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Glossary of economic terms

Administrative regulations: regulations imposed by the government of a country to regulate trade, usually applied to imports, e.g. insisting upon imports meeting minimum standards.

Age distribution: the number of people in each age group of the population. This can be shown on a population pyramid. It may be simplified into three categories: underworking age, working age and retirement age groups.

Ageing population: the average age of the population is increasing.

Allocation of resources: economic decisions concerning the uses of the factors of production.

Appreciate/appreciation (of a currency): the value of a country's currency rises in terms of other currencies. Exports will become more expensive and imports cheaper.

Average cost: total cost divided by output.

Balance of payments: this is the record of a country's international financial transactions.

Balance of payments on current account: this shows the trade in goods and services, profits, interests and dividends (net income from abroad) and current transfers.

Balance of trade: visible exports - visible imports.

Barriers to entry: in competition, barriers to entry prevent or make it difficult for firms to enter an industry, e.g. brand image, government regulations (licensing).

Barter: exchange of goods and services without the use of money.

Budget deficit: government expenditure greater than government revenue.

Budget surplus: government expenditure less than government revenue.

Bureaucracy: a diseconomy of scale resulting from a more than proportionate increase in management and leading to difficulties in communication and decisionmaking.

Capital: goods used to produce other goods, e.g. machines in a factory.

Cartel: oligopolists work together (collude) to enjoy monopoly profits by agreeing on price and output.

Central bank: the main bank in a country which issues notes and coins and implements monetary policy. It is sometimes called the government's bank as it manages the government's accounts.

Commodity trade: trade in primary products.

Competition: the process by which firms selling similar products in the same market achieve a larger share of the market. It can be price or non-price competition.

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Complementary goods: goods which are related to each other: if the price of one increases the demand for the other falls and vice versa, e.g. petrol and cars. The cross-elasticity of complementary goods is negative.

Conglomerate: a firm which consists of unrelated businesses.

Cost-push inflation: producers facing rising costs of production increase the prices of their goods and services, thus leading to inflation.

Current private transfers: transfers of money by individuals and firms to other countries. It is part of the balance of payments on current account.

Cyclical unemployment: this is caused by falling demand due to a downturn in the trade cycle.

Deficit: expenditure is greater than revenue. When applied to government expenditure and revenue it is called the budget deficit. When applied to visible imports and visible exports it is called the trade deficit.

Deflationary (policy): this is used to reduce economic activity in order to reduce inflation.

De-industrialisation: the tendency in a developed economy for the manufacturing sector to decline.

Demand curve: a line which shows the relationship between price and quantity demanded.

Demand-pull inflation: excess demand in the economy puts pressure on prices leading to inflation.

Demerit goods: goods which are thought to be harmful to consumers/society, e.g. cigarettes and addictive drugs.

Depreciate/depreciation (of a currency): the value of a country's currency falls in terms of other currencies. Exports will become cheaper and imports more expensive.

Deregulation: the removal by the government of rules and regulations from businesses in order to promote competition.

Devaluation: depreciation of a currency brought about by official interference in exchange rates, usually associated with fixed exchange rates.

Direct taxes: taxes: on income and wealth, e.g. income tax and inheritance tax.

Diseconomies of scale: as output increases the average cost of production may rise due to diseconomies which include the disadvantages of division of labour and bureaucracy.

Division of labour: breaking down of a job into smaller tasks.

Economies of scale: as output increases the average cost of production may fall due to economies which include marketing, financial, managerial, technical and risk bearing.

Economic growth: the increase in gross domestic product over time.

Efficiency: this occurs when resources are used effectively, e.g. labour efficiency = productivity (output per worker).

Elastic demand/elastic supply: an increase in price will result in a more than proportionate increase in quantity demanded/supplied; elasticity will be greater than 1.

Embargoes: prohibit trade in a product with another country. They are usually imposed for political reasons.

Enterprise/entrepreneur: the factor of production which organises the other factors of production and bears the risk.

Equilibrium price: the price at which quantity demanded and quantity supplied are equal.

Equity: government policy relating to fairness, e.g. progressive taxation is based on ability to pay.

Excess demand: demand is greater than supply.

Exchange control: the price of one currency in terms of another e.g. £ = 1.3€ (Euro).

Exchange rate: this limits the amount of foreign currency available to importers, thus limiting the amount they can import.

Exports: goods and services sold to other countries.

External economies of scale: benefit the whole industry not just individual firms.

Externalities: costs and benefits which are the result of production but which are not accounted for in a firm's costs and revenues. The main externalities are negative (costs), e.g. pollution and congestion.

Factors of production: land, labour, capital and enterprise.

Fiscal policy: means by which the government controls the level of spending in an economy by manipulating government expenditure and government revenue.

Foreign Direct Investment (FDI): flows of private capital from one country to another.

Foreign exchange market: the market where currencies are bought and sold.

Frictional unemployment: this is caused by workers changing jobs. The time between leaving one job and starting another is called frictional unemployment. It is a temporary form of unemployment.

Geographical immobility: the inability of workers to move from one job in a particular area to a job in another area.

Global economy: the interdependence of the world's economies.

Government grants: money given to firms by the government which does not have to be repaid.

Government's economic objectives: these include full employment, low inflation, economic growth and eliminating balance of payments deficits.

Government income (revenue): this is obtained mainly from taxation but also includes income from rent, profits of state industries, fines and revenue from the sale of state-owned industries.

Government expenditure: the amount a government spends, e.g. on defence, social security benefits, health.

Gross Domestic Product (GDP): the sum total of a country's output over a period of time, usually a year.

Human capital: the levels of education and skill possessed by the factor of production, labour.

Human Development Index: a measure of the standard of living which considers the quality of life. It is constructed by the United Nations and takes into account other factors, e.g. life expectancy rather than just the income per person in a country.

Imports: goods and services brought into a country from abroad.

Income elasticity of demand: measures the responsiveness of demand to a change in income. Income elasticity of demand equals the % change in quantity demanded, divided by the % change in income.

Industrial inertia: historical reasons for location in a particular area disappear but firms do not move to new areas. There is no longer an economic reason for a firm to stay in that area.

Inelastic demand/supply: an increase in price will result in a less than proportionate increase in quantity demanded/supplied. Elasticity will be less than 1.

Indirect taxes: taxes on expenditure, e.g. value added tax (VAT).

Inferior goods: goods which decrease in demand as income increases. Income elasticity of demand for inferior goods is negative.

Inflation: the general and persistent rise in the level of prices in a country.

Inflationary (policy): this is used to increase economic activity in order to increase demand and employment.

Infrastructure: the man-made environment, e.g. transport links, schools, hospitals. Interest rate: (see Rate of interest).

Internal economies of scale: these benefit firms by decreasing average costs as production increases (see Economies of scale).

International debt: the amount owed by one country to another. It is especially important for developing countries as they may have problems repaying international debt (loans and interest payments).

International Labour Organisation (ILO): organisation concerned with employment. The ILO unemployment rate is defined as people who are not working but who are actively seeking work.

International Monetary Fund (IMF): an international organisation set up in 1944. Mainly concerned with exchange rates and loans to countries with persistent trade deficits.

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Investment: the purchase of capital equipment, e.g. machinery by firms and the government.

Invisible balance: invisible exports - invisible imports.

Invisible exports: services sold to other countries.

Invisible imports: services bought from other countries.

Involuntary unemployment: workers who are willing to work but cannot find employment.

Land: the factor of production which includes its fertility, mineral deposits, natural vegetation.

Labour: the factor of production comprising people in the process of production.

Loans: borrowed money which is paid back by instalments plus interest. Loans are issued for a fixed time period.

Localisation: industry (several firms producing the same good or service) situated in one area due to particular advantages to the industry, e.g. proximity to raw materials.

Location: the decision taken to place a firm in a particular part of a country.

Macroeconomic objectives: a government's aims for the economy as a whole, e.g. full employment, control of inflation.

Market economy: allows market forces (price mechanism) to determine the allocation of resources.

Market forces: the action of demand and supply on price.

Minimum wage rates: a legal minimum hourly wage set by the government of a country.

Money: anything which is generally acceptable in payment for goods and services.

Money income: income which does not take account of the rate of inflation.

Money supply: there are several different measures. The most common is notes and coins in circulation plus credit created.

Monetary policy: means by which the government controls the level of spending in an economy by controlling the amount of credit available and the cost of this credit (interest rates).

Monopoly: where there is a single producer in an industry. There is no competition.

Mixed economy: combination of a market and planned economies. Some resources are allocated through the price mechanism and some by the state.

Multinationals: firms which have their headquarters in one country but have manufacturing plants or outlets in others, e.g. Ford.

National income: the sum of all the incomes of the factors of production in an economy in one year.

Nationalisation: the transfer of firms from the private to the public sector.

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Negative externalities: the costs of economic activity which are not paid by the producer but which affect others in an economy, e.g. pollution.

Net income from abroad: the difference between the interest, profit and dividends earned by firms and individuals of a country and which enter the country and the interest, profit and dividends which are earned by foreigners and sent out of the country. It is part of the balance of payments on current account.

Non-price competition: competitive practices not based on price, e.g. advertising, branding.

Non-renewable resources: these are fixed in supply and cannot be replaced, e.g. oil, minerals.

Non-tariff barriers: restrictions on trade which do not involve import taxes.

Normal goods: goods which increase in demand as income increases. Income elasticity of demand for normal goods is positive.

Occupational immobility: the inability of workers to move from one job to another in a different industry.

Oligopoly: a market made up of a few sellers. The firms are interdependent, i.e. they will react to changes in each other's price and quantity changes.

Opportunity cost: the cost of the next best alternative foregone.

Personal savings: income not spent. A sole trader can use his personal savings as a source of finance in his business.

Price competition: competitive practices based on price.

Price elasticity of demand: the responsiveness of quantity demanded to a change in price. Price elasticity of demand equals the % change in quantity demanded, divided by the % change in price.

Primary sector: that part of an economy which consists of farming, fishing, forestry, mining, i.e. the extractive industries.

Private good: goods produced by the private sector for a profit.

Private sector: the part of the economy owned and controlled by shareholders or individuals.

Privatisation: the sale of state-owned firms to the private sector.

Production: the amount produced by a firm or group of firms.

Productivity: the amount produced per unit, e.g. labour productivity = amount produced / number of workers.

Progressive taxation: the proportion of income taken in tax increases as a person's income increases, e.g. income tax.

Proportional taxation: the proportion of income taken in tax remains the same as a person's income increases.

Public goods: goods provided by the state which are not charged according to their use, e.g. street lighting. They are non-exhaustible and non-excludable.

Public limited company: a company with limited liability, owned by shareholders. The shares can be traded on a stock exchange.

Public sector: the part of the economy owned and controlled by the government on behalf of the country.

Purchasing power of money: the amount of goods and services an amount of money can buy.

Quotas: an import control (non-tariff) that limits the amount of particular imports brought into the country.

Rate of interest: the amount paid by the borrower to the lender for a loan. Usually calculated over the period of a year.

Real income: money income adjusted for the rate of inflation.

Regional imbalance: the result of areas in a country having different employment and income levels.

Regional policy: this is the government's attempt to correct regional imbalances, e.g. giving firms incentives to move to areas of high unemployment.

Regressive taxation: the proportion of income taken in tax decreases as a person's income increases, e.g. value added tax.

Retail Price Index: a statistical measure of weighted average prices of a specified set of goods and services. It is used as a measure of inflation.

Retained profit: the amount left over after everything has been paid by a firm including taxes and dividends.

Savings: the amount of consumers' income not spent.

Scarcity: this is caused by people's wants and needs being greater than the resources available to satisfy them.

Secondary sector: processing of primary products into manufactured goods.

Seasonal unemployment: unemployment which rises and falls according to the time of year, e.g. hotel workers in tourist resorts.

Social benefits: Social benefit = private benefit + external benefit (education, health).

Social costs: Social cost = private cost + external cost (pollution, congestion).

Specialisation: where one person/country concentrates upon one job/product, e.g. person - teacher; Brazil - coffee.

Standard of living: the amount of goods and services consumed by individuals with their incomes.

Structural unemployment: long-term unemployment caused by the decline in demand for the products of an industry.

Subsidies: money paid to a producer by the government. It shifts the supply curve to the right and reduces the price to the consumer.

Substitute goods: these have close alternatives, e.g. butter and margarine. If the price of one good increases the demand for the other increases and vice versa. The cross-elasticity of substitute goods is positive.

Supply curve: the line which shows the relationship between price and quantity supplied.

Supply side policies: encourage the free working of the market mechanism to achieve government objectives, e.g. reducing the power of trade unions in the labour market.

Surplus: revenue is greater than expenditure. When applied to government revenue and expenditure it is called the budget surplus. It can also be applied to trade balances in international trade when exports are greater than imports.

Tariff barriers: restrictions on trade which involve import taxes.

Taxes: money taken from individuals and businesses by the government. Taxes can be direct, e.g. income tax, or indirect, e.g. VAT. Taxes form a major part of government revenue.

Technological unemployment: long-term unemployment brought about by the introduction of machines which replace labour.

Tertiary sector: the sector of the economy which provides services.

Trade cycle: the tendency of economies to go through periods of boom followed by recession, slump, reflation and then returning to boom.

Trading blocs: group of countries that have a free trade agreement between themselves and apply a common external tariff to other countries.

Trade unions: workers' organisations which aim to improve wages and working conditions of their members.

Unit elasticity: an increase in price results in a proportionate increase in quantity demanded/supplied. Elasticity is equal to 1.

Visible exports: goods sold to other countries.

Visible imports: goods bought from other countries.

Voluntary unemployment: this is caused by workers making the decision not to work. This may be due to high social security benefits.

World Trade Organisation (WTO): regulates international trade. It replaced GATT (General Agreement on Tariffs and Trade) in 1995. It tries to reduce trade barriers and settle trade disputes.