

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)

- 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)

derived demand demand that is derived from demand for another service or good (p. 219)

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)

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)

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)
- 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)