



Dictionary of Economics

OVER 3,000 TERMS CLEARLY DEFINED

B L O O M S B U R Y

Dictionary of **Economics**

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Preface

Economics is the basis of our daily lives, even if we do not always realise it. Whether it is an explanation of how firms work, or people vote, or customers buy, or governments subsidise, economists have examined evidence and produced theories which can be checked against practice.

This book aims to cover the main aspects of the study of economics which students will need to learn when studying for examinations at various levels. The book will also be useful for the general reader who comes across these terms in the financial pages of newspapers as well as in specialist magazines.

The dictionary gives succinct explanations of the 3,000 most frequently found terms. It also covers the many abbreviations which are often used in writing on economic subjects. Entries are also given for prominent economists, from Jeremy Bentham to John Rawls, with short biographies and references to their theoretical works.

Where necessary cross-references are given so that the reader can refer to other comparable entries.

I am grateful to the following for their valuable comments on the text: Barbara Docherty, Lesley Brown and Jill Garner.

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A

A, AA, AAA *noun* letters indicating that a share or bond or bank has a certain rating for reliability. The AAA rating (called the triple A rating) is given by Standard & Poor's or by Moody's Investors Service, and indicates a very high level of reliability for a corporate or municipal bond in the USA.

ability to pay theory *noun* the theory of taxation that the level of taxation should be related to the taxpayer's ability to pay. Taxpayers with higher incomes pay tax at a higher rate than those on low incomes. This is the basis of progressive taxation. Many taxes, such as VAT, fuel tax, or sales tax, are not linked to the purchaser's ability to pay and are therefore regressive taxation.

abscissa *noun* the horizontal value on a graph. The vertical value is the y-value or ordinate. Also called **x-value** (NOTE: The plural is **abscissae** or **abscissas**.)

absolute advantage, absolute cost advantage *noun* a situation in which a country, or sometimes a person or company, is more efficient at producing something than its competitors (i.e. its output per input unit is higher). This gives an advantage to established firms which can keep costs low in comparison to new entrants.

absolute value *noun* the size or value of a number regardless of its sign. The absolute value of -62.34 is 62.34 .

absorption costing, absorption pricing *noun* the fixing of the price of a product to include both the direct costs of production and a part of the overhead costs which are absorbed as well. Absorption costing follows three stages: allocation of actual overhead costs directly to the cost centre to which they relate; apportionment, by which common overhead costs are divided between various cost centres in proportion to the estimated benefit to each cost centre; absorption, by which the total costs are charged to each unit of production.

ACAS *abbreviation* Advisory, Conciliation and Arbitration Service

accelerated depreciation *noun* a system of depreciation which reduces the value of assets at a high rate in the early years to encourage companies to invest in new equipment, because of the tax advantages. This applied in the UK until 1984: companies could depreciate new equipment at 100% in the first year. The system still applies in the USA where a 5-year tax

depreciation can be applied (instead of the usual 20-years) to certain types of equipment.

acceleration principle *noun* same as **accelerator principle**

accelerator coefficient *noun* a calculation by which the value of an investment increases with an increase in output

accelerator-multiplier model *noun* an economic model which incorporates both the accelerator and multiplier effect: if government investment expenditure increases this will lead to an increase in consumer demand which itself leads to an increase in output which in turn will lead to a further increase in investment. Also called **multiplier-accelerator model**

accelerator principle *noun* the principle that a change in consumer demand will have an even greater percentage change on the demand for capital goods, so that firms produce more of a commodity when demand is rising and less when demand is falling. This has the effect of exaggerating booms and depressions in the economy. Also called **acceleration principle**

acceptance *noun* the act of signing a bill of exchange to show that you agree to pay it

acceptance bank *noun* *US* same as **accepting house**

accepting house, acceptance house *noun* a firm, usually a merchant bank, which accepts bills of exchange (i.e. promises to pay them) and is paid a commission for this

accommodating monetary policy, accommodatory monetary policy *noun* a policy which allows money supply to increase as the demand for money increases

account *noun* *STOCK EXCHANGE* the period during which shares are traded for credit, and at the end of which the shares bought must be paid for. On the London Stock Exchange, the account period is three business days from the day of trade. (NOTE: On the London Stock Exchange, there are twenty-four accounts during the year, each running usually for ten working days.)

account day *noun* the day on which shares which have been bought must be paid for. On the London Stock Exchange the account period is three business days from the day of trade. Also called **settlement day**

accounting entity *noun* same as **accounting unit**

accounting period *noun* the period usually covered by a company's accounts. The balance sheet shows the state of the company's affairs at the end of the accounting period, while the profit-and-loss account shows the changes which have taken place since the end of the previous period.

accounting unit *noun* any unit which takes part in financial transactions which are recorded in a set of accounts. It can be a department, a sole trader, a Plc or some other unit.

accruals, accrued expenses, accrued liabilities *plural noun* liabilities which are recorded, although payment has not yet been made (this refers to liabilities such as rent, rates, etc.)

acid test ratio *noun* same as **liquidity ratio**

acquisition *noun* the takeover of a company. The results and cash flows of the acquired company are brought into the group accounts only from the date of acquisition: the figures for the previous period for the reporting entity should not be adjusted. The difference between the fair value of the net identifiable assets acquired and the fair value of the purchase consideration is goodwill.

ACT *abbreviation* Advance Corporation Tax

activity indicator *noun* an indicator such as industrial production, capacity utilisation, and volume of retail sales, which shows at what stage of the business cycle the economy is

activity rate *noun* the percentage of the population of working age who are actually in active employment. Also called **economic activity rate, labour force participation rate**

actual growth *noun* the final actual result of growth in the Harrod-Domar model

actuary *noun* a person employed by an insurance company or other organisation to calculate the risk involved in an insurance, and therefore the premiums payable by persons taking out insurance

adaptive expectations *noun* the theory that behaviour changes because of what people expect will happen: so workers ask for more pay because they believe inflation will rise, and this increase in pay actually fuels an increase in inflation; similarly economists will exaggerate their inflation forecasts to take into account errors they made in previous forecasts. Such adaptive expectations always exaggerate upward or downward trends. ♦

expectations lag

ADB *abbreviation* 1. African Development Bank 2. Asian Development Bank

adjustable peg regime, adjustable peg system *noun* a system in which a currency is pegged to another, but with the possibility of adjusting the exchange rate from time to time

administered price *noun* *US* same as **recommended retail price**

administration *noun* the appointment by a court of a person to manage the affairs of a company which is in difficulties

ADR *abbreviation* American depositary receipt

ad valorem tax *noun* a tax (such as VAT) which is calculated according to the value of the goods or services taxed. Compare **specific tax**

advance *noun* an amount of money paid as a loan or as a part of a payment to be made later ■ *adjective* paid as a loan or as a part of a payment to be

made later ■ *verb* to pay an amount of money to someone as a loan or as a part of a payment to be made later

Advance Corporation Tax *noun* a tax (abolished in 1999) which was paid by a company in advance of its main corporation tax payments. It was paid when dividends were paid to shareholders and was deducted from the main tax payment when that fell due. It appeared on the tax voucher attached to a dividend warrant. Abbreviation **ACT**

adverse selection *noun* the theory that bad quality goods will be more likely to be sold than good, because some traders want to get rid of products and buyers are not capable of judging if the quality or price is too low. This applies in many commercial spheres, such as the stock market or insurance, as well as in general trading. Three factors come into play: (i) the variable quality of similar products on the market; (ii) the fact that buyers and sellers do not possess the same information about the product (usually the seller knows more than the buyer); (iii) sellers are more likely to want to get rid of bad quality products than good quality products. Also called **lemon problem**

adverse supply shock *noun* shock caused to an economy by a sudden stoppage in the supply of raw materials or other inputs. An example would be the reduction in supply of oil caused by a war.

advertising *noun* the business of announcing that something is for sale or of trying to persuade customers to buy a product or service. Heavy advertising will stimulate sales, but the cost will be borne eventually by the customer.

Advisory, Conciliation and Arbitration Service *noun* a government service founded in 1974 which offers facilities for companies and representatives of their workforce to meet and try to solve disputes about matters such as employees' rights or union recognition. Abbreviation **ACAS**

AE *abbreviation* aggregate expenditure

African Development Bank *noun* a bank set up by African countries to provide long-term loans to help agricultural development and improvement of the infrastructure. The bank now has non-African members. Abbreviation **ADB**

age-earnings profile *noun* a graph showing the earnings of workers at different ages and in different industries

agency shop *noun* *US* a contract arrangement making it mandatory for workers who refuse to join a union to pay the union a fee

agent *noun* **1.** a person who represents a company or another person in an area **2.** *US* the chief local official of a trade union

agglomeration economies *plural noun* economies which firms achieve by being located in large urban areas

aggregate concentration *noun* the proportion of production which is in the hands of a few large companies

aggregate demand *noun* the total demand for goods and services from all sectors of the economy (from individuals, companies, the government and exporters) during a given period

aggregate demand curve *noun* a curve showing aggregate demand at all price levels, from a small demand at high prices to a large demand for lower-priced goods and services

aggregate expenditure *noun* the total domestic expenditure during a given period divided according to four sectors: households (consumer expenditure), businesses (investment expenditure), government expenditure and foreign purchasers (i.e. exports minus imports). It forms the gross domestic product. Abbreviation **AE**

aggregate output *noun* a method of calculating the national income by adding the total value added at each stage of production in manufacturing industry, service industry and agriculture, together with property income from abroad

aggregate supply *noun* the total production of goods and services available to meet the aggregate demand during a given period

aggregate supply curve *noun* a curve showing the quantity supplied at each price level; in the long term, supply pushes up prices

AGM *abbreviation* Annual General Meeting

agricultural sector *noun* the sector of an economy formed by agriculture, forestry and fishing

aid *noun* help given to a business or region by a government

AIM *abbreviation* Alternative Investment Market

alienation *noun* worker dissatisfaction, the lack of a sense of fulfilment when a worker cannot see any positive result of his or her work

allocative efficiency *noun* the action of satisfying as far as is possible customer demands for goods and services by pricing them at a price which is near to the production cost while still allowing a margin to the producer. If a market is allocatively efficient it produces the right amount of goods at the right prices for the right customers.

Alternative Investment Market *noun* a London stock market, regulated by the London Stock Exchange, dealing in shares in smaller companies which are not listed on the main London Stock Exchange. The AIM is a way in which smaller companies can sell shares to the investing public without going to the expense of obtaining a full share listing. Abbreviation **AIM**

alternative technology *noun* the use of methods to produce energy which are different and less polluting than the usual ways (i.e. using wind power, tidal power or solar power, as opposed to traditional or nuclear power)

American Depositary Receipt *noun* a document issued by an American bank to US citizens, making them unregistered shareholders of companies in foreign countries. The document allows them to receive

dividends from their investments, and ADRs can themselves be bought or sold. Buying and selling ADRs is easier for American investors than buying or selling the actual shares themselves, as it avoids stamp duty and can be carried out in dollars without incurring exchange costs. Abbreviation **ADR**

amortisation, amortising *noun* **1.** the repayment of the principal of a loan or putting money aside regularly over a period of time in order to repay it in due course **2.** the act of depreciating or writing down the capital value of an asset over a period of time in a company's accounts

analysis of variance *noun* a method of testing if real differences exist between sections of a population which is being sampled

Andean Pact *noun* a trading agreement signed in 1969 and now formed of Bolivia, Columbia. Ecuador, Peru and Venezuela. Tariffs between the member countries are reduced and a system of preferences towards other members of the group introduced.

annual allowance *noun* an allowance against tax which is calculated each year, such as annual depreciation of assets

Annual General Meeting *noun* an annual meeting of all shareholders of a company, when the company's financial situation is presented by and discussed with the directors, when the accounts for the past year are approved and when dividends are declared and audited. Abbreviation **AGM** (NOTE: The US term is **annual meeting** or **annual stockholders' meeting**.)

Annual Percentage Rate *noun* a rate of interest (such as on a hire-purchase agreement) shown on an annual compound basis, including fees and charges. As hire purchase agreements quote a flat rate of interest covering the whole amount borrowed or a monthly repayment figure, the Consumer Credit Act, 1974, forces lenders to show the APR on documentation concerning hire purchase agreements, so as to give an accurate figure of the real rate of interest as opposed to the nominal rate. The APR includes various fees charged (such as the valuation of a house for mortgage); it may also vary according to the sum borrowed – a credit card company will quote a lower APR if the borrower's credit limit is low. Abbreviation **APR**

annual report and accounts *noun* the report from the directors on the company's financial situation at the end of a year, together with the balance sheet, profit and loss account, statement of source and application of funds, and the auditor's report, all prepared for the shareholders of the company each year

annuity *noun* an amount of money paid each year to a retired person, usually in return for a lump-sum payment. The value of the annuity depends on how long the person lives, as it usually cannot be passed on to another person. Annuities are fixed payments, and lose their value with inflation, whereas a pension can be index-linked. When people retire, they are required by law to purchase a compulsory purchase annuity with the funds accumulated in their pension fund. This gives them a taxable income for the rest of their

life, but usually it is a fixed income which does not change with inflation. Also called **perpetuity**

anticipated inflation *noun* the rate of inflation which most people think will exist at some time in the future

anti-dumping action *noun* action which a country takes to protect itself against dumping

anti-dumping duty *noun* a tax imposed by a country on imported goods, to increase their price to a position where they do not offer unfair competition to locally-produced goods, especially where the price of the goods imported includes a subsidy from the government in the country of origin. Also called **countervailing duty**

anti-globalisation movement *noun* an umbrella organisation for several hundred groups of people with different aims: preservation of natural resources, anti-exploitation of native peoples, etc. Unfortunately, the movement also contains extreme left-wing groups who use the movement as a cover for extremist and violent protests. Abbreviation **AGM**

anti-trust laws, legislation *plural noun* laws in the USA which prevent the formation of monopolies or price fixing and so encourage competition

APACS *noun* an organisation set up in 1985 by British banks and building societies to manage the networks by which money is transferred between bank accounts on behalf of customers (CHAPS and BACS). Full form **Association for Payment Clearing Services**

APC *abbreviation* average propensity to consume

APM *abbreviation* average propensity to import

APP *abbreviation* average physical product

applied economics *noun* the application of economic theories to the real world, formulated by economists as advice to planners

appreciation *noun* the increase in value of an asset. Also called **capital appreciation**

appropriate technology *noun* technology which is suited to the local environment, usually involving skills or materials which are easily available locally. In many parts of world, devices to help the local population cultivate the land can be made out of simple pipes or pieces of metal. Expensive tractors may not only be unsuitable for the terrain involved, but also use fuel which costs more than the crops produced.

appropriation account *noun* a part of a profit and loss account which shows how each part of the profit has been dealt with (such as how much has been given to the shareholders as dividends, how much is being put into the reserves or what proportion of the profits comes from subsidiary companies)

APR *abbreviation* Annual Percentage Rate

a priori *adverb* on the basis of ideas or assumptions, not of real examples

APS *abbreviation* average propensity to save

arbitrage *noun* the making of a profit from the difference in value of various assets. Means include: selling foreign currencies or commodities on one market and buying on another at almost the same time to profit from different exchange rates; buying currencies forward and selling them forward at a later date, to benefit from a difference in prices; buying a security and selling another security to the same buyer with the intention of forcing up the value of both securities.

arbitrageur, arbitrager *noun* a person whose business is risk arbitrage. Arbitrageurs buy shares in companies which are potential takeover targets, either to force up the price of the shares before the takeover bid, or simply as a position while waiting for the takeover bid to take place. They also sell shares in the company which is expected to make the takeover bid, since one of the consequences of a takeover bid is usually that the price of the target company rises while that of the bidding company falls. Arbitrageurs may then sell the shares in the target company at a profit, either to one of the parties making the takeover bid, or back to the company itself.

arbitration *noun* the settlement of a dispute by the two parties concerned, using an arbitrator (an outside person chosen by both sides)

arc elasticity *noun* a reasonably accurate method of measuring the proportional change in one variable compared with a proportionate change in another

arithmetic average *noun* a number calculated by adding together several figures and dividing by the number of figures added

arithmetic progression *noun* a sequence of numbers with a constant difference between them, such as 2, 5, 8, 11. Compare **geometric progression**

Arrow, Kenneth (1921–) American economist, winner of the Nobel Prize for Economics in 1972, particularly interested in the questions of decision-making. He showed that a series of acceptable choices by individuals in a group will inevitably lead to the choice of one individual being dominant.

Arrow's impossibility theorem *noun* the theory that in a group of two or more it may happen that it becomes impossible to get a result from majority voting which accurately reflects the preferences of individuals in the group. Either the result goes against the majority preference or it is possible for a single individual to make the final decision.

articles of partnership *plural noun* same as **partnership agreement**

ASEAN *abbreviation* Association of Southeast Asian Nations

A shares *plural noun* ordinary shares with limited voting rights or no right to vote at all. A company may be set up with two classes of share: A shares, which are available to the general investor, and B shares which are only bought by certain individuals, such as the founder and his or her family. Such division of shares is becoming less usual nowadays.

Asian Development Bank *noun* a bank set up by various Asian countries, with other outside members, to assist countries in the region with money and technical advice. Abbreviation **ADB**

asset *noun* a thing which belongs to company or person, and which has a value. A company's balance sheet will show assets in various forms such as current assets, fixed assets and intangible assets. An individual's assets will include items such as his or her house, car, and clothes.

asset-backed securities *plural noun* shares which are backed by the security of assets

assets revaluation reserve *noun* an amount of money from profits not paid as dividend, but kept back by a company to be used when the company's assets are revalued

asset stripping *noun* the buying of a company at a lower price than its asset value, and then selling its assets

assisted area *noun* area of a country which is given aid by the government to under European Union legislation. They have unemployment levels higher than the norm in the European Union and the aid is aimed at increasing employment are given to companies, sole traders or partnerships for capital expenditure (not general jobs which otherwise would be at risk. Currently the areas are being reduced because Britain's unemployment level is lower than the European Union average.

Association of Southeast Asian Nations *noun* an organisation formed originally in 1967 to promote economic growth, social and educational development and general stability in Southeast Asia. The current members are: Brunei, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. Abbreviation **ASEAN**

assurance *noun* an agreement that in return for regular payments, a company will pay compensation for loss of life, or will make a payment if the insured person lives to a certain age. Also called **life assurance**, **life insurance**

asymmetric information *noun* a situation which exists in all countries where all the consumers, suppliers and producers do not have the same information on which to base their decisions

ATM *abbreviation* automated telling machine

atomistic competition *noun* same as **perfect competition**

auction *noun* a method of selling goods in which people offer bids, and the item is sold to the person who makes the highest offer. Another form is the Dutch auction where the seller names a high price and gradually reduces it until someone makes a bid. ■ *verb* to sell goods at auction

audit *noun* the examination of the books and accounts of a company ■ *verb* to examine the books and accounts of a company

auditor *noun* a person, firm or partnership which audits books and accounts. Audits can be external, that is independent from the company, or

internal, that is members of staff who examine a company's internal controls. External auditors are appointed by the company's directors and voted by the AGM. In the USA, audited accounts are only required by corporations which are registered with the SEC, but in the UK all limited companies must provide audited annual accounts if they exceed the size criteria for audit exemption.

auditors' qualification *noun* a form of words in a report from the auditors of a company's accounts, stating that in their opinion the accounts are not a true reflection of the company's financial position and profit or loss for the year. Also called **qualification of accounts**

auditors' report *noun* a report written by a company's auditors after they have examined the accounts of the company (if they are satisfied, the report certifies that, in the opinion of the auditors, the accounts give a true and fair view of the company's financial position)

Austrian school *noun* a school of economic study at the University of Vienna during the later part of the 19th century under Menger, which emphasised the concept of utility – i.e. the pleasure derived by the consumer from the product, as opposed to the value concepts of production and supply. Later Austrian economists developed the theory of interest and capital.

authorised capital *noun* the maximum capital which is permitted by a company's articles of association

autocorrelation *noun* same as **serial correlation**

automated teller machine *noun* a machine which gives out cash when a special card is inserted and special instructions given. Abbreviation **ATM**

automatic stabilisers *plural noun* changes in government spending or in government tax revenue which are not caused by policy decisions, but by events such as the rise in unemployment during a recession which increases government spending on benefits, and at the same time decreases taxation revenue. Also called **built-in stabilisers**

automation *noun* the use of machines to do work with very little supervision by people

autonomous consumption, autonomous expenditure *noun* national consumption expenditure which does not vary with national income, but which represents expenditure which is necessary to maintain a basic standard of living even when personal incomes are zero. It is not related to the GDP, but can have an effect on the economy.

autonomous investment *noun* investment which is not related to increases or decreases in national income or in output, but which may be due to factors such as changes in government policy or the response to new inventions

AVC *abbreviation* average variable cost

average *noun* the sharing of the cost of damage or loss of a ship between the insurers and the owners ■ *adjective* representing the total number divided by the number of units ■ *verb* to reach or calculate an average figure

average cost *noun* the total cost of production divided by the number of units produced

average cost pricing *noun* the setting of a price which is equivalent to the average cost of the product, so covering marginal costs and fixed costs and allowing the producer to break even

average fixed costs *plural noun* costs calculated by dividing the total fixed costs by the number of units produced. The cost per unit falls with the number of units produced.

average income per capita *noun* same as **per capita income**

average physical product, average product *noun* the average output per unit of variable input, such as the average output per worker. Abbreviation **APP**

average price level *noun* the average price of a particular product in a country at a particular time. Also called **price level**

average product *noun* same as **average physical product**

average propensity to consume *noun* the proportion of total disposable income (per individual, per household or national) which is spent. Abbreviation **APC**

average propensity to import *noun* the proportion of total disposable income (per individual, per household or national) which is spent on imports. Abbreviation **APM**

average propensity to save *noun* the proportion of total disposable income (per individual, per household or national) which represents income used for savings as opposed to expenditure. Abbreviation **APS**

average rate of tax *noun* a figure calculated by dividing the total income tax paid by a person by his or her total income. Compare **marginal rate of tax**

average revenue *noun* the revenue from one unit of product sold, calculated as the total revenue divided by the number of units sold. It is the same as the average price.

average revenue product *noun* the revenue derived from each unit of variable input

average total cost *noun* the total cost per unit, calculated by dividing the total costs by the number of units produced. It is the sum of average fixed cost and average variable cost.

average variable cost *noun* the variable cost per unit, calculated by dividing the variable costs by the number of units produced. Initially the cost falls with the number of units produced but then rises as more units are produced – it forms a U-shaped curve. Abbreviation **AVC**

avoidable cost *noun* same as **prime cost**

axiom *noun* a basic assumption which forms a theory; normally axioms cannot be proved by must be taken on trust

axis *noun* one of the vertical (y-axis) or horizontal (x-axis) lines which join at zero and against which a graph is plotted

B

back door *noun* financing by the Bank of England which increases money supply by selling Treasury bills. This is opposed to front door where discount houses which run short of cash ask the Bank to make them short-term loans which it does at a high interest rate.

back-to-back loan *noun* a loan from one company to another in one currency arranged against a loan from the second company to the first in another currency. Back-to-back loans are used by international companies to get round exchange controls. Also called **parallel loan**

backwardation *noun* the difference between the spot and futures prices, as when the spot price of a commodity or currency is higher than the futures price (NOTE: The opposite is **forwardation**.)

backward-bending supply curve *noun* a curve which shows that when the price of goods or services rises, so the quantity offered for sale falls. Also called **backward-sloping supply curve, labour supply curve**

backward integration *noun* a situation in which a company joins with another which is at an earlier stage in the production or distribution line, as when a supermarket purchases a milk company. Also called **vertical integration** (NOTE: The opposite is **forward integration**.)

backward-sloping labour supply curve *noun* same as **backward-bending supply curve**

BACS *abbreviation* Bankers Automated Clearing Services

bad debt *noun* a debt which will never be paid (usually because the debtor has gone out of business) and which has to be written off in the accounts

bad debt provision *noun* money put aside in accounts to cover potential bad debts, which are likely to have to be written off. The bad debt provision is deducted from trade debtors for balance sheet presentation. The change in the provision from one year to the next together with any bad debts written off is the charge for bad debts in the profit and loss account.

bad money drives out good Gresham's law, that where two forms of money with the same denomination exist in the same market, the form with the higher metal value will be driven out of circulation when people hoard it and use the lower-rated form to spend (as when paper money and coins of the same denomination exist in the same market)

Bagehot, Walter (1826–1877) British economist and political theorist who wrote in particular on the money markets and the nature of government

balanced budget *noun* a budget where expenditure and revenue are equal. This is the ideal situation, though Keynes said that governments should aim to run a deficit during a depression to encourage economic activity, and a surplus during a boom in order to cool down economic activity.

balanced budget multiplier *noun* the percentage change in GDP caused by a change in government spending which must be matched by an equivalent change in tax revenue

balanced growth *noun* a situation in which all sectors of an economy grow at the same constant rate. Compare **steady-state growth**

balance of payments *noun* a statement of the international financial position of a country, showing transactions which have taken place over a certain period, usually one financial quarter. It includes invisible as well as visible trade; all trade and movements of money between the residents of a country and other countries worldwide, including export sales and import purchases which when added must produce a balance. A balance-of-payments deficit occurs when a country imports more than it exports and so pays out more in foreign currency than it earns; this is also called a trade deficit. A balance-of-payments surplus occurs when a country sells more to other countries than it buys from them. Abbreviation **BOP**

balance of payments deficit *noun* same as **trade deficit**

balance of trade *noun* the international trading position of a country in merchandise, excluding invisible trade. If exports are greater than imports there is a balance of trade surplus (or favourable balance of trade). Also called **trade balance**

balance sheet *noun* a statement of the financial position of a company at a particular time, such as the end of the financial year or the end of a quarter, showing the company's assets and liabilities. The balance sheet shows the state of a company's finances at a certain date. The profit and loss account shows the movements which have taken place since the last balance sheet, i.e. since the end of the previous accounting period. A balance sheet must balance, with the basic equation that assets (i.e. what the company owns, including money owed to the company) must equal liabilities (i.e. what the company owes to its creditors) plus capital (i.e. what it owes to its shareholders). A balance sheet can be drawn up either in the horizontal form, with liabilities and capital on the left-hand side of the page (in the USA, it is the reverse) or in the vertical form, with assets at the top of the page, followed by liabilities, and capital at the bottom. Most are usually drawn up in the vertical format, as opposed to the more old-fashioned horizontal style.

balances with the Bank of England *plural noun* money deposited by commercial banks and building societies with the Bank of England, either to settle accounts with other banks or as a reserve

balancing items *plural noun* items in the balance of payments such as mistakes or omissions, receipts which are late or other irregular items which, together with the current balance and capital account, make it balance

bank *noun* a business which holds money for its clients, which lends money at interest, and trades generally in money. Apart from the main commercial banks this category includes some former building societies and other financial institutions. Banks are licensed by the regulatory authorities such as the Bank of England or, in the USA, the Federal Reserve. ■ *verb* to put or keep money in a bank

bank account *noun* an arrangement that a customer has with a bank, where the customer can deposit and withdraw money (NOTE: The US term is **banking account**.)

bank advance *noun* same as **bank loan**

bank bill *noun* US same as **banknote**

bank credit *noun* credit in the form of loans or overdrafts accorded by banks to their customers

bank deposits *plural noun* all money placed in banks by private or corporate customers

Bankers' Automated Clearing Services *noun* a company set up to organise the payment of direct debits, standing orders, salary cheques and other payments generated by computers. It operates for all the British clearing banks and several building societies, and forms part of APACS. Abbreviation **BACS**. Compare **Clearing House Automated Payments System**

banker's draft *noun* an order by one bank telling another bank (usually in another country) to pay money to someone

Bank for International Settlements *noun* a bank which acts as a clearing bank for the central banks of various countries, through which they settle their currency transactions and also acts on behalf of the IMF. It is based in Basel, Switzerland. Abbreviation **BIS**

banking account *noun* US same as **bank account**

banking system *noun* the system of banks in a country, including commercial banks, merchant banks and the central bank

bank loan *noun* a loan made by a bank to a customer, usually against the security of a property or asset. Also called **bank advance**

banknote *noun* a promissory note issued by a bank that is payable to the bearer on demand and is acceptable as money (NOTE: The US term is **bill**.)

Bank of England *noun* the central British bank, owned by the state, which, together with the Treasury, regulates the nation's finances. The Bank of England issues banknotes which carry the signatures of its officials. It is the lender of last resort to commercial banks and supervises banking institutions in the UK. Its Monetary Policy Committee is independent of the government,

and sets interest rates. The Governor of the Bank of England is appointed by the government.

bank rate *noun* the discount rate of a central bank. Formerly, it was the rate at which the Bank of England lent to other banks (then called the Minimum Lending Rate (MLR), and now the base rate).

bankruptcy *noun* the state of being bankrupt. In the UK, bankruptcy is applied only to individual persons, but in the USA the term is also applied to corporations. In the UK, a bankrupt cannot hold public office (e.g., he or she cannot be elected an MP) and cannot be the director of a company. A bankrupt also cannot borrow money. In the USA, there are two types of bankruptcy: involuntary, where the creditors ask for a person or corporation to be made bankrupt; and voluntary, where a person or corporation applies to be made bankrupt (in the UK, this is called voluntary liquidation). (NOTE: The plural is **bankruptcies**.)

bank statement *noun* a written statement from a bank showing the balance of an account

bar chart *noun* a chart where values or quantities are shown as thick columns of the same width but different heights. Also called **bar graph**, **histogram**

bargaining *noun* the act of discussing a price, usually wage increases for workers

bargaining theory of wages *noun* the theory behind collective bargaining, that an agreement should be reached which is acceptable to both management and workers, and which is not detrimental to the overall profitability of the company

bar graph *noun* same as **bar chart**

barometric price leader *noun* a firm which fixes the price for a good or service in a market, which other firms then follow

barrier *noun* something which restricts commercial activity, such as laws restricting movement of capital or labour

barrier to entry *noun* something which makes it difficult for a firm to enter a market and compete with firms already in that market. Barriers to entry are mainly government legislation, the cost of starting up a new business, the current ownership of resources and patents, and the strength of companies already in the market. Barriers to entry may be created, as when companies already in a market have patents that prevent their goods from being copied, when the cost of the advertising needed to gain a market share is too high, or when an existing product commands very strong brand loyalty.

barrier to exit *noun* something which make it difficult for a firm to leave a market, such as its inability to get a good price for assets which it wants to sell. Barriers to exit may be created, for example, when a company has invested in specialist equipment which is only suited to manufacturing one product, when the costs of retraining its workforce would be very high, or

when withdrawing one product would have a bad effect on the sales of other products in the range

barter *noun* a system where goods are exchanged for other goods and not sold for money. This is an inefficient system where money is readily available, as it implies that each party has to carry large stocks of what the other party wants. ■ *verb* to exchange goods by the barter system

base date *noun* the date from which something is calculated, usually a date on which something started

base period *noun* *US* a period against which an index is measured, usually taken as equalling 100

base rate *noun* the basic rate of interest on which the actual rate a bank charges on loans to its customers or interest on deposits is calculated. Loans are charged at a percentage above base rate and interest at a percentage below it.

base year *noun* the first year of an index, against which changes occurring in later years are measured

basis point *noun* one hundredth of a percentage point (0.01%), the basic unit used in measuring market movements or interest rates

batch production *noun* production in small batches, which is more sensitive to the individual requirements of the customer than mass production. It also allows better control over work teams.

Bayes, Thomas 18th century English clergyman who was also a mathematician. He published his original theorem in 1761.

Bayesian statistics *noun* a statistical theory which uses observations of what happened in the past alongside current observations to give an estimate of the probability of something happening in the future

Bayes' theorem, Bayes' Law *noun* the fundamental mathematical law which shows how confident someone can be in predicting something in the future based on available evidence that something happened in the past

bear *noun* *STOCK EXCHANGE* on the Stock Exchange, a person who sells shares, commodities or currency in the belief that the price will fall and he or she will be able to buy again more cheaply later (NOTE: The opposite is **bull**.)

bearer bond, bearer security *noun* a bond which is payable to the bearer and does not have a name written on it. This is useful if the owner wishes to avoid being identified by the income tax authorities.

bear market *noun* a period when share prices fall because shareholders are selling, since they believe the market will fall further (NOTE: The opposite is a **bull market**.)

beggar-my-neighbour policy *noun* action by a country to protect its own commercial interests which has a bad effect on other countries. Such an action might be the introduction of swingeing tariffs on imports to protect local industry.

behavioural theory of the firm *noun* a theory about how firms behave when making decisions, based on the observation that firms are composed of departments and individuals who come to decisions independently or jointly which relate to their own positions within the firm rather than the firm's position in the market. Decisions taken by sales managers may not agree with decisions taken by finance departments, and a compromise position has to be reached.

below-the-line *adjective, adverb* set against net profits after tax

below-the-line expenditure *noun* exceptional payments which are separated from a company's normal accounts because they do not arise from the company's normal activities

benefit-cost analysis *noun* same as **cost-benefit analysis**

Bentham, Jeremy (1748–1832) British economist who followed on the work of Adam Smith. He did not believe that public and private interests were identical, but that the guiding principle of existence is the happiness of the individual, and that governments must apply themselves to achieve this aim.

Bernoulli, Daniel (1700–82) Swiss mathematician who studied hydrodynamics, gases, and harmonics as well as calculating how an increase in value of a person's assets affects his or her moral expectations

Bernoulli's hypothesis *noun* the theory that risk-taking mainly involves not the consideration of possible money gain, but the possibility of losing the utility of the money being risked. It takes account of the diminishing marginal utility of the money at risk.

Bertrand, Joseph (1822–1900) French mathematician who worked mainly on the theory of probability

Bertrand competition, Bertrand duopoly *noun* a model for pricing decisions by which Firm A believes that Firm B will not reduce its prices in response to a price reduction by Firm A; in fact, Firm B does reduce prices and Firm A reduces its prices again, ensuring that price competition drives the market, even if both firms may reach a point where they do not cover costs

bezzle *noun* money which had been illegally acquired by investors who wanted to profit from the US stock market in the 1920s, but which was discovered when the stock market crashed. The term was invented by J. K. Galbraith. He saw that in boom periods, the bezzle increases, while in times of depression it decreases because everyone is more careful in auditing accounts.

bias *noun* error which occurs when carrying out random sampling by which the results are either too high or too low

bid *noun* an offer to buy something (such as a share, currency, commodity, company or a unit in a unit trust) at a certain price ■ *verb* to offer to pay a particular price for something such as a share, commodity, company or a unit in a unit trust