods or services at the same stage of production combine to form a larger enterprise.

HUMAN DEVELOPMENT INDEX A statistical measure compiled from different development indicators by the United Nations to measure and contrast economic development in different countries.

HYPERINFLATION An inflation rate that is very high and out of control, as result of which confidence in a currency can be lost because its real value is eroded very quickly.

HYPOTHECATED TAX Term used to describe a tax on a specific good or activity used to raise revenue for a specific purpose, such as paying for road or public transport improvements, rather than financing general public spending.

I

IMMIGRATION Inward migration, the introduction of people from overseas into the population of a country.

IMPERFECT COMPETITION Less than perfectly competitive market structures in which firms have
some degree of influence over market supply and prices, usually by each firm differentiating its product from rival products through brand image and marketing.

**IMPORTED INFLATION** A sustained increase in the prices of products bought from overseas producers either resulting from their rising costs or a fall in the exchange rate against overseas currencies.

**IMPORT** A debit or outflow of money from an economy, and its balance of payments, to pay for goods and services produced by firms located overseas.

**INCREASING RETURNS TO SCALE** A firm or production process will have increasing returns to scale if the rise in output following an increase in productive scale is proportionately more than the increase in inputs. For example, a firm has increasing returns to scale if it doubles its inputs but output more than doubles. As a result, average unit costs will tend to fall.

**INDEX BASE YEAR** The year used as the reference point or starting point for a consumer or retail prices index in which the weighted average price of the ‘typical’ basket of products is given the number 100.

**INDEXATION** The automatic adjustment of a monetary variable, such as wages, taxes, welfare or pension benefits, by the increase in the consumer or retail prices index, so that its value rises at the same rate as inflation, i.e. so that the real value of the variable is kept constant.

**INDIRECT TAX** A tax that is applied to the value of transactions or added to the prices of goods or services. The collection and payment of indirect taxes to government is normally the responsibility of producers who will then pass on as much of each tax as they can to consumers through higher prices.

**INDUSTRIAL ACTION** Disruptive activities, such as a strike or work to rule, that workers carry out to strengthen their bargaining position regarding demands for improved wage and working conditions, or to address other grievances.

**INDUSTRY** A group of firms specializing in similar goods and services, or using similar production processes. For example, the electricity industry will consist of all generators and suppliers of electricity. Similarly, the manufacturing industry consists of all firms in all industries involved in the production of finished and semi-finished goods.

**INFERIOR GOODS** Products for which demand tends to fall as consumers’ incomes rise.

**INFLATION** A sustained or ongoing increase in the general level of prices in an economy.

**INSOLVENT** A term referring to people or organizations unable to pay off their debts.

**INTEREST RATE** The price of money, i.e. the cost of borrowing money or a reward for saving.

**INTERNAL ECONOMIES OF SCALE** Reductions in unit costs of production enjoyed by a firm as it grows in scale.

**INTERNAL GROWTH** An ‘organic’ increase in the scale of production in a firm through the employment of additional factors of production.

**INTERNATIONAL TRADE** The movement and exchange of physical goods such as materials, component parts, equipment and finished products as well as services, ideas, capital, currencies and labour across international borders.

**INVESTMENT** The purchase of productive assets by firms.

**INVISIBLE EXPORT** The sale of a service to an overseas resident. Payment received for the service will be credited to current account of the balance of payments of that country.

**INVISIBLE IMPORT** The purchase of a service from an overseas producer. Payment for the service will be debited from the current account of the balance of payments.

**INVOLUNTARY UNEMPLOYMENT** A condition of being without work against one’s wishes, because there are insufficient jobs available.

**JOINT-STOCK COMPANY** A business organization owned jointly by its shareholders. Also known as a limited company.

**LABOUR DISECONOMIES** Rising unit costs resulting from shortages of labour or increasing disputes with trade unions as a firm grows beyond its optimum size.

**LABOUR FORCE** The total supply of labour or economically active population in an economy.

**LABOUR INTENSIVE** A production process that uses a large amount of labour input relative to capital.

**LABOUR MARKET** Any set of arrangements that brings together all those people willing and able to supply their labour with organizations that want to hire labour.

**LABOUR MOBILITY** The ease with which workers can move between different occupations or jobs.
LABOUR PRODUCTIVITY The average output or revenue per worker per period of time.

LABOUR Human effort used in the production of goods and services.

LAND Natural resources used in the production of goods and services.

LATERAL INTEGRATION Also known as conglomerate merger, this is the combining of two or more firms in different industries into a single enterprise.

LEAN MANUFACTURING Using the most modern production processes and working practices to continually reduce costs and waste, improve quality and increase output.

LESS-DEVELOPED ECONOMY A developing country with a low level of economic development and well-being.

LIMITED LIABILITY When the financial obligation of a firm’s owners in the event it fails is no more than the amount of capital they invested in the enterprise.

LIQUID ASSETS Financial assets that are ‘near money’, such as bank deposits, which can be converted into cash easily and quickly.

MACROECONOMICS The study of how a national economy works. It involves understanding interactions between total or aggregate demand and output and national income, employment and the general level of prices.

MANAGED FLOATING A floating exchange rate system that is partially controlled by government through the sale or purchase of its currency reserves to limit an appreciation or depreciation in the value of its national currency.

MANAGEMENT DISECONOMIES Rising unit costs resulting from an increase in management costs as a firm’s size increases – for example, communication problems caused by too many layers of management or too many premises in too many locations to manage effectively.

MANUFACTURING Turning unprocessed natural resources and other unfinished products into other goods.

MARGINAL TAX RATE Economic term to describe a tax rate applied to each additional unit of taxable income above a pre-defined income threshold.

MARKET CAPITALIZATION The total value of a company measured by multiplying the number of shares it has issued by their current market price per share.

MARKET DEMAND The total demand for a product from all its consumers.

MARKET DISEQUILIBRIUM A market outcome, in terms of price and total quantity traded, which is unstable and liable to change because market demand and market supply are not in balance, i.e. there is excess demand or excess supply.

MARKET ECONOMIC SYSTEM An economic system in which decisions about how resources are used, what goods and services they produce and how they are allocated, are taken by private sector firms and consumers.

MARKET FAILURE These occur when market outcomes are inefficient because the decisions of producers or consumers fail to allocate resources to the production of goods and services that are worthwhile or result in wasteful or harmful activities.

MARKET PRICE The equilibrium price for a product in a market, determined where market demand exactly matches market supply.

MARKET SHARE The proportion of the total sales of a product attributable to a firm supplying that market.

MARKET STRUCTURE The characteristics of a market, usually on the supply side, including how many firms compete for the market, the degree of competition or collusion between them, the extent of their product differentiation, and the ease with which new firms can enter the market to compete with them.

MARKET SUPPLY The total volume or value of a product supplied to a market by all its producers.

MARKET Any set of arrangements that allows producers and consumers to exchange goods and services.

MASS PRODUCTION The production, usually in a continuous flow, of a large amount of standardized products.

MEDIUM OF EXCHANGE Any good or commodity generally accepted and used as a money in exchange for other goods or services.

MERGER The combining of two or more business enterprises into a single enterprise.

MERIT GOODS Goods or services, such as education and health care, usually provided by a government because they can benefit everyone in society.

MICROECONOMICS The study of market structure and the behaviour of individual producers and consumers and therefore what determines market outcomes in terms of product prices, qualities and quantities traded.

MINIMUM WAGE LEGISLATION Laws that determine and set the lowest hourly, daily or monthly wage rate or remuneration that employers may legally pay to their workers in exchange for their labour.
MIXED ECONOMIC SYSTEM An economic system that combines a market economy with government planning and the public sector ownership of resources and provision of goods and services.

MONETARY POLICY A government demand-side policy that involves changes in the interest rate or supply of money in an economy to manage the overall level of economic activity.

MONEY MARKET The market for short-term loans and liquid financial assets, such as bank deposits, that can be converted easily to cash. The market consists of all those people or organizations willing and able to supply or loan money and all those willing and able to borrow it.

MONEY SUPPLY The total value of bank deposits and notes and coins in an economy.

MORTGAGE A long-term loan for buying property.

MULTINATIONAL A business organization with plant and operations in more than one country.

MULTIPLIER EFFECT An effect in economics in which a change in spending produces a subsequent change in output and income greater and more widespread than the initial change in expenditure.

NATIONAL DEBT The total outstanding stock of public sector borrowing accumulated over time to finance shortfalls of public revenues below public spending.

NATIONALIZATION Bringing a private sector industry under government ownership and control.

NATIONALIZED INDUSTRY An industry in an economy owned and controlled entirely by the government.

NATURAL BARRIERS TO ENTRY Obstacles to increased market entry by new competitors resulting from capital size and cost advantages of the existing producer or group of producers supplying that market.

NATURAL MONOPOLY A market structure in which there is a single firm controlling the entire market supply of a product because it has an overwhelming cost advantage over any other potential market structure involving more than one firm.

NATURAL RATE OF POPULATION GROWTH Population resulting solely from the difference between the birth and death rate, i.e. excluding net migration.

NEEDS Human requirements for life and survival.

NEGATIVE EXTERNALITY This occurs when an individual or firm making a decision will not have to pay the full cost of that decision. That is, the individual or firm imposes an external cost on other people and organizations that did not agree to the action or decision that created it.

NET ADVANTAGES (OF AN OCCUPATION) The balance of all the advantages and disadvantages of a particular job or occupation that people will consider when deciding whether or not to supply their labour.

NET EARNINGS Gross earnings after any personal income and payroll taxes have been deducted, often referred to as take-home pay.

NET MIGRATION The difference between the number of immigrants and emigrants to and from a country per period of time.

NEWLY INDUSTRIALIZED ECONOMY A country that is undergoing rapid economic development through significant growth in its industries and infrastructure but is yet to display the full range of characteristics of a modern developed economy.

NOMINAL GDP The total market or monetary value of the GDP of an economy.

NON-PRICE COMPETITION - Rivalry between firms supplying the same market through advertising and product differentiation strategies.

NON-TARIFF TRADE BARRIERS A term used to describe subsidies, quotas, embargoes, licensing regulations, arbitrary standards and all other non-tax trade restrictions.

NON-WAGE FACTORS Aspects of a job other than the wage rate, such as hours of work or holiday entitlement, which make it attractive.

NORMAL GOODS Products for which demand rises as consumer incomes rise.

OCCUPATIONAL IMMOBILITY The inability of workers to move easily between from one occupation to another because they lack the skills required. It is often a feature of structural unemployment.

OLIGOPOLY A market structure in which a handful of large firms dominate the market supply.

OPEN ECONOMY A national economy that engages freely in international trade.

OPPORTUNITY COST The benefit foregone by giving up the next best alternative use of scarce resources.

ORDINARY SHARES Common stock with voting rights issued by a limited company.

OVERTIME Additional hours worked, usually during evenings or weekends, over and above agreed or
contracted hours, and paid a higher than normal wage rate.

OVERDAFT A short-term loan or credit agreement that allows a bank customer to overdraw their account by an agreed amount.

OVERPOPULATION An economic condition in which there are too many people and too few resources.

OVERSEAS AID The voluntary transfer of resources from one country to the benefit of another, for example to help it reduce poverty and improve its level of economic development. This help may be in the form of financial or technological assistance, food supplies and debt relief.

OVERTIME BAN An industrial action that involves workers refusing to work more than their normal hours.

PARTICIPATION RATE The percentage of people of working age who choose to be economically active in the labour force.

PARTNERSHIP A legal agreement between two or more people, usually no more than 20, to jointly own, finance and run a business, and to share any profits.

PART-TIME EMPLOYMENT A contract for work in which an employee’s working time is substantially less than a full working week.

PENETRATION PRICING A price strategy adopted by a firm seeking to gain market entry and expand sales.

PERFECT COMPETITION A theoretical market structure in which there are many firms supplying identical products to an equally large number of consumers such that no individual firm has any influence over market price.

PERMANENT CAPITAL Money raised from the sale of shares by a company that it will never need to repay.

PERSONAL DEBT The stock of total borrowing accumulated by a person.

PERSONAL INCOME TAX A direct tax on a person’s earnings or income.

PERSUASIVE ADVERTISING Television, radio, newspaper and other commercial promotions through the media designed to create or influence consumer wants for a product.

PHYSICAL ASSETS Non-financial assets or physical products, such as commercial and residential properties, that have value and therefore contribute to wealth.

PIECE RATE A fixed payment to labour for each unit produced.

PLANNED ECONOMIC SYSTEM An economic system in which the government determines what goods and services to produce, their prices and how they are allocated.

POLICY INSTRUMENT A tool a government can use, such as public expenditure, tax, the interest rates or a regulation, to help achieve its economic objectives.

POPULATION PYRAMID A graph that shows the distribution of males and females in various age groups in a population.

POSITIVE EXTERNALITY This occurs when an individual or firm making a decision will not enjoy the full benefit of that decision. That is, it provides an external benefit for other people and organizations that were not involved in the action or decision that created it.

PREDATORY PRICING A pricing strategy involving deep cuts to prices that is often used by an established and dominant firm in a market to deter or destroy new competition.

PREFERRED STOCK Preference shares issued by a limited company.

PRICE COLLUSION A group of firms acting together to determine or influence the market price of their product through their joint control over market supply.

PRICE COMPETITION Rivalry between firms supplying the same market based on reducing prices or offering discounts for customers.

PRICE ELASTIC Consumer demand for a product is described as price elastic if a small change in its price causes a larger proportionate demand response.

PRICE ELASTICITY OF DEMAND The responsiveness of consumer demand for a product to a change in its price.

PRICE ELASTICITY OF SUPPLY The responsiveness of producer supply of a product to a change in its price.

PRICE INELASTIC Consumer demand for a product is described as price inelastic if a small change in its price causes a less than proportionate demand response.

PRICE MECHANISM The market mechanism that guides decisions taken by different producers and consumers about how scarce resources should be allocated between competing uses.

PRICE WAR Deep cuts in prices between a small group of large competing firms continually trying
to undercut each other to attract customers from their rivals.

**PRIMARY SECTOR** Extractive industries or those producing natural resources.

**PRIVATE BENEFIT** A financial benefit, such as sales revenue, enjoyed by the person or firm responsible for the action or decision that created it.

**PRIVATE COST** A financial cost, such as the purchase of a new computer, incurred by the person or firm responsible for the action or decision that caused it.

**PRIVATE EXPENDITURE** Money spent by private individuals and firms on consumer and capital goods and services.

**PRIVATE LIMITED COMPANY** A business organization able to raise permanent capital from the issue and sale of shares to private individuals. Shares cannot be transferred without the consent of other shareholders, and cannot be offered to the general public.

**PRIVATIZATION** The sale or transfer of public sector activities to private sector firms who, because they have a profit motive, may be able to provide them more efficiently than public sector organizations.

**PRODUCERS** People – workers and entrepreneurs – involved in productive activities.

**PRODUCTION POSSIBILITY CURVE** A graph of the combined maximum possible output of two products an economy can produce efficiently with existing resources and technology. It shows how much of one product must be given up to produce more of the other.

**PRODUCTION** Using scarce resources to make and sell goods and services that satisfy the needs and wants of consumers.

**PRODUCTS** The outputs from productive activities, and an economics term also used to collectively describe goods and services.

**PROFIT** A surplus of revenue from the sale of outputs over the costs of their production.

**PROFIT MAXIMIZATION** This is the aim of most private sector organizations, to increase to the greatest possible extent the surplus of revenue over costs.

**PROGRESSIVE TAX** A tax designed to take proportionally more in tax from a higher income than a low income.

**PROPORTIONAL TAX** A flat tax that takes the same proportion of income in tax from all incomes.

**PROTECTIONISM** The use of trade barriers by governments to protect their domestic industries and employment from global competition.

**PUBLIC CORPORATION** A business organization created to perform a public sector function or to operate under government control, such as a municipal water company, public hospital or central bank.

**PUBLIC EXPENDITURE** The amount of money spent in total by government organizations. It includes spending on recurrent costs such as public sector wages and capital items, including investments in public infrastructure such as roads.

**PUBLIC GOODS** Goods or services, such as street lighting and sea defences, that are provided for free by a government because all consumers will benefit from them whether they pay for these products or not. It is therefore impossible to charge different individuals or businesses different prices for the amounts they consume.

**PUBLIC LIMITED COMPANY** A business organization able to raise permanent capital from the sale of shares to the general public through a stock exchange.

**PUBLIC SECTOR BORROWING REQUIREMENT** The amount a government must borrow to cover any shortfall in public sector revenues below public sector spending in any given period.

**PURE MONOPOLY** A single firm that controls 100% of the supply of a product to a market.

**QUANTITATIVE EASING** A monetary policy action designed to boost the quantity of money held by banks during an economic downturn so they can increase lending to consumers to spend. It involves the central bank buying financial assets from banks.

**QUOTA** A restriction on the volume of an imported good allowed into a country.

**REAL GDP** The value of the total output or income of an economy after adjusting for changes in price inflation over time. It is a measure of economic growth in the GDP of an economy assuming prices have remained constant over time.

**REGIONAL UNEMPLOYMENT** Unemployment that is disproportionately concentrated in a particular region in an economy.

**REGRESSIVE TAX** A tax designed to take proportionally less in tax from income as it rises. People on low incomes therefore pay proportionally more in tax from their incomes than high-income earners.
RELATIVE POVERTY An economic condition of having fewer resources than others in the same society, usually measured by the extent to which a person’s or household’s financial resources fall below the average income level of others in their economy.

RESOURCE DEPLETION The using up of non-renewable natural resources through increasing levels of production, consumption and exchange.

S

SALARY An annual rate of pay, often paid to employees in professional and other non-manual occupations.

SAVING Deferred consumption or the accumulation of wealth.

SAVINGS RATIO Total savings in an economy as a percentage of total disposable income.

SEASONAL UNEMPLOYMENT Joblessness resulting from seasonal downturns in demand and economic activity in particular industries, such as in tourism, agriculture and construction.

SECONDARY INDUSTRIES All manufacturing and construction industries.

SHARE CAPITAL Money raised by companies for investment from the sale of shares.

SHAREHOLDER A person or organization that owns one or more shares in a joint-stock company.

SINGLE UNION AGREEMENT An agreement between an employer and trade unions that one union can represent all workers at a particular workplace. The arrangement saves time negotiating with only one union and avoids disagreements arising between different unions.

SLEEPING PARTNER A person who invests money into a partnership, but is not involved in the day-to-day running of the business.

SME A small or medium-sized enterprise.

SOCIAL BENEFIT The total benefit to society of an activity, including both its private benefits and external benefits.

SOCIAL COST The total cost to society of an activity, including both its private and external costs.

SOLE TRADER Also known as a sole proprietorship, a sole trader is a business organization owned and usually controlled by one person.

SPECIALIZATION Production involving employees or organizations each concentrating their productive efforts on limited range of tasks or products.

STAG A stock market speculator who applies for new issues of shares in anticipation of a rise in price when stock market trading commences in order to make a quick profit on resale.

STAGFLATION An economic situation in which both price inflation and unemployment are rising at the same time.

STOCK EXCHANGE An organization that brings together buyers and sellers of company shares and government bonds.

STOCK MARKET The global market for new and second-hand stocks (shares and bonds).

STOCK MARKET FLOTATION The first issue and sale of shares in a newly created public limited company through a stock exchange.

STRIKE A disruptive action taken by a group of workers who refuse to continue to work.

STRUCTURAL UNEMPLOYMENT Joblessness among workers because their skills are out of date and no longer wanted due to changes in demand patterns or technologies that have resulted in the decline of some established industries in an economy.

SUBSTITUTES - Products that compete to satisfy the same consumer demand, such as butter and margarine.

SUPPLY-SIDE POLICY A government policy designed to improve the productive capacity of an economy.

SUPPLY The willingness of a producer or group of producers to make a product available.

SUSTAINABLE GROWTH Growth in real output that is achieved without depleting natural resources or harming the natural environment.

T

TAKEOVER The transfer of control of one company to another through the purchase of its shares.

TARIFF A tax levied on the price of an imported product to contract domestic demand for it.

TAX BASE The assessed value of income, wealth or expenditure that is then made subject to taxation.

TAX BURDEN - This measures total tax revenue as a proportion of the national income of an economy.

TECHNOLOGICAL UNEMPLOYMENT Joblessness caused by the substitution of labour in production processes by modern, capital equipment.

TERTIARY SECTOR Service industries form this sector of an economy.
TOTAL REVENUE – Also known as turnover, total revenue is the total amount of money received by a firm from the sale of its goods or services in a given period.

TRADE BARRIERS Government measures, such as tariffs and quotas, designed to restrict international trade and competition.

TRADE DEFICIT This occurs when the value of visible imports to a country exceeds the value of visible exports it sells overseas during the same period.

TRADE LIBERALIZATION The removal of or reduction in trade barriers between countries.

TRADE SURPLUS This occurs when the value of visible exports from a country exceeds the value of visible imports to that country during the same period.

TRADE UNION Also known as a labour union, a trade union is an association representing employees in a particular workplace or industry with the aim of improving their pay and working conditions through negotiations with employers.

TRADE The exchange of goods and services, usually for money.

TRANSFER PAYMENTS Payments made by a government to individuals, usually through a social welfare programme, including unemployment benefits, disability allowances and old-age pensions. They are ‘transfers’ because they do not involve payment for goods or services and are paid to people who are not engaged in productive activities from tax revenues paid by people and businesses that are economically active.

UNEMPLOYMENT RATE The proportion of the labour force in an economy that is out of work but seeking employment.

UNLIMITED LIABILITY Total liability of a business owner or owners to repay all the debts of their business in the event it fails.

UTILITY The satisfaction a person gains from consuming a good or service.

VALUE ADDED TAX A tax added as a percentage of the value of goods and services at each stage of their production. Because firms can deduct the tax they pay on the purchase of inputs from the tax they collect from the sale of their outputs, the tax only taxes the additional value they add during production.

VALUE ADDED The increase in the ‘value’ of resources used up in production to make goods and services consumers are willing and able to buy.

VARIABLE COST A cost of production that varies directly with the level of output in a firm.

VELOCITY OF CIRCULATION The number of time the fixed amount of notes and coins in an economy are exchanged between different people and firms on average over a given period of time.

VERTICAL INTEGRATION A merger between two or more firms at different stages of production of the same product, such as between a farm and a food processing company.

VISIBLE EXPORT A physical product sold to consumers overseas. Payment for the product involves the receipt of money from overseas and will be credited to the current account of the balance of payments of the country receiving the product.

VISIBLE IMPORT A physical product purchased from a producer overseas. Payment for the product involves the transfer of money overseas and will be debited from the current account of the balance of payments of the country receiving the product.

VISIBLE TRADE The movement and exchange of physical exports and imports across national borders.

VOLUNTARY UNEMPLOYMENT Joblessness resulting from people choosing not to continue in paid employment.

WAGE DIFFERENTIALS Differences in rates of pay between different occupations, industries, locations and group of workers.

WAGE RATE The amount paid to an employee per period of time worked or per unit of output produced.

WAGE-PRICE SPIRAL An economic situation in which workers demand higher wages to compensate them for the impact of rising inflation on the real value of their earnings and in so doing force producers to pass on increased wage costs to consumers in higher prices, resulting in even higher wage demands, and so on.

WANTS Human desires for goods and services. They are unlimited.

WASTEFUL COMPETITION Product duplication or marketing rivalry between competing firms that uses up resources without adding value or creating further sales.

WEALTH The stock of financial and non-financial assets a person or a household owns that have monetary value.
WORKER COOPERATIVE A business organization owned and managed by its worker-owners.

WORKING CAPITAL Money used to pay for day-to-day running costs in a business and invested in stocks of finished and unfinished products.

WORKING POPULATION The economically active population or labour force in an economy.

X

X-INEFFICIENCY Increased costs resulting from 'organizational slack' or a lack of incentives in a firm that is protected from competition because it enjoys significant market power.