

Glossary

A

- absolute advantage** the ability to produce more of a given product using a given amount of resources (p. 443)
- aggregate demand** the amount of goods and services in the economy that will be purchased at all possible price levels (p. 307)
- aggregate supply** the total amount of goods and services in the economy available at all possible price levels (p. 307)
- annual percentage rate (APR)** a finance charge expressed as an annual rate (p. 514)
- antitrust laws** laws that encourage competition in the marketplace (p. 173)
- appreciation** an increase in the value of a currency (p. 459)
- appropriations bill** a bill that sets money aside for specific spending (p. 389)
- arable** suitable for producing crops (p. 480)
- arbitration** a settlement technique in which a third party reviews the case and imposes a decision that is legally binding for both sides (p. 234)
- articles of partnership** a partnership agreement (p. 191)
- assets** money and other valuables belonging to an individual or business (p. 192)
- authoritarian** requiring strict obedience to an authority, such as a dictator (p. 35)
- automatic stabilizer** a government program that changes automatically depending on GDP and a person's income (p. 399)

B

- balanced budget** budget in which revenues are equal to spending (pp. 376, 403)
- balance of trade** the relationship between a nation's imports and exports (p. 462)
- bank** an institution for receiving, keeping, and lending money (p. 250)
- bank holding company** a company that owns more than one bank (p. 421)
- bank run** widespread panic in which great numbers of people try to redeem their paper money (p. 252)
- barrier to entry** any factor that makes it difficult for a new firm to enter a market (p. 153)
- barter** the direct exchange of one set of goods or services for another (p. 243)
- bear market** a steady drop in the stock market over a period of time (p. 290)
- black market** a market in which goods are sold illegally (p. 142)

- block grant** federal funds given to states in lump sums (p. 350)
- blue-collar worker** someone who works in an industrial job, often in manufacturing, and who receives wages (p. 231)
- Board of Governors** the seven-member board that oversees the Federal Reserve System (p. 416)
- bond** a formal contract to repay borrowed money with interest at fixed intervals (pp. 197, 507)
- brokerage firm** a business that specializes in trading stocks (p. 287)
- budget** a plan for saving and spending (p. 502)
- budget deficit** a situation in which the government spends more than it takes in (p. 403)
- budget surplus** a situation in which the government takes in more than it spends (p. 403)
- bull market** a steady rise in the stock market over a period of time (p. 290)
- business association** nonprofit organization that promotes collective business interests for a city, state, or other geographical area, or for a group of similar businesses (p. 204)
- business cycle** a period of macroeconomic expansion followed by a period of contraction (pp. 57, 310)
- business franchise** a semi-independent business that pays fees to a parent company in return for the exclusive right to sell a certain product or service in a given area (p. 201)
- business license** authorization to start a business issued by the local government (p. 186)
- business organization** an establishment formed to carry on commercial enterprise (p. 185)

C

- call option** the option to buy shares of stock at a specified time in the future (p. 288)
- capital** any human-made resource that is used to create other goods or services (p. 4)
- capital budget** budget for major capital, or investment, expenditures (p. 375)
- capital deepening** process of increasing the amount of capital per worker (p. 320)
- capital gain** the difference between a higher selling price and a lower purchase price, resulting in a financial gain for the seller (pp. 286, 508)
- capital loss** the difference between a lower selling price and a higher purchase price, resulting in a financial loss for the seller (p. 286)

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- capital market** market in which money is lent for periods longer than a year (p. 283)
- cartel** a formal organization of producers that agree to coordinate prices and production (p. 171)
- cash transfers** direct payments of money to eligible poor people (p. 69)
- census** an official count of the population (p. 334)
- central bank** bank that can lend to other banks in times of need (p. 254)
- centrally planned economy** economic system in which the central government makes all decisions on the production and consumption of goods and services (p. 27)
- certificate of incorporation** license to form a corporation issued by state government (p. 197)
- ceteris paribus** a Latin phrase that means "all other things held constant" (p. 85)
- check clearing** the process by which banks record whose account gives up money and whose account receives money when a customer writes a check (p. 421)
- check register** a booklet used to record checking account transactions (p. 504)
- classical economics** the idea that free markets can regulate themselves (p. 395)
- closely held corporation** corporation that issues stock to only a few people, often family members (p. 196)
- collateral** property used to secure a loan (p. 513)
- collective** large farm leased from the state to groups of peasant farmers (p. 36)
- collective bargaining** the process in which union and company representatives meet to negotiate a new labor contract (p. 233)
- collusion** an agreement among firms to divide the market, set prices, or limit production (p. 171)
- command economy** economic system in which the central government makes all decisions on the production and consumption of goods and services (p. 27)
- commercial bank** a bank that provides checking accounts, savings accounts, and money market accounts and that accepts time deposits (p. 511)
- commodity** a product that is the same no matter who produces it, such as petroleum, notebook paper, or milk (p. 152)
- commodity money** objects that have value in themselves as well as for use as money (p. 246)
- common stock** stock whose dividends are based on market fluctuations (p. 508)
- communism** a political system characterized by a centrally planned economy with all economic and political power resting in the hands of the central government (p. 35)
- comparative advantage** the ability to produce a product most efficiently given all the other products that could be produced (p. 444)
- competition** the struggle among producers for the dollars of consumers; the rivalry among sellers to attract customers while lowering costs (pp. 31, 53)
- complements** two goods that are bought and used together (p. 88)
- conglomerate** business combination merging more than three businesses that make unrelated products (p. 199)
- Congressional Budget Office (CBO)** government agency that provides economic data to Congress (p. 388)
- consumer cooperative** retail outlet owned and operated by consumers (p. 203)
- Consumer Price Index (CPI)** a price index determined by measuring the price of a standard group of goods meant to represent the typical "market basket" of a typical urban consumer (p. 339)
- consumer sovereignty** the power of consumers to decide what gets produced (p. 32)
- contingent employment** temporary jobs or part-time jobs (p. 215)
- continuum** a range with no clear divisions (p. 43)
- contract** a binding legal agreement (p. 523)
- contraction** period of economic decline marked by falling real GDP (p. 310)
- contractionary policies** fiscal policies, like lower spending and higher taxes, that reduce economic growth (p. 389)
- cooperative** a business organization owned and operated by a group of individuals for their mutual benefit (p. 202)
- copayment** part of the cost of a medical visit or procedure that the patient must pay out of pocket (p. 525)
- core inflation rate** the rate of inflation excluding the effects of food and energy prices (p. 340)
- corporate bond** a bond that a corporation issues to raise money in order to expand its business (p. 281)
- corporate income tax** a tax on the value of a corporation's profits (p. 360)
- corporation** a legal entity owned by individual stockholders (p. 195)
- cost** to an economist, cost is an alternative that is given up as the result of a decision (p. 16)
- cost-push theory** theory that inflation occurs when producers raise prices to meet increased costs (p. 341)
- Council of Economic Advisers (CEA)** a group of three respected economists that could advise the President on economic policy (p. 400)
- coupon rate** the interest rate that a bond issuer will pay to a bondholder (p. 277)
- credit** any form of deferred payment (p. 512)
- credit bureau** organization providing information on individuals' borrowing and bill-paying habits (p. 512)
- credit card** a card entitling its holder to buy goods and services based on the holder's promise to pay for these goods and services (p. 261)
- creditor** person or institution to whom money is owed (p. 264)
- credit rating** an evaluation made by credit bureaus of a borrower's overall credit history (p. 512)

credit union nonprofit bank owned by its members, often members of a single organization or trade union (p. 511)

crowding-out effect the loss of funds for private investment due to government borrowing (p. 406)

currency coins and paper bills used as money (p. 245)

customs duty a tax on certain items purchased abroad (p. 450)

cyclical unemployment unemployment that rises during economic downturns and falls when the economy improves (p. 333)

D

debit card a card used to withdraw money (p. 263)

debt rescheduling lengthening the time of debt repayment and forgiving, or dismissing, part of the loan (p. 488)

deductible amount of expenses that must be paid out of pocket before an insurer will cover any expenses (p. 524)

deductions variable amounts that you can subtract, or deduct, from your gross income (p. 366)

default failure to pay back a loan (p. 261)

deflation a sustained drop in the price level (p. 343)

demand the desire to own something and the ability to pay for it (p. 79)

demand curve a graphic representation of a demand schedule (p. 82)

demand deposit the money in checking accounts (p. 258)

demand-pull theory theory that inflation occurs when demand for goods and services exceeds existing supplies (p. 341)

demand schedule a table that lists the quantity of a good a person will buy at each different price (p. 81)

demand-side economics a school of economics that believes government spending and tax cuts help an economy by raising demand (p. 396)

depreciation the loss of the value of capital equipment that results from normal wear and tear (pp. 305, 520), or, a decrease in the value of a currency (p. 459)

depression a recession that is especially long and severe (p. 311)

deregulation the removal of some government controls over a market (p. 175)

developed nation country with a higher average level of material well-being (p. 471)

development the process by which a nation improves the economic, political, and social well-being of its people (p. 471)

differentiation making a product different from other similar products (p. 167)

diminishing marginal returns a level of production in which the marginal product of labor decreases as the number of workers increases (p. 109)

discount rate rate the Federal Reserve charges for loans to commercial banks (p. 422)

discouraged worker a person who wants a job but has given up looking (p. 336)

discretionary spending spending category about which government planners can make choices (p. 371)

disequilibrium describes any price or quantity not at equilibrium; when quantity supplied is not equal to quantity demanded in a market (p. 126)

diversification spreading out investments to reduce risk (p. 273)

dividend the portion of corporate profits paid out to stockholders (pp. 198, 508)

The Dow index that shows how certain stocks have traded (p. 290)

durable goods goods that last for a relatively long time, such as refrigerators, cars, and DVD players (p. 302)

E

easy money policy monetary policy that increases the money supply (p. 431)

economic growth steady, long-term increase in real GDP (p. 310)

economics the study of how people seek to satisfy their needs and wants by making choices (p. 3)

economic system the method used by a society to produce and distribute goods and services (p. 23)

economies of scale factors that cause a producer's average cost per unit to fall as output rises (p. 157)

efficiency using resources in such a way as to maximize the production of goods and services (p. 15)

elastic describes demand that is very sensitive to a change in price (p. 90)

elasticity of demand a measure of how consumers react to a change in price (p. 90)

elasticity of supply a measure of the way quantity supplied reacts to a change in price (p. 104)

enterprise zone area where companies can locate free of certain local, state, and federal taxes and restrictions (p. 350)

entitlement social welfare program that people are "entitled" to if they meet certain eligibility requirements (p. 372)

entrepreneur ambitious leader who combines land, labor, and capital to create and market new goods or services (p. 6)

equilibrium the point at which quantity demanded and quantity supplied are equal (p. 125)

equilibrium wage the wage rate that produces neither an excess supply of workers nor an excess demand for workers in the labor market (p. 220)

equities claims of ownership in a corporation (p. 285)

estate tax a tax on the estate, or total value of the money and property, of a person who has died (p. 368)

euro a single new currency that replaces individual currencies among members of the European Union (p. 454)

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European Union (EU) a regional trade organization made up of European nations (p. 454)

excess demand when quantity demanded is more than quantity supplied (p. 126)

excess reserves in banking, reserves of cash more than the required amounts (p. 427)

excess supply when quantity supplied is more than quantity demanded (p. 128)

exchange rate the value of a foreign nation's currency in terms of the home nation's currency (p. 458)

excise tax a tax on the production or sale of a good (p. 118)

expansion a period of economic growth as measured by a rise in real GDP (p. 310)

expansionary policies fiscal policies, like higher spending and tax cuts, that encourage economic growth (p. 389)

export a good that is sent to another country for sale (p. 446)

externality an economic side effect of a good or service that generates benefits or costs to someone other than the person deciding how much to produce or consume (p. 65)

F

factor market market in which firms purchase the factors of production from households (p. 29)

factor payments the income people receive for supplying factors of production: land, labor, or capital (p. 24)

factors of production land, labor, and capital; the three groups of resources that are used to make all goods and services (p. 4)

featherbedding the practice of negotiating labor contracts that keep unnecessary workers on a company's payroll (p. 225)

Federal Advisory Council (FAC) the research arm of the Federal Reserve (p. 418)

federal budget a plan for the federal government's revenues and spending for the coming year (p. 387)

Federal Deposit Insurance Corporation (FDIC) the government agency that insures customer deposits if a bank fails (p. 255)

federal funds rate interest rate banks charge each other for loans (p. 422)

Federal Open Market Committee (FOMC) Federal Reserve committee that makes key decisions about interest rates and the growth of the United States money supply (p. 418)

Federal Reserve Districts the twelve banking districts created by the Federal Reserve Act (p. 417)

Federal Reserve note the national currency we use today in the United States (p. 255)

Federal Reserve System the nation's central banking system (p. 254)

fiat money money that has value because the government has ordered that it is an acceptable means to pay debts (p. 248)

FICA taxes that fund Social Security and Medicare (p. 367)

finance charge interest accrued on, and fees charged for, some forms of credit (p. 513)

financial asset claim on the property or income of a borrower (p. 272)

financial intermediary institution that helps channel funds from savers to borrowers (p. 272)

financial system the system that allows the transfer of money between savers and borrowers (p. 272)

firm an organization that uses resources to produce a product, which it then sells (p. 29)

fiscal policy the use of government spending and revenue collection to influence the economy (p. 387)

fiscal year a twelve-month period that can begin on any date (p. 388)

fixed cost a cost that does not change, no matter how much of a good is produced (p. 111)

fixed exchange-rate system a currency system in which governments try to keep the values of their currencies constant against one another (p. 461)

fixed income income that does not increase even when prices go up (p. 343)

flexible exchange-rate system a currency system that allows the exchange rate to be determined by supply and demand (p. 462)

food stamps government-issued coupons that recipients exchange for food (p. 348)

foreign direct investment the establishment of an enterprise by a foreigner (p. 486)

foreign exchange market the banks and other financial institutions that facilitate the buying and selling of foreign currencies (p. 460)

foreign investment investment originating from other countries (p. 485)

foreign portfolio investment the entry of funds into a country when foreigners make purchases in the country's stock and bond markets (p. 486)

fractional reserve banking a banking system that keeps only a fraction of funds on hand and lends out the remainder (p. 260)

franchise the right to sell a good or service within an exclusive market (p. 159)

free contract the concept that people may decide what agreements they want to enter into (p. 53)

free enterprise an economic system characterized by private or corporate ownership of capital goods; investments that are determined by private decision rather than by state control; and determined in a free market (p. 43)

free rider someone who would not choose to pay for a certain good or service, but who would get the benefits of it anyway if it were provided as a public good (p. 63)

free-trade zone a region where a group of countries has agreed to reduce or eliminate trade barriers (p. 454)

frictional unemployment unemployment that occurs when people take time to find a job (p. 331)

fringe benefit payment other than wages or salaries (p. 188)
full employment the level of employment reached when there is no cyclical unemployment (p. 335)
futures contracts to buy or sell at a specific date in the future at a price specified today (p. 288)

G

general partnership partnership in which partners share equally in both responsibility and liability (p. 190)
gift tax a tax on money or property that one living person gives to another (p. 368)
glasnost a policy of "openness" introduced into the Soviet Union in the late 1980s (p. 491)
glass ceiling an unofficial, invisible barrier that prevents women and minorities from advancing in businesses dominated by white men (p. 224)
gold standard a monetary system in which paper money and coins are equal in value to a certain amount of gold (p. 253)
goods physical objects such as clothes or shoes (p. 3)
government monopoly a monopoly created by the government (p. 159)
Great Crash the collapse of the stock market in 1929 (p. 290)
Great Depression the severe economic decline that began in 1929 and lasted for more than a decade (p. 255)
greenback paper currency issued by the North during the Civil War (p. 253)
gross domestic product (GDP) the total value of all final goods and services produced in a particular economy; the dollar value of all final goods and services produced within a country's borders in a given year (pp. 57, 301)
gross national product (GNP) the annual income earned by U.S.-owned firms and U.S. residents (p. 305)
guns or butter a phrase that refers to the trade-off that nations face when choosing whether to produce more or less military or consumer goods (p. 8)

H

heavy industry industry that requires a large capital investment and that produces items used in other industries (p. 37)
household a person or a group of people living in the same residence (p. 29)
horizontal merger the combination of two or more firms competing in the same market with the same good or service (p. 199)
human capital the skills and knowledge gained by a worker through education and experience (p. 5)
hyperinflation inflation that is out of control; very high inflation (pp. 341, 404)

imperfect competition a market structure that does not meet the conditions of perfect competition (p. 153)

import a good that is brought in from another country for sale (p. 446)

import quota a limit on the amount of a good that can be imported (p. 449)

incentive an expectation that encourages people to behave in a certain way (p. 31)

incidence of a tax the final burden of a tax (p. 363)

income distribution how the nation's total income is distributed among its population (p. 348)

income effect the change in consumption resulting from a change in real income (p. 80)

increasing marginal returns a level of production in which the marginal product of labor increases as the number of workers increases (p. 109)

individual income tax a tax on a person's earnings (p. 360)

industrialization the extensive organization of an economy for the purpose of manufacturing (p. 472)

inelastic describes demand that is not very sensitive to a change in price (p. 90)

infant industry a new industry (p. 452)

infant mortality rate the number of deaths that occur in the first year of life per 1,000 live births (p. 474)

inferior good a good that consumers demand less of when their incomes increase (p. 87)

inflation a general increase in prices (p. 338)

inflation rate the percentage rate of change in price level over time (p. 340)

infrastructure the services and facilities necessary for an economy to function (p. 474)

in-kind benefits goods and services provided for free or at greatly reduced prices (p. 70)

inside lag delay in implementing monetary policy (p. 432)

interest the price paid for the use of borrowed money (p. 261), or, money earned by deposited funds (p. 506)

interest group a private organization that tries to persuade public officials to act or vote according to group members' interests (p. 54)

intermediate goods goods used in the production of final goods (p. 301)

internal financing financing derived from the savings of a country's citizens (p. 485)

Internal Revenue Service agency within the U.S. Department of the Treasury responsible for interpretation and application of federal tax law (p. 528)

international free trade agreement agreement that results from cooperation between at least two countries to reduce trade barriers and tariffs and to trade with each other (p. 453)

International Monetary Fund (IMF) organization formed to stabilize international exchange rates and facilitate development (p. 488)

investment the act of redirecting resources from being consumed today so that they may create benefits in the future; the use of assets to earn income or profit (p. 271)

invisible hand term economists use to describe the self-regulating nature of the marketplace (p. 32)

J

junk bond a lower-rated, potentially higher-paying bond (p. 281)

K

Keynesian economics form of demand-side economics that encourages government action to increase or decrease demand and output (p. 396)

L

labor the effort that people devote to a task for which they are paid (p. 4)

labor force all nonmilitary people who are employed or unemployed (p. 211)

labor union an organization of workers that tries to improve working conditions, wages, and benefits for its members (p. 225)

laissez faire the doctrine that states that government generally should not intervene in the marketplace (p. 41)

land natural resources that are used to make goods and services (p. 4)

law of comparative advantage the idea that a nation is better off when it produces goods and services for which it has a comparative advantage (p. 444)

law of demand economic law that states that consumers buy more of a good when its price decreases and less when its price increases (p. 79)

law of increasing costs as we shift factors of production from making one good or service to another, the cost of producing the second item increases (p. 17)

law of supply tendency of suppliers to offer more of a good at a higher price (p. 101)

leading indicators key economic variables that economists use to predict a new phase of the business cycle (p. 314)

learning effect the theory that education increases productivity and results in higher wages (p. 214)

lease a rental agreement between landlord and tenant (p. 523)

legal equality the concept of giving everyone the same legal rights (p. 53)

less developed country nation with a low level of material well-being (p. 471)

liability the legally bound obligation to pay debts (p. 187)

license a government-issued right to operate a business (p. 159)

life expectancy the average expected life span of an individual (p. 473)

light industry the production of small consumer goods (p. 494)

limited liability partnership (LLP) partnership in which all partners are limited partners (p. 190)

limited partnership partnership in which only one partner is required to be a general partner (p. 190)

liquidity the ability to be used as, or directly converted to, cash (p. 258)

literacy rate the proportion of the population over age 15 that can read and write (p. 473)

Lorenz Curve the curve that illustrates income distribution (p. 349)

M

macroeconomics the study of the behavior and decision making of entire economies (p. 57)

malnutrition inadequate nutrition (p. 481)

mandatory spending spending on certain programs that is mandated, or required, by existing law (p. 371)

marginal cost the cost of producing one more unit of a good (p. 111)

marginal product of labor the change in output from hiring one additional unit of labor (p. 108)

marginal revenue the additional income from selling one more unit of a good; sometimes equal to price (p. 112)

market an arrangement that allows buyers and sellers to exchange things (p. 28)

market basket a representative collection of goods and services (p. 339)

market demand schedule a table that lists the quantity of a good all consumers in a market will buy at every different price (p. 82)

market economy economic system in which decisions on production and consumption of goods and services are based on voluntary exchange in markets (p. 27)

market failure a situation in which the market does not distribute resources efficiently (p. 64)

market power the ability of a company to change prices and output like a monopolist (p. 163)

market supply curve a graph of the quantity supplied of a good by all suppliers at different prices (p. 104)

market supply schedule a chart that lists how much of a good all suppliers will offer at different prices (p. 103)

maturity the time at which payment to a bondholder is due (p. 277)

mediation a settlement technique in which a neutral mediator meets with each side to try to find a solution that both sides will accept (p. 234)

Medicaid entitlement program that benefits low-income families, some people with disabilities, and elderly people in nursing homes (p. 373)

Medicare a national health insurance program that helps pay for health care for people over age 65 or who have certain disabilities (p. 368)

medium of exchange anything that is used to determine value during the exchange of goods and services (p. 243)

member bank bank that belongs to the Federal Reserve System (p. 254)