

**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)

**merger** combination of two or more companies into a single firm (p. 174)

**microeconomics** the study of the economic behavior and decision making of small units, such as individuals, families, and businesses (p. 57)

**minimum balance** an amount of money required in a bank account to avoid fees (p. 504)

**minimum wage** a minimum price that an employer can pay a worker for an hour of labor (p. 130)

**mixed economy** economic system that combines the free market with limited government involvement (p. 27)

**monetarism** the belief that the money supply is the most important factor in macroeconomic performance (p. 430)

**monetary policy** the actions the Federal Reserve takes to influence the level of real GDP and the rate of inflation in the economy (p. 417)

**money** anything that serves as a medium of exchange, a unit of account, and a store of value (p. 243)

**money creation** the process by which money enters into circulation (p. 425)

**money market** market in which money is lent for periods less than a year (p. 283)

**money market mutual fund** a fund that pools money from small savers to purchase short-term government and corporate securities (p. 259)

**money multiplier formula** amount of new money that will be created with each demand deposit;  $1 \div RRR$  (p. 426)

**money supply** all the money available in the United States economy (p. 258)

**monopolistic competition** a market structure in which many companies sell products that are similar but not identical (p. 166)

**monopoly** a market dominated by a single seller (p. 156)

**mortgage** a specific type of loan that is used to buy real estate (p. 261)

**multinational corporation (MNC)** large corporation that produces and sells its goods and services throughout the world (p. 199)

**multiplier effect** the idea that every dollar of spending creates more than one dollar in economic activity (p. 397)

**municipal bond** a bond issued by a state or local government or municipality to finance such improvements as highways, state buildings, libraries, parks, and schools (p. 281)

**mutual fund** fund that pools the savings of many individuals and invests this money in a variety of stocks, bonds and other financial assets (pp. 272, 509)

## N

**NAFTA** agreement that will eliminate all tariffs and other trade barriers between Canada, Mexico, and the United States (p. 454)

**Nasdaq** American market for OTC securities (p. 288)

**national bank** a bank chartered, or licensed, by the national government (p. 251)

**national debt** all the money the federal government owes to bondholders (p. 405)

**national income accounting** a system that collects macroeconomic statistics on production, income, investment, and savings (p. 301)

**natural monopoly** a market that runs most efficiently when one large firm supplies all of the output (p. 158)

**natural rate of population increase** the difference between the birth rate and the death rate (p. 478)

**need** something like air, food, or shelter that is necessary for survival (p. 3)

**net worth** total assets minus total liabilities (p. 422)

**newly industrialized country (NIC)** less developed country that has shown significant improvement in the measures of development (p. 475)

**nominal GDP** gross domestic product measured in current prices (p. 304)

**nondurable goods** goods that last a short period of time, such as food, light bulbs, and sneakers (p. 302)

**nonprice competition** a way to attract customers through style, service, or location, but not a lower price (p. 167)

**nonprofit organization** institution that functions much like a business, but does not operate for the purpose of generating profits (p. 203)

**normal good** a good that consumers demand more of when their incomes increase (p. 86)

## O

**Office of Management and Budget (OMB)** government office that manages the federal budget (p. 388)

**oligopoly** a market structure in which a few large firms dominate a market (p. 169)

**open market operations** the buying and selling of government securities to alter the supply of money (p. 428)

**open opportunity** the concept that everyone can compete in the marketplace (p. 53)

**operating budget** budget for day-to-day expenses (p. 375)

**operating cost** the cost of operating a facility such as a store or factory (p. 113)

**opportunity cost** the most desirable alternative given up as the result of a decision (p. 9)

**options** contracts that give investors the choice to buy or sell stock and other financial assets (p. 288)

**OTC market** the over-the-counter market; an electronic marketplace for stock that is not listed or traded on an organized exchange (p. 288)

**outside lag** the time it takes for monetary policy to have an effect (p. 432)

## P

**partnership** a business organization owned by two or more persons who agree on a specific division of responsibilities and profits (p. 190)

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- par value** the amount that an investor pays to purchase a bond and that will be repaid to investor at maturity (p. 278)
- patent** a license that gives the inventor of a new product the exclusive right to sell it for a certain period of time (p. 159)
- patriotism** the love of one's country; the passion that inspires a person to serve his or her country (p. 25)
- payroll withholding statement** document attached to a paycheck detailing the amount of money withheld (p. 528)
- peak** the height of an economic expansion, when real GDP stops rising (p. 310)
- per capita gross domestic product (per capita GDP)** a nation's gross domestic product (GDP) divided by its total population (p. 472)
- perestroika** Soviet leader Mikhail Gorbachev's plan for economic restructuring (p. 492)
- perfect competition** a market structure in which a large number of firms all produce the same product (p. 151)
- personal exemption** set amount that you subtract from your gross income for yourself, your spouse, and any dependents (p. 366)
- personal property** possessions such as jewelry, furniture, and boats (p. 378)
- physical capital** all human-made goods that are used to produce other goods and services; tools and buildings (p. 4)
- population growth rate** the increase in a country's population in a given year, expressed as a percentage of the population figure at the start of the year (p. 478)
- portfolio** a collection of financial assets (p. 274)
- poverty rate** the percentage of people who live in households with income below the official poverty line (p. 346)
- poverty threshold** an income level below which income is insufficient to support families or households (pp. 67, 345)
- predatory pricing** selling a product below cost to drive competitors out of the market (p. 173)
- preferred stock** stock whose dividends are based on a fixed annual rate (p. 508)
- premium** money paid to an insurance company for a policy (p. 524)
- price ceiling** a maximum price that can be legally charged for a good or service (p. 128)
- price discrimination** division of customers into groups based on how much they will pay for a good (p. 163)
- price fixing** an agreement among firms to charge one price for the same good (p. 171)
- price floor** a minimum price for a good or service (p. 128)
- price index** a measurement that shows how the average price of a standard group of goods changes over time (p. 339)
- price level** the average of all prices in the economy (p. 307)
- price war** a series of competitive price cuts that lowers the market price below the cost of production (p. 171)
- primary market** market for selling financial assets that can only be redeemed by the original holder (p. 283)
- prime rate** rate of interest banks charge on short-term loans to their best customers (p. 427)
- principal** the amount of money borrowed (p. 261)
- private property** property owned by individuals or companies, not by the government or the people as a whole (p. 41)
- private property rights** the concept that people have the right and privilege to control their own possessions as they wish (p. 53)
- private sector** the part of the economy that involves the transactions of individuals and businesses (p. 63)
- privatization** the sale or transfer of state-owned businesses to individuals (p. 489)
- privatize** to sell to individuals state-run firms, which are then allowed to compete with one another in the marketplace (p. 43)
- producer cooperative** agricultural marketing cooperatives that help members sell their products (p. 203)
- product market** the market in which households purchase the goods and services that firms produce (p. 30)
- production possibilities curve** a curve that shows alternative ways to use an economy's resources (p. 13)
- production possibilities frontier** the line on a production possibilities graph that shows the maximum possible output for a specific economy (p. 14)
- productive capacity** the maximum output that an economy can produce without big increases in inflation (p. 396)
- productivity** value of output produced (p. 219)
- professional labor** labor that requires advanced skills and education (p. 221)
- professional organization** nonprofit organization that works to improve the image, working conditions, and skill levels of people in particular occupations (p. 203)
- profit** the financial gain made in a transaction (p. 29)
- profit motive** the force that encourages people and organizations to improve their material well-being (p. 53)
- progressive tax** a tax for which the percentage of income paid in taxes increases as income increases (p. 361)
- property tax** a tax on the value of a property (p. 360)
- proportional tax** a tax for which the percentage of income paid in taxes remains the same for all income levels (p. 361)
- prospectus** an investment report to potential investors (p. 274)
- protectionism** the use of trade barriers to protect a nation's industries from foreign competition (p. 452)
- public disclosure laws** laws requiring companies to provide full information about their products (p. 54)

**public good** a shared good or service for which it would be impractical to make consumers pay individually and to exclude nonpayers (p. 62)

**public interest** the concerns of the public as a whole (p. 54)

**publicly held corporation** corporation that sells stock on the open market (p. 196)

**public sector** the part of the economy that involves the transactions of the government (p. 63)

**purchasing power** the ability to purchase goods and services (p. 339)

**put option** the option to sell shares of stock at a specified time in the future (p. 288)

## Q

**quantity supplied** the amount a supplier is willing and able to supply at a certain price (p. 101)

**quantity theory** theory that too much money in the economy causes inflation (p. 341)

## R

**rationing** a system of allocating scarce goods and services using criteria other than price (p. 141)

**real GDP** gross domestic product expressed in constant, or unchanging, prices (p. 304)

**real GDP per capita** real gross domestic product divided by the total population (p. 319)

**real property** physical property such as land and buildings (p. 378)

**recession** a prolonged economic contraction (p. 311)

**regressive tax** a tax for which the percentage of income paid in taxes decreases as income increases (p. 361)

**regulation** government intervention in a market that affects the production of a good (p. 118)

**rent control** a price ceiling placed on rent (p. 129)

**representative money** objects that have value because the holder can exchange them for something else of value (p. 247)

**required reserve ratio (RRR)** ratio of reserves to deposits required of banks by the Federal Reserve (p. 425)

**résumé** a document summarizing an individual's employment experience, education, and other information a potential employer needs to know (p. 526)

**return** the money an investor receives above and beyond the sum of money initially invested (p. 274)

**revenue** income received by a government from taxes and nontax sources (p. 359)

**right-to-work law** a measure that bans mandatory union membership (p. 231)

**royalty** share of earnings given as payment (p. 202)

## S

**S & P 500** index that shows the price changes of 500 different stocks (p. 290)

**safety net** government programs that protect people experiencing unfavorable economic conditions (p. 26)

**sales tax** a tax on the dollar value of a good or service being sold (p. 360)

**saving** income not used for consumption (p. 320)

**savings account** a bank account used for depositing money that may be needed within a short period of time (p. 506)

**savings and loans associations** banks that accept deposits and specialize in offering long-term financing for homes (p. 511)

**savings bank** a bank that accepts deposits and specializes in low-risk investments (p. 511)

**savings bond** low-denomination bond issued by the United States government (p. 280)

**savings rate** the proportion of disposable income that is saved (p. 320)

**scarcity** limited quantities of resources to meet unlimited wants (p. 4)

**screening effect** the theory that the completion of college indicates to employers that a job applicant is intelligent and hard-working (p. 214)

**search costs** the financial and opportunity costs consumers pay when searching for a good or service (p. 136)

**seasonal unemployment** unemployment that occurs as a result of harvest schedules or vacations, or when industries slow or shut down for a season (p. 332)

**secondary market** market for reselling financial assets (p. 283)

**Securities and Exchange Commission** an independent agency of the government that regulates financial markets and investment companies (p. 281)

**security deposit** a sum of money paid to a landlord or other lessor to ensure goods are returned in the same condition as originally rented (p. 522)

**self-interest** one's own personal gain (p. 31)

**semi-skilled labor** labor that requires minimal specialized skills and education (p. 221)

**service cooperative** cooperative that provides a service, rather than a good (p. 203)

**services** actions or activities one person performs for another (p. 3)

**share** portion of stock (p. 285)

**shortage** a situation in which a good or service is unavailable (p. 4), or a situation in which the quantity demanded is greater than the quantity supplied, also known as excess demand (p. 136)

**skilled labor** labor that requires specialized skills and training (p. 221)

**socialism** a social and political philosophy based on the belief that democratic means should be used to evenly distribute wealth throughout a society (p. 35)

**Social Security** Old-Age, Survivors, and Disability Insurance (OASDI) (p. 367)

**sole proprietorship** a business owned and managed by a single individual (p. 185)



**special economic zones** designated regions in China where foreign investment is encouraged, businesses can make most of their own investment and production decisions, and foreign companies are allowed to operate (p. 494)

**specialization** the concentration of the productive efforts of individuals and firms on a limited number of activities (p. 29)

**speculation** the practice of making high-risk investments with borrowed money in hopes of getting a big return (p. 290)

**spillover costs** costs of production that affect people who have no control over how much of a good is produced (p. 144)

**stabilization program** an agreement between a debtor nation and the IMF in which the nation agrees to revise its economic policy (p. 488)

**standard of living** level of economic prosperity (p. 26)

**stagflation** a decline in real GDP combined with a rise in the price level (p. 311)

**start-up costs** the expenses a firm must pay before it can begin to produce and sell goods (p. 153)

**stock** a certificate of ownership in a corporation (pp. 195, 507)

**stock exchange** a market for buying and selling stock (p. 287)

**stock split** the division of a single share of stock into more than one share (p. 286)

**stockbroker** a person who links buyers and sellers of stock (p. 286)

**store of value** something that keeps its value if it is stored rather than used (p. 244)

**strike** an organized work stoppage intended to force an employer to address union demands (p. 229)

**structural unemployment** unemployment that occurs when workers' skills do not match the jobs that are available (p. 332)

**subsidized loans** loans for which the government pays the interest while the student is attending school (p. 518)

**subsidy** a government payment that supports a business or market (p. 117)

**subsistence agriculture** level of farming in which a person raises only enough food to feed his or her family (p. 472)

**substitutes** goods used in place of each other (p. 88)

**substitution effect** when consumers react to an increase in a good's price by consuming less of that good and more of other goods (p. 80)

**supply** the amount of goods available (p. 101)

**supply curve** a graph of the quantity supplied of a good at different prices (p. 104)

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

**supply shock** a sudden shortage of a good (p. 141)

**supply-side economics** a school of economics that believes tax cuts can help an economy by raising supply (p. 399)

**surplus** situation in which quantity supplied is greater than quantity demanded; also known as excess supply (p. 134)

## T

**tariff** a tax on imported goods (pp. 369, 450)

**tax** a required payment to a local, state, or national government (p. 359)

**taxable income** income on which tax must be paid; total income minus exemptions and deductions (p. 366)

**tax assessor** an official who determines the value of a property (p. 380)

**tax base** income, property, good, or service that is subject to a tax (p. 360)

**tax exempt** not subject to taxes (p. 377)

**tax incentive** the use of taxation to encourage or discourage certain behavior (p. 369)

**tax return** form used to file one's income taxes (p. 366)

**technological progress** an increase in efficiency gained by producing more output without using more inputs (p. 322)

**technology** the process used to produce a good or service (p. 59)

**thinking at the margin** deciding whether to do or use one additional unit of some resource (p. 10)

**tight money policy** monetary policy that reduces the money supply (p. 431)

**time deposit** a deposit offering guaranteed interest for a fixed period of time (p. 506)

**total cost** fixed costs plus variable costs (p. 111)

**total revenue** the total amount of money a firm receives by selling goods or services (p. 95)

**trade association** nonprofit organization that promotes the interests of a particular industry (p. 204)

**trade barrier** a means of preventing a foreign product or service from freely entering a nation's territory (p. 449)

**trade deficit** the result of a country importing more than it exports (p. 462)

**trade-off** an alternative we sacrifice when we make a decision (p. 8)

**trade surplus** the result of a nation exporting more than it imports (p. 462)

**trade war** a cycle of increasing trade restrictions (p. 451)

**traditional economy** economic system that relies on habit, custom, or ritual to decide questions of production and consumption of goods and services (p. 26)

**transition** period of change in which an economy moves away from a centrally planned economy toward a market-based system (p. 43)

**Treasury bill** a government bond that is repaid within three months to a year (p. 405)

**Treasury bond** a government bond that can be issued for as long as 30 years (p. 405)

**Treasury note** a government bond that is repaid within two to ten years (p. 405)

**trough** the lowest point in an economic contraction, when real gross domestic product stops falling (p. 311)

**trust** like a cartel, an illegal grouping of companies that discourages competition (p. 173)

**Truth in Savings Act** federal law requiring banks to provide customers with information on accounts they offer (p. 507)

**Truth in Lending laws** regulations requiring institutions extending loans to disclose exact finance charges, monthly interest rates, annual percentage rates, and finance charge calculation methods (p. 515)

**tuition** the cost of enrolling in educational courses (p. 516)

## U

**underemployed** working at a job for which one is overqualified, or working part-time when full-time work is desired (p. 335)

**underutilization** using fewer resources than an economy is capable of using (p. 15)

**unemployment rate** the percentage of the nation's labor force that is unemployed (p. 334)

**Uniform Partnership Act (UPA)** act ordering common ownership interests, profit and loss sharing, and shared management responsibilities in a partnership (p. 191)

**unitary elastic** describes demand whose elasticity is exactly equal to 1 (p. 91)

**United Nations Development Program (UNDP)** United Nations program dedicated to elimination of poverty through development (p. 487)

**unit of account** a means for comparing the values of goods and services (p. 244)

**unskilled labor** labor that requires no specialized skills, education, or training (p. 221)

## V

**variable** a factor that can change (p. 103)

**variable cost** a cost that rises or falls depending on how much is produced (p. 111)

**vertical merger** the combination of two or more firms involved in different stages of producing the same good or service (p. 199)

**voluntary exchange** the concept that people may decide what and when they want to buy and sell (p. 53)

**voluntary export restraint (VER)** a self-imposed limitation on the number of products shipped to a particular country (p. 449)

## W

**wage-price spiral** the process by which rising wages cause higher prices and higher prices cause higher wages (p. 342)

**want** an item that we desire but that is not essential to survival (p. 3)

**welfare** government aid to the poor (p. 68)

**white-collar worker** someone in a professional or clerical job who usually earns a salary (p. 232)

**withholding** taking tax payments out of an employee's pay before he or she receives it (p. 366)

**work ethic** a commitment to the value of work and purposeful activity; system of values that gives central importance to work (pp. 59, 491)

**workfare** a program requiring work in exchange for temporary assistance (p. 350)

**World Bank** the largest provider of development assistance (p. 487)

**World Trade Organization (WTO)** a worldwide organization whose goal is freer global trade and lower tariffs (p. 453)

## Y

**yield** the annual rate of return on a bond if the bond were held to maturity (p. 278)

## Z

**zoning law** law in a city or town that designates separate areas for residency and for business (p. 187)

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