

## ability-to-pay principle of taxation

### A

- ability-to-pay principle of taxation** belief that taxes should be paid according to level of income regardless of benefits received (p. 228)
- absolute advantage** country's ability to produce more of a given product than can another country (p. 469)
- accelerated depreciation** schedule that spreads depreciation over fewer years than normal to generate larger tax reductions (p. 245)
- accelerator** change in investment spending caused by a change in overall spending (p. 448)
- acid rain** pollution in form of rainwater mixed with sulfur dioxide, a mild form of sulfuric acid (p. 554)
- agency shop** arrangement under which non-union members must pay union dues (p. 201)
- aggregate demand** the total quantity of goods and services demanded at different price levels (p. 444)
- aggregate demand curve** hypothetical curve showing different levels of real GDP that could be purchased at various price levels (p. 444)
- aggregate supply** the total value of goods and services that all firms would produce in a specific period of time at various price levels (p. 442)
- aggregate supply curve** hypothetical curve showing different levels of real GDP that could be produced at various price levels (p. 443)
- alternative minimum tax** personal income tax rate that applies to cases where taxes would otherwise fall below a certain level (p. 245)
- appropriations bill** legislation earmarking funds for certain purposes (p. 261)
- aquifer** underground water-bearing rock formation (p. 550)
- arbitration** see voluntary arbitration and/or compulsory arbitration (p. 202)
- ASEAN** group of ten Southeast Asian nations working to promote regional cooperation, economic growth, and trade (p. 535)
- assets** properties, possessions and claims on others; usually listed as entries on a balance sheet (p. 416)
- automatic stabilizer** program that automatically provides benefits to offset a change in people's incomes; unemployment insurance, entitlement programs (p. 449)
- automation** production with mechanical or other processes that reduces the need for workers (p. 386)
- average tax rate** total taxes paid divided by the total taxable income (p. 229)

### B

- baby boom** historically high birthrate years in the United States from 1946 to 1964 (p. 360)

## capital

- balance of payments** difference between money paid to, and received from, other nations in trade; balance on current account includes goods and services, merchandise trade balance counts only goods (p. 478)
- balance sheet** condensed statement showing assets, liabilities, and net worth of an economic unit (p. 416)
- balanced budget** annual budget in which expenditures equal revenues (p. 273)
- balanced budget amendment** constitutional amendment requiring government to spend no more than it collects in taxes and other revenues, excluding borrowing (p. 267)
- bank holiday** brief period during which all banks or depository institutions are closed to prevent bank runs (p. 301)
- bankruptcy** court-granted permission to an individual or business to cease or delay payment on some or all debts for a limited amount of time (p. 62)
- barter economy** moneyless economy that relies on trade or barter (p. 285)
- base year** year serving as point of comparison for other years in a price index or other statistical measure (p. 218, 351)
- bear market** period during which stock market prices move down for several months or years in a row (p. 332)
- benefit principle of taxation** belief that taxes should be paid according to benefits received regardless of income (p. 227)
- Better Business Bureau** business-sponsored nonprofit organization providing information on local companies to consumers (p. 78)
- bill consolidation loan** popular type of consumer loan used to pay off multiple existing loans (p. 315)
- black market** market in which economic products are sold illegally (p. 505)
- bond** formal contract to repay borrowed money and interest on the borrowed money at regular future intervals (p. 64)
- boycott** protest in the form of a refusal to buy, including attempts to convince others to join (p. 195)
- break-even point** production needed if the firm is to recover its costs; production level where total cost equals total revenue (p. 131)
- bull market** period during which stock market prices move up for several months or years in a row (p. 332)
- business cycle** systematic changes in real GDP marked by alternating periods of expansion and contraction (p. 375)
- business fluctuation** changes in real GDP marked by alternating periods of expansion and contraction that occur on a less than systematic basis (p. 375)

### C

- call option** contract giving investors the option to buy commodities, equities, or financial assets at a specific future date using a price agreed upon today (p. 333)
- capital** tools, equipment, and factories used in the production of goods and services; one of four factors of production (p. 7)

**capital flight**

- capital flight** legal or illegal export of a nation's currency and foreign exchange (p. 525)
- capital gains** profits from the sale of an asset held for 12 months (p. 246)
- capital good** tool, equipment, or other manufactured good used to produce other goods and services; a factor of production (p. 12)
- capital-intensive** production method requiring relatively large amounts of capital relative to labor (p. 510)
- capital market** market in which financial capital is loaned and/or borrowed for more than one year (p. 325)
- capitalism** economic system in which private citizens own and use the factors of production in order to generate profits (p. 46, 492)
- capital-to-labor ratio** measure obtained by dividing the total capital stock by the labor force (p. 367)
- cartel** group of sellers or producers acting together to raise prices by restricting availability of a product; OPEC (p. 536)
- cash flow** total amount of new funds the business generates from operations; broadest measure of profits for a firm, includes both net income and non-cash charges (p. 69)
- cease and desist order** ruling requiring a company to stop an unfair business practice that reduces or limits competition (p. 179)
- census** complete count of population, including place of residence (p. 356)
- center of population** point where the country would balance if it were flat and everyone weighed the same (p. 357)
- central bank** bank that can lend to other banks in times of need, a "bankers' bank" (p. 301)
- certificate of deposit** receipt showing that an investor has made an interest-bearing loan to a financial institution (p. 314)
- chamber of commerce** nonprofit organization of local businesses whose purpose is to promote their interests (p. 78)
- change in demand** consumers demand different amounts at every price, causing the demand curve to shift to the left or the right (p. 96)
- change in quantity demanded** movement along the demand curve showing that a different quantity is purchased in response to a change in price (p. 95)
- change in quantity supplied** change in amount offered for sale in response to a price change; movement along the supply curve (p. 115)
- change in supply** different amounts offered for sale at each and every possible price in the market; shift of the supply curve (p. 116)
- charter** written government approval to establish a corporation; includes company name, address, purpose of business, number of shares of stock, and other features of the business (p. 63)

**consumer price index**

- civilian labor force** non-institutionalized part of the population, aged 16 and over, either working or looking for a job (p. 193)
- closed shop** illegal arrangement under which workers must join a union before they are hired (p. 200)
- coins** metallic forms of money such as pennies, nickels, dimes, and quarters (p. 413)
- collateral** property or other security used to guarantee repayment of a loan (p. 511)
- collective bargaining** process of negotiation between union and management representatives over pay, benefits, and job-related matters (p. 77)
- collective farm** small farms in the former Soviet Union owned by the state, but operated by families who shared in some of the profits (p. 498)
- collectivization** forced common ownership of factors of production; used in the former Soviet Union in agriculture and manufacturing under Stalin (p. 497)
- collusion** agreements, usually illegal, among producers to fix prices, limit output, or divide markets (p. 168)
- command economy** economic system characterized by a central authority that makes most of the major economic decisions (p. 35)
- commercial bank** depository institution that, until the mid-1970s, had the exclusive right to offer checking accounts (p. 303)
- commodity money** money that has an alternative use as a commodity; gunpowder, flour, corn (p. 287)
- communism** economic and political system in which factors of production are collectively owned and directed by the state; theoretically classless society in which everyone works for the common good (p. 493)
- company union** union organized, supported, and even financed by an employer (p. 195)
- comparable worth** doctrine stating that equal pay should be given for jobs of comparable difficulty (p. 215)
- comparative advantage** country's ability to produce a given product relatively more efficiently than another country; production at a lower opportunity cost (p. 470)
- competition** the struggle among sellers to attract consumers while lowering costs (p. 48)
- complements** products that increase the value of other products; products related in such a way that an increase in the price of one reduces the demand for both (p. 98)
- conglomerate** firm with four or more businesses making unrelated products, with no single business responsible for a majority of its sales (p. 71)
- constant dollars** dollar amounts or prices that have been adjusted for inflation; same as real dollars (p. 218)
- consumer good** good intended for final use by consumers rather than businesses (p. 12)
- consumer price index** index used to measure price changes for a market basket of frequently used consumer items (p. 352)

## consumer sovereignty

- consumer sovereignty** role of consumer as ruler of the market when determining the types of goods and services produced (p. 50)
- cooperative** nonprofit association performing some kind of economic activity for the benefit of its members (p. 76)
- corporate income tax** tax on corporate profits (p. 235)
- corporation** form of business organization recognized by law as a separate legal entity with all the rights and responsibilities of an individual, including the right to buy and sell property, enter into legal contracts, sue and be sued (p. 62)
- cost-benefit analysis** way of thinking that compares the cost of an action to its benefits (p. 24)
- Council of Economic Advisers** three-member group that devises strategies and advises the President of the United States on economic matters (p. 460)
- coupon** stated interest on a corporate, municipal or government bond (p. 321)
- craft union** labor union whose workers perform the same kind of work; same as trade union (p. 194)
- credit union** nonprofit service cooperative that accepts deposits, makes loans, and provides other financial services (p. 76, 303)
- creditor** person or institution to whom money is owed (p. 305)
- creeping inflation** relatively low rate of inflation, usually 1 to 3 percent annually (p. 390)
- crowding-out effect** higher than normal interest rates and diminished access to financial capital faced by private investors when government increases its borrowing in financial markets (p. 277)
- crude birthrate** number of live births per 1,000 people (p. 524)
- currency** paper component of the money supply, today consisting of Federal Reserve notes (p. 413)
- current dollars** dollar amounts or prices that are not adjusted for inflation (p. 218)
- current GDP** Gross Domestic Product measured in current prices, unadjusted for inflation (p. 353)
- current yield** bond's annual coupon interest divided by purchase price; measure of a bond's return (p. 321)
- customs duty** tax on imported products (p. 236)
- customs union** group of countries that have agreed to reduce trade barriers (p. 535)
- cyclical unemployment** unemployment directly related to swings in the business cycle (p. 386)

## D

- default** the act of not repaying borrowed money (p. 525)
- deficiency payment** cash payment making up the difference between the market price and the target price of an agricultural crop (p. 153)

## disposable personal income

- deficit spending** annual government spending in excess of taxes and other revenues (p. 272)
- deflation** decrease in the general level of the prices of goods and services (p. 390)
- demand** combination of desire, ability, and willingness to buy a product (p. 89)
- demand curve** graph showing the quantity demanded at each and every possible price that might prevail in the market at a given time (p. 91)
- demand deposit account (DDA)** account whose funds can be removed by writing a check and without having to gain prior approval from the depository institution (p. 303)
- demand elasticity** measure of responsiveness relating change in quantity demanded (dependent variable) to a change in price (independent variable) (p. 101)
- demand schedule** listing showing the quantity demanded at all possible prices that might prevail in the market at a given time (p. 90)
- demographer** person who studies growth, density, and other characteristics of the population (p. 358)
- dependency ratio** ratio of children and elderly per 100 persons who are in the 18–64 working age bracket (p. 361)
- depreciation** gradual wear on capital goods during production (p. 69)
- depression** state of the economy with large numbers of unemployed, declining real incomes, overcapacity in manufacturing plants, general economic hardship (p. 376)
- depression scrip** currency issued by towns, chambers of commerce, and other civic bodies during the Great Depression of the 1930s (p. 377)
- deregulation** relaxation or removal of government regulations on business activities (p. 304)
- developing country** country whose average per capita income is only a fraction of that in more industrialized countries (p. 521)
- diminishing marginal utility** decreasing satisfaction or usefulness as additional units of a product are acquired (p. 93)
- diminishing returns** stage of production where output increases at a decreasing rate as more units of variable input are added (p. 125)
- discomfort index** unofficial statistic that is the sum of monthly inflation and the unemployment rate; same as misery index (p. 438)
- discount rate** interest rate that the Federal Reserve System charges on loans to the nation's financial institutions (p. 422)
- discretionary spending** spending for federal programs that must receive annual authorization (p. 260)
- disposable personal income** personal income less individual income taxes; total income available to the consumer sector after income taxes (p. 346)

## distribution of income

**distribution of income** way in which the nation's income is divided among families, individuals, or other designated groups (p. 258)

**dividend** check paid to stockholders, usually quarterly, representing portion of corporate profits (p. 63)

**division of labor** division of work into a number of separate tasks to be performed by different workers; same as specialization (p. 16)

**DJIA** see Dow-Jones Industrial Average (p. 331)

**double taxation** feature of taxation that allows stockholders' dividends to be taxed both as corporate profit and as personal income (p. 65)

**Dow-Jones Industrial Average (DJIA)** statistical series of 30 representative stocks used to monitor price changes on the New York Stock Exchange (p. 332)

## E

**easy money policy** monetary policy resulting in lower interest rates and greater access to credit; associated with an expansion of the money supply (p. 419)

**e-commerce** electronic business or exchange conducted over the Internet (p. 129)

**econometric model** macroeconomic model using algebraic equations to describe how the economy behaves and is expected to perform in the future (p. 379)

**economic growth** sustained period during which a nation's total output of goods and services increases (p. 15)

**economic interdependence** economic activities in one part of the country or world affect what happens elsewhere (p. 17)

**economic model** set of assumptions in a table, graph, or equations used to describe or explain economic behavior (p. 143)

**economic product** good or service that is useful, relatively scarce, and transferable to others (p. 12)

**economic system** organized way a society provides for the wants and needs of its people (p. 33)

**economics** social science dealing with the study of how people satisfy seemingly unlimited and competing wants with the careful use of scarce resources (p. 6)

**economies of scale** increasingly efficient use of personnel, plant, and equipment as a firm becomes larger (p. 170)

**economy** see economic system (p. 33)

**Efficient Market Hypothesis (EMH)** argument that stocks are always priced about right, and that bargains are hard to find because they are closely watched by so many investors (p. 329)

**elastic** type of elasticity where the percentage change in the independent variable (usually price) causes a more than proportionate change in the dependent variable (usually quantity demanded or supplied) (p. 102)

## federal budget deficit

**elasticity** a measure of responsiveness that tells us how a dependent variable such as quantity responds to a change in an independent variable such as price (p. 101)

**embargo** prohibition on the export or import of a product (p. 546)

**entitlement** program or benefit using established eligibility requirements to provide health, nutritional, or income supplements to individuals (p. 278)

**entrepreneur** risk-taking individual in search of profits; one of four factors of production (p. 8)

**equilibrium price** price where quantity supplied equals quantity demanded; price that clears the market (p. 144)

**equilibrium wage rate** wage rate leaving neither a surplus nor a shortage in the market (p. 207)

**equities** stocks that represent ownership shares in corporations (p. 328)

**estate tax** tax on the transfer of property when a person dies (p. 235)

**euro** single currency of European Union (p. 535)

**European Union** successor of the European Community established in 1993 by the Maastricht Treaty (p. 535)

**excess reserves** financial institution's cash, currency, and reserves not needed to back existing loans; potential source of new loans (p. 416)

**excise tax** general revenue tax levied on the manufacture or sale of selected items (p. 235)

**expansion** period of growth of real GDP; recovery from recession (p. 376)

**exports** the goods and services that a nation produces and then sells to other nations (p. 467)

**expropriation** government confiscation of private- or foreign-owned goods without compensation (p. 534)

**external debt** borrowed money that a country owes to foreign countries and banks (p. 525)

**externality** economic side effect that affects an uninvolved third party (p. 175)

## F

**fact-finding** agreement between union and management to have a neutral third party collect facts about a dispute and present non-binding recommendations (p. 202)

**factor market** market where productive resources are bought and sold (p. 14)

**factors of production** productive resources that make up the four categories of land, capital, labor, and entrepreneurship (p. 7)

**family** two or more persons living together that are related by blood, marriage, or adoption (p. 346)

**federal budget** annual plan outlining proposed expenditures and anticipated revenues (p. 260)

**federal budget deficit** excess of federal expenditures over tax and revenue collections (p. 261)



## federal budget surplus

**federal budget surplus** federal budget that shows a positive balance after expenditures are subtracted from revenues (p. 261)

**federal debt** total amount of money the federal government has borrowed from others (p. 273)

**Federal Reserve note** currency issued by the Fed that eventually replaced all other types of federal currency (p. 301)

**Federal Reserve System** privately owned, publicly controlled, central bank of the United States (p. 301)

**fertility rate** number of births that 1,000 women are expected to undergo in their lifetime (p. 358)

**fiat money** money by government decree; has no alternative value or use as a commodity (p. 287)

**FICA** Federal Insurance Contributions Act; tax levied on employers and employees to support Social Security and Medicare (p. 233)

**finance company** firm that makes loans directly to consumers and specializes in buying installment contracts from merchants who sell on credit (p. 315)

**financial asset** document that represents a claim on the income and property of the borrower; CDs, bonds, Treasury bills, mortgages (p. 314)

**financial capital** money used to buy the tools and equipment used in production (p. 7)

**financial intermediary** institution that channels savings to investors; banks, insurance companies, savings and loan associations, credit unions (p. 314)

**financial system** network of savers, investors, and financial institutions that work together to transfer savings to investment uses (p. 314)

**fiscal policy** use of government spending and revenue collection measures to influence the economy (p. 447)

**fiscal year** 12-month financial planning period that may not coincide with the calendar year; October 1 to September 30 for the federal government (p. 260)

**Five-Year Plan** comprehensive centralized economic plan used by the Soviet Union and China to coordinate development of agriculture and industry (p. 497)

**fixed cost** cost of production that does not change when output changes (p. 127)

**fixed exchange rate** system under which the value of currencies were fixed in relation to one another; the exchange rate system in effect until 1971 (p. 482)

**fixed income** income that does not increase even though prices go up (p. 42)

**flat tax** proportional tax on individual income after a specified threshold has been reached (p. 248)

**flexible exchange rate** system that relies on supply and demand to determine the value of one currency in terms of another; exchange rate system in effect since 1971, same as floating exchange rate (p. 483)

**floating exchange rate** see flexible exchange rate (p. 483)

**floor price** see price floor (p. 152)

## geographic monopoly

**food stamps** government-issued coupons that can be exchanged for food (p. 397)

**foreign exchange** foreign currencies used by countries to conduct international trade (p. 481)

**foreign exchange rate** price of one country's currency in terms of another currency (p. 482)

**401(k) plan** a tax-deferred investment and savings plan that acts as a personal pension fund for employees (p. 320)

**fractional reserve system** system requiring financial institutions to set aside a fraction of their deposits in the form of reserves (p. 415)

**free enterprise** economy in which competition is allowed to flourish with a minimum of government interference; term used to describe the American economy (p. 46)

**free enterprise economy** market economy in which privately owned businesses have the freedom to operate for a profit with limited government intervention; same as private enterprise economy (p. 24)

**free-trade area** group of countries that have agreed to reduce trade barriers among themselves, but lack a common tariff barrier for nonmembers (p. 535)

**free trader** individual who favors fewer or even no trade restrictions (p. 474)

**frictional unemployment** unemployment caused by workers changing jobs or waiting to go to new ones (p. 384)

**fringe benefit** benefit received by employees in addition to wages and salaries; includes paid vacations, sick leave, retirement, insurance (p. 57)

**futures** contracts to buy or sell commodities or financial assets at a specific future date, using a price agreed upon today (p. 333)

**futures contract** an agreement to buy or sell at a specific date in the future at a predetermined price (p. 333)

**futures market** market where futures contracts are bought and sold (p. 333)

## G

**galloping inflation** relatively intense inflation, usually ranging from 100 to 300 percent annually (p. 390)

**gasohol** mixture of 90 percent unleaded gasoline and 10 percent grain alcohol (p. 549)

**GDP gap** difference between what the economy can and does produce; annual opportunity cost of unemployed resources (p. 438)

**GDP in constant dollars** Gross Domestic Product after adjustments for inflation; also called GDP in constant (chained) dollars; same as real GDP (p. 353)

**general partnership** see partnership (p. 60)

**geographic monopoly** market situation where a firm has a monopoly because of its location or the small size of the market (p. 170)

## gift tax

- gift tax** tax on donations of money or wealth that is paid by the donor (p. 235)
- giveback** wage, fringe benefit, or work rule given up when renegotiating a contract (p. 212)
- glass ceiling** seemingly invisible barrier hindering advancement of women and minorities in a male-dominated organization (p. 214)
- glut** substantial oversupply of a product (p. 553)
- gold certificate** paper currency backed by gold; issued in 1863 and popular until recalled in 1934 (p. 295)
- gold standard** monetary standard under which a country's currency is equivalent to, and can be exchanged for, a specified amount of gold (p. 296)
- good** tangible economic product that is useful, relatively scarce, transferable to others; used to satisfy wants and needs (p. 12)
- Gosplan** central planning authority in former Soviet Union that devised and directed Five-Year plans (p. 497)
- government monopoly** monopoly created and/or owned by the government (p. 170)
- grant-in-aid** transfer payment from one level of government to another not involving compensation (p. 257)
- Great Depression** greatest period of economic decline in United States history, lasting from approximately 1929 to 1939 (p. 196)
- Great Leap Forward** China's disastrous second five-year plan begun in 1958 that forced collectivization of agriculture and rapid industrialization (p. 506)
- grievance procedure** contractual provision outlining the way future disputes and grievance issues will be resolved (p. 202)
- Gross Domestic Product (GDP)** dollar value of all final goods, services, and structures produced within a country's national borders during a one-year period (p. 9, 341)
- Gross National Product (GNP)** total dollar value of all final goods, services, and structures produced in one year with labor and property supplied by a country's residents, regardless of where the production takes place; largest measure of a nation's income (p. 344)
- growth triangle** table showing the rates of growth of a statistical series between any two dates (p. 364)

## H

- horizontal merger** combination of two or more firms producing the same kind of product (p. 71)
- household** basic unit of consumer sector consisting of all persons who occupy a house, apartment, or separate living quarters (p. 346)
- human capital** sum of peoples' skills, abilities, health, and motivation (p. 16)
- hyperinflation** abnormal inflation in excess of 500 percent per year; last stage of a monetary collapse (p. 390)

## intergovernmental expenditures

## I

- imperfect competition** market structure where all conditions of pure competition are not met; monopolistic competition, oligopoly, and monopoly (p. 166)
- implicit GDP price deflator** index used to measure price changes in Gross Domestic Product (p. 353)
- imports** the goods and services that a nation buys from other nations (p. 468)
- incidence of a tax** final burden of a tax (p. 225)
- income effect** that portion of a change in quantity demanded caused by a change in a consumer's real income when the price of a product changes (p. 96)
- income statement** report showing a business's sales, expenses, and profits for a certain period, usually three months or a year (p. 68)
- inconvertible fiat money standard** fiat money that cannot be exchanged for gold or silver; Federal Reserve notes today (p. 297)
- independent union** labor union not affiliated with the AFL-CIO (p. 198)
- index of leading indicators** composite index of 11 economic series that move up and down in advance of changes in the overall economy; statistical series used to predict business cycle turning points (p. 380)
- indexing** adjustment of tax brackets to offset the effects of inflation (p. 233)
- individual income tax** tax levied on the wages, salaries, and other income of individuals (p. 226)
- Individual Retirement Account (IRA)** retirement account in the form of a long-term time deposit, with annual contributions of up to \$2,000 per year not taxed until withdrawn during retirement (p. 324)
- industrial union** labor union whose workers perform different kinds of work (p. 195)
- inelastic** type of elasticity where the percentage change in the independent variable (usually price) causes a less than proportionate change in the dependent variable (usually quantity demanded or supplied) (p. 102)
- infant industries argument** argument that new and emerging industries should be protected from foreign competition until they are strong enough to compete (p. 474)
- inflation** rise in the general level of prices (p. 42, 350)
- infrastructure** the highways, mass transit, communications, power, water, sewerage and other public goods needed to support a population (p. 510)
- injunction** court order issued to prevent a company or union from taking action during a labor dispute (p. 203)
- interest** payment made for the use of borrowed money; usually paid at periodic intervals for long-term bonds or loans (p. 64)
- intergovernmental expenditures** funds that one level of government transfers to another level for spending (p. 268)

## intergovernmental revenue

- intergovernmental revenue** funds one level of government receives from another level of government (p. 238)
- intermediate products** products directly excluded from GDP because they are components of other final products included in GDP; new tires and radios for use on new cars (p. 343)
- Internal Revenue Service (IRS)** branch of Treasury Department that collects taxes (p. 232)
- International Bank for Reconstruction and Development** see World Bank (p. 526)
- International Monetary Fund (IMF)** international organization that offers advice and financial assistance to nations so that their currencies can compete in open markets (p. 526)
- inventory** stock of goods held in reserve; includes finished goods waiting to be sold and raw materials to be used in production (p. 59)
- investment tax credit** tax credit given for purchase of equipment (p. 245)

## K

- keiretsu** independently owned group of Japanese firms joined and governed by an external board of directors in order to regulate competition (p. 510)
- Keynesian economics** government spending and taxation policies suggested by John Maynard Keynes to stimulate the economy; synonymous with fiscal policies or demand-side economics (p. 448)

## L

- labor** people with all their abilities and efforts; one of four factors of production, does not include the entrepreneur (p. 8)
- labor mobility** ability and willingness of labor to relocate, usually for higher wages (p. 209)
- labor productivity** growth rate of total output per unit of labor input; measure of productive efficiency (p. 368)
- labor union** organization that works for its members' interests concerning pay, working hours, health coverage, fringe benefits, other job related matters (p. 76)
- Laffer curve** graph showing that lower tax rates will supposedly stimulate higher tax revenues (p. 452)
- laissez-faire** philosophy that government should not interfere with business activity (p. 163)
- land** natural resources or "gifts of nature" not created by human effort; one of four factors of production (p. 7)
- Law of Demand** rule stating that more will be demanded at lower prices and less at higher prices; inverse relationship between price and quantity demanded (p. 91)
- Law of Supply** rule stating that more will be offered for sale at high prices than at lower prices (p. 113)

## marginal analysis

- Law of Variable Proportions** rule stating that short-run output will change as one input is varied while others are held constant (p. 122)
- legal reserves** currency and deposits used to meet the reserve requirement (p. 415)
- legal tender** fiat currency that must be accepted for payment by decree of government (p. 295)
- liabilities** debts and obligations owed to others; usually listed as entries on a balance sheet (p. 416)
- life expectancy** average remaining life span in years for persons who attain a given age (p. 358)
- limited life** situation in which a firm legally ceases to exist when an owner dies, quits, or a new owner is added; applies to sole proprietorships and partnerships (p. 59)
- limited partnership** form of partnership where one or more partners are not active in the daily running of the business, and whose liability for the partnership's debt is restricted to the amount invested in the business (p. 62)
- line-item veto** power to cancel specific budget items without rejecting the entire budget (p. 278)
- liquidity** potential for being readily convertible into cash or other financial assets (p. 417)
- lockout** management refusal to let employees work until company demands are met (p. 195)
- long run** production period long enough to change amount of variable and fixed inputs used in production (p. 122)
- Lorenz curve** curve showing how much the actual distribution of income differs from an equal distribution (p. 394)
- luxury good** good for which demand increases faster than income when income rises (p. 235)

## M

- M1** money supply components conforming to money's role as medium of exchange; coins, currency, checks, other demand deposits, traveler's checks (p. 429)
- M2** money supply components conforming to money's role as a store of value; M1, savings deposits, time deposits (p. 430)
- macroeconomic equilibrium** level of real GDP consistent with a given price level; intersection of aggregate supply and aggregate demand (p. 445)
- macroeconomics** that part of economic theory dealing with the economy as a whole and decision making by large units such as governments and unions (p. 193)
- mandatory spending** federal spending authorized by law that continues without the need for annual approvals of Congress (p. 260)
- margin requirement** minimum deposits left with a stockbroker to be used as partial payment on other securities (p. 423)
- marginal analysis** decision making that compares the extra cost of doing something to the extra benefits gained (p. 131)

## marginal cost

**marginal cost** extra cost of producing one additional unit of production (p. 129)

**marginal product** extra output due to the addition of one more unit of input (p. 124)

**marginal revenue** extra revenue from the sale of one additional unit of output (p. 130)

**marginal tax rate** tax rate that applies to the next dollar of taxable income (p. 229)

**marginal utility** satisfaction or usefulness obtained from acquiring one more unit of a product (p. 93)

**market** meeting place or mechanism allowing buyers and sellers of an economic product to come together; may be local, regional, national, or global (p. 14)

**market basket** representative collection of goods and services used to compile a price index (p. 351)

**market demand curve** demand curve that shows the quantities demanded by everyone who is interested in purchasing a product (p. 91)

**market economy** economic system in which supply, demand, and the price system help people make decisions and allocate resources; same as free enterprise economy (p. 36)

**market equilibrium** condition of price stability where the quantity demanded equals the quantity supplied (p. 143)

**market failure** market where any of the requirements for a competitive market—adequate competition, knowledge of prices and opportunities, mobility of resources, and competitive profits—are lacking (p. 174)

**market structure** market classification according to number and size of firms, type of product, and type of competition (p. 164)

**market supply curve** supply curve that shows the quantities offered at various prices by all firms that sell the product in a given market (p. 114)

**maturity** life of a bond or length of time funds are borrowed (p. 321)

**measure of value** one of the three functions of money that allows it to serve as a common denominator to measure value (p. 286)

**mediation** process of resolving a dispute by bringing in a neutral third party (p. 202)

**medicaid** joint federal-state medical insurance program for low-income people (p. 265)

**medicare** federal health-care program for senior citizens, regardless of income (p. 233)

**medium of exchange** money or other substance generally accepted in exchange; one of the three functions of money (p. 286)

**member bank** bank belonging to the Federal Reserve System (p. 407)

**member bank reserves** reserves kept by member banks at the Fed to satisfy reserve requirements (p. 418)

**merger** combination of two or more business enterprises to form a single firm (p. 68)

**microeconomics** branch of economic theory that deals with behavior and decision making by small units such as individuals and firms (p. 89)

**minimum wage** lowest legal wage that can be paid to most workers (p. 152, 216)

**misery index** unofficial statistic that is the sum of monthly inflation and the unemployment rate; same as discomfort index (p. 438)

**mixed economy** see modified private enterprise economy (p. 51)

**modified free enterprise economy** free enterprise system with some government involvement; same as modified private enterprise economy (p. 560)

**modified private enterprise economy** free enterprise market economy where people carry on their economic affairs freely, but are subject to some government intervention and regulation (p. 51)

**modified union shop** arrangement under which workers have the option to join a union after being hired (p. 201)

**monetarism** school of thought stressing the importance of stable monetary growth to control inflation and stimulate long-term economic growth (p. 453)

**monetary policy** actions by the Federal Reserve System to expand or contract the money supply in order to affect the cost and availability of credit (p. 415)

**monetary standard** mechanism that keeps a money supply durable, portable, divisible, and stable in value; gold standard, silver standard, fiat money standard (p. 292)

**monetary unit** standard unit of currency in a country's money supply; American dollar, British pound (p. 289)

**monetize the debt** process of creating enough additional money to offset federal borrowing so that interest rates remain unchanged (p. 427)

**money** anything that serves as a medium of exchange, a measure of value, and a store of value (p. 286)

**money market** market in which financial capital is loaned and/or borrowed for one year or less (p. 325)

**monopolistic competition** market structure having all conditions of pure competition except for identical products; form of imperfect competition (p. 166)

**monopoly** market structure characterized by a single producer; form of imperfect competition (p. 169)

**moral suasion** Federal Reserve System's use of persuasion to accomplish monetary policy; congressional testimony, press releases (p. 424)

**most favored nation clause** trade law allowing a third country to enjoy the same tariff reductions the United States negotiates with another country (p. 477)

**multinational** corporation producing and selling without regard to national boundaries and whose business activities are located in several different countries (p. 72)

**multiplier** change in overall spending caused by a change in investment spending (p. 448)



## municipal bond

**municipal bond** bond, often tax exempt, issued by state and local governments; known as munis (p. 323)

**mutual fund** company that sells stock in itself and uses the proceeds to buy stocks and bonds issued by other companies (p. 316)

**mutual savings bank** depositor-owned savings institution operated for the benefit of depositors (p. 303)

## N

**NAFTA** see North American Free Trade Agreement (p. 479)

**national bank** commercial bank chartered by the National Banking System; member of the Fed (p. 295)

**National Bank note** currency backed by government bonds, issued by national banks starting in 1863 and generally disappearing from circulation in the 1930s (p. 295)

**national currency** see National Bank note (p. 295)

**national income** net national product less indirect business taxes; measure of a nation's income (p. 345)

**national income accounting** system of accounts used to track the nation's production, consumption, savings, and income statistics (p. 341)

**natural monopoly** market where average costs are lowest when all output is produced by a single firm (p. 170)

**need** basic requirement for survival; includes food, clothing, and/or shelter (p. 6)

**negative externality** harmful side effect that affects an uninvolved third party; external cost (p. 175)

**negative income tax** tax system that would make cash payments in the form of tax refunds to individuals when their income falls below certain levels (p. 400)

**Negotiable Order of Withdrawal (NOW)** type of checking account that pays interest (p. 303)

**net asset value (NAV)** the market value of a mutual fund share determined by dividing the value of the fund by the number of shares issued (p. 316)

**net exports of goods and services** net expenditures by the output-expenditure model's foreign sector (p. 348)

**net immigration** net population change after accounting for those who leave as well as enter a country (p. 359)

**net income** measure of business profits determined by subtracting all expenses, including taxes, from revenues (p. 68)

**net national product (NNP)** Gross National Product minus depreciation charges for wear and tear on capital equipment; measure of net annual production generated with labor and property supplied by a country's citizens (p. 344)

**net worth** excess of assets over liabilities, usually listed as a separate summary on a balance sheet; measure of the value of a business (p. 416)

**nominal GDP** see current GDP (p. 353)

**nonbank financial institution** nondepository institution that channels savings to investors; finance companies, insurance companies, pension funds (p. 315)

## par value

**noncompeting labor grades** broad groups of unskilled, semiskilled, skilled, and professional workers who do not compete with one another (p. 206)

**nonmarket transaction** economic activity not taking place in the market and, therefore, not included in GDP; services of homemakers, work around the home (p. 343)

**nonprice competition** competition involving the advertising of a product's appearance, quality, or design, rather than its price (p. 166)

**nonprofit organization** economic institution that operates like a business but does not seek financial gain; schools, churches, community service organizations (p. 75)

**nonrecourse loan** agricultural loan that carries neither a penalty nor further obligation to repay if not paid back (p. 153)

**nonrenewable resource** resource that cannot be replenished once it is used (p. 546)

**North American Free Trade Agreement (NAFTA)** agreement signed in 1993 to reduce tariffs between the United States, Canada, and Mexico (p. 479)

**NOW Account** see Negotiable Order of Withdrawal (p. 303)

## O

**oligopoly** market structure in which a few large sellers dominate and have the ability to affect prices in the industry; form of imperfect competition (p. 167)

**open market operations** monetary policy in the form of U.S. treasury bills or bond sales and purchases, or both (p. 420)

**opportunity cost** cost of the next best alternative use of money, time, or resources when one choice is made rather than another (p. 20)

**option** contract giving investors an option to buy or sell commodities, equities, or financial assets at a specific future date using a price agreed upon today (p. 333)

**options markets** markets where options, including put options and call options, are traded (p. 333)

**output-expenditure model** macroeconomic model describing aggregate demand by the consumer, investment, government, and foreign sectors;  $GDP = C + I + G + F$  (p. 348)

**overhead** broad category of fixed costs that includes interest, rent, taxes, and executive salaries (p. 127)

**over-the-counter market (OTC)** electronic marketplace for securities not listed on organized exchanges such as the New York Stock Exchange (p. 331)

## P

**par value** principal of a bond or total amount borrowed (p. 321)

## paradox of value

- paradox of value** apparent contradiction between the high value of nonessentials and low value of essentials (p. 13)
- partnership** unincorporated business owned and operated by two or more people who share the profits and have unlimited liability for the debts and obligations of the firm; same as general partnership (p. 60)
- part-time worker** worker who regularly works fewer than 35 hours per week (p. 216)
- “pay-as-you-go” provision** requirement that new spending proposals or tax cuts must be offset by reductions elsewhere (p. 277)
- payroll tax** tax on wages and salaries to finance Social Security and Medicare costs (p. 233)
- payroll withholding statement** document attached to a paycheck summarizing pay and deductions (p. 242)
- payroll withholding system** system that automatically deducts income taxes from paychecks on a regular basis (p. 232)
- peak** point in time when real GDP stops expanding and begins to decline (p. 376)
- pension** regular allowance for someone who has worked a certain number of years, reached a certain age, or who has suffered from an injury (p. 316)
- pension fund** fund that collects and invests income until payments are made to eligible recipients (p. 316)
- per capita** per person basis; total divided by population (p. 255)
- perestroika** fundamental restructuring of the Soviet economy; policy introduced by Gorbachev (p. 499)
- perfect competition** market structure characterized by a large number of well-informed independent buyers and sellers who exchange identical products (p. 164)
- personal income** total amount of income going to the consumer sector before individual income taxes are paid (p. 345)
- picket** demonstration before a place of business to protest a company’s actions (p. 195)
- piecemeal** compensation system that pays workers for units produced, rather than hours worked (p. 498)
- pollution** contamination of air, water, or soil by the discharge of a poisonous or noxious substance (p. 554)
- pollution permit** federal permit allowing a public utility to release pollutants into the air; a form of pollution control (p. 556)
- population density** number of people per square mile of land area (p. 536)
- population pyramid** diagram showing the breakdown of population by age and sex (p. 360)
- portfolio diversification** strategy of holding several investments to protect against risk (p. 329)
- positive externality** beneficial side effect that affects an uninvolved third party (p. 176)
- premium** monthly, quarterly, semiannual, or annual price paid for an insurance policy (p. 315)

## productivity

- price** monetary value of a product as established by supply and demand (p. 137)
- price ceiling** maximum legal price that can be charged for a product (p. 151)
- price discrimination** illegal practice of charging customers different prices for the same product (p. 179)
- price-fixing** agreement, usually illegal, by firms to charge a uniform price for a product (p. 168)
- price floor** lowest legal price that can be charged for a product (p. 152)
- price index** statistical series used to measure changes in the price level over time (p. 351)
- price level** relative magnitude of prices at a given point in time as measured by a price index (p. 389)
- primary market** market in which only the original issuer will repurchase a financial asset; government savings bonds, IRAs, small CDs (p. 326)
- prime rate** best or lowest interest rate commercial banks charge their customers (p. 427)
- primitive equilibrium** first stage of economic development during which the economy is static (p. 528)
- principal** amount borrowed when getting a loan or issuing a bond (p. 64)
- private enterprise economy** see free enterprise economy (p. 24)
- private property rights** fundamental feature of capitalism, which allows individuals to own and control their possessions as they wish; includes both tangible and intangible property (p. 47)
- private sector** that part of the economy made up of private individuals and businesses (p. 256)
- privatization** conversion of state-owned factories and other property to private ownership (p. 502)
- producer price index** index used to measure prices received by domestic producers; formerly called the wholesale price index (p. 352)
- product differentiation** real or imagined differences between competing products in the same industry (p. 166)
- product market** market where goods and services are offered for sale (p. 14)
- production** process of creating goods and services with the combined use of land, capital, labor, and entrepreneurship (p. 8)
- production function** graphic portrayal showing how a change in the amount of a single variable input affects total output (p. 123)
- production possibilities frontier** diagram representing maximum combinations of goods and/or services an economy can produce when all productive resources are fully employed (p. 21)
- productivity** degree to which productive resources are used efficiently; normally refers to labor, but can apply to all factors of production (p. 15)

## professional association

- professional association** nonprofit organization of professional or specialized workers seeking to improve working conditions, skill levels, and public perceptions of its profession (p. 77)
- professional labor** workers with a high level of professional and managerial skills (p. 206)
- profit** extent to which persons or organizations are better off at the end of a period than they were at the beginning; usually measured in dollars (p. 48)
- profit-maximizing quantity of output** level of production where marginal cost is equal to marginal revenue (p. 131)
- profit motive** driving force that encourages people and organizations to improve their material well-being; characteristic of capitalism and free enterprise (p. 48)
- progressive tax** tax where percentage of income paid in tax rises as level of income rises (p. 229)
- property tax** tax on tangible and intangible possessions such as real estate, buildings, furniture, stocks, bonds, and bank accounts (p. 241)
- proportional tax** tax in which percentage of income paid in tax is the same regardless of the level of income (p. 229)
- proprietorship** see sole proprietorship (p. 57)
- protectionist** person who would protect domestic producers with tariffs, quotas, and other trade barriers (p. 474)
- protective tariff** tax on an imported product designed to protect less efficient domestic producers (p. 472)
- public disclosure** requirement forcing a business to reveal information about its products or its operations to the public (p. 181)
- public good** economic product that is consumed collectively; highways, national defense, police and fire protection (p. 176)
- public sector** that part of the economy made up of the local, state, and federal governments (p. 255)
- public utility** company providing essential services such as water and electricity to consumers, usually subject to some government regulations (p. 79)
- put option** contract giving investors the option to sell commodities, equities, or financial assets at a specific future date using a price agreed upon today (p. 333)

## Q

- quantity supplied** amount offered for sale at a given price; point on the supply curve (p. 115)
- quantity theory of money** hypothesis that the supply of money directly affects the price level over the long run (p. 427)
- quota** limit on the amount of a good that can be allowed into a country (p. 472)

## saving

## R

- ration coupon** certificate allowing holder to receive a given amount of a rationed product (p. 139)
- rationing** system of allocating goods and services without prices (p. 139)
- raw materials** unprocessed natural resources used in production (p. 123)
- real dollars** see constant dollars (p. 218)
- real estate investment trust (REIT)** company organized to make loans to homebuilders (p. 316)
- real GDP** Gross Domestic Product after adjustments for inflation; same as GDP in constant dollars (p. 353)
- real GDP per capita** Gross Domestic Product adjusted for inflation and divided by the total population; total dollar amount of all final output produced for every person in the country after compensating for inflation (p. 363)
- real rate of interest** the market rate of interest minus the rate of inflation (p. 428)
- rebate** partial refund of the original price of a product (p. 140)
- recession** decline in real GDP lasting at least two quarters or more (p. 376)
- regressive tax** tax where percentage of income paid in tax goes down as income rises (p. 229)
- Regulation Z** provision extending truth-in-lending disclosures to consumers (p. 411)
- renewable resources** natural resources that can be replenished for future use (p. 366)
- reserve requirement** formula used to compute the amount of a depository institution's required reserves (p. 415)
- revenue tariff** tax placed on imported goods to raise revenue (p. 473)
- right-to-work law** state law making it illegal to require a worker to join a union (p. 197)
- risk** situation in which the outcome is not certain, but the probabilities can be estimated (p. 318)
- Roth IRA** individual retirement account in which contributions are made after taxes so that no taxes are taken out at maturity (p. 325)
- run on the bank** sudden rush by depositors to withdraw all deposited funds, generally in anticipation of bank failure or closure (p. 301)
- rural population** those persons not living in urban areas (p. 357)

## S

- S&P 500** see Standard & Poor's 500 (p. 332)
- sales tax** general state or city tax levied on a product at the time of sale (p. 226)
- saving** absence of spending that frees resources for use in other activities or investments (p. 313)

## savings

**savings** the dollars that become available for investors to use when others save (p. 313)

**savings account** interest-bearing deposit not requiring prior notice before making a withdrawal (p. 417)

**savings and loan association (S&L)** depository institution that historically invested the majority of its funds in home mortgages (p. 303)

**savings bank** publicly-held depository institution that competes with other banks for customer deposits (p. 303)

**savings bond** low-denomination, non-transferable bond issued by the federal government, usually through payroll-savings plans (p. 323)

**scarcity** fundamental economic problem facing all societies that results from a combination of scarce resources and people's virtually unlimited wants (p. 5)

**seasonal unemployment** unemployment caused by annual changes in the weather or other conditions that prevail at certain times of the year (p. 386)

**seat** membership in a stock exchange such as the New York Stock Exchange (p. 330)

**secondary market** market in which all financial assets can be sold to someone other than the original issuer; corporate bonds, government bonds (p. 326)

**secondhand sales** sales of used goods; category of activity not included in GDP computation (p. 343)

**securities exchange** physical place where buyers and sellers meet to exchange securities (p. 329)

**seizure** temporary government takeover of a company to keep it running during a labor-management dispute (p. 203)

**selective credit controls** rules pertaining to loans for specific commodities or purchases such as margin requirements for common stock (p. 424)

**semiskilled labor** workers who can operate machines requiring a minimum amount of training (p. 206)

**seniority** length of time a person has been on a job (p. 208)

**service** work or labor performed for someone; economic product that includes haircuts, home repairs, forms of entertainment (p. 13)

**set-aside contract** guaranteed contract or portion thereof reserved for a targeted, usually minority, group (p. 215)

**share draft account** checking account offered by a credit union (p. 303)

**shareholder** see stockholder (p. 63)

**short run** production period so short that only variable inputs can be changed (p. 122)

**shortage** situation where quantity supplied is less than quantity demanded at a given price (p. 144)

**signaling theory** theory that employers are willing to pay more for people with certificates, diplomas, degrees, and other indicators of superior ability (p. 208)

**silver certificate** paper currency backed by, and redeemable for, silver from 1886 to 1968 (p. 295)

**sin tax** relatively high tax designed to raise revenue and discourage consumption of a socially undesirable product (p. 224)

**skilled labor** workers who can operate complex equipment and require little supervision (p. 206)

**Social Security** federal program of disability and retirement benefits that covers most working people (p. 42)

**socialism** economic system in which government owns some factors of production and has a role in determining what and how goods are produced (p. 492)

**soft loan** loan that may never be paid back; usually involves loan to developing countries (p. 535)

**sole proprietorship** unincorporated business owned and run by a single person who has rights to all profits and unlimited liability for all debts of the firm; most common form of business organization in the United States (p. 57)

**Solidarity** independent Polish labor union founded in 1980 by Lech Walesa (p. 504)

**specialization** assignment of tasks so that each worker performs fewer functions more frequently; same as division of labor (p. 16)

**specie** money in the form of gold or silver coins (p. 288)

**spending cap** limits on annual discretionary spending (p. 278)

**spot market** market in which a transaction is made immediately at the prevailing price (p. 332)

**stages of production** phases of production—increasing, decreasing, and negative returns (p. 125)

**stagflation** combination of stagnant economic growth and inflation (p. 437)

**Standard & Poor's 500 (S&P 500)** statistical series of 500 stocks used to monitor prices on the NYSE, American Stock Exchange, and OTC market (p. 332)

**standard of living** quality of life based on ownership of necessities and luxuries that make life easier (p. 24, 365)

**state bank** bank that receives its charter from the state in which it operates (p. 293)

**state farm** large farms owned and operated by the state in the former Soviet Union (p. 497)

**stock** certificate of ownership in a corporation; common or preferred stock (p. 63)

**stock certificate** see stock (p. 63)

**stockbroker** person who buys or sells securities for investors (p. 329)

**stockholder** person who owns a share or shares of stock in a corporation; same as shareholders (p. 63)

**store of value** one of the three functions of money allowing people to preserve value for future use (p. 286)

**storming** Soviet practice of rushing production at month's end to fulfill quotas, often resulting in production of shoddy goods (p. 498)

**strike** union organized work stoppage designed to gain concessions from an employer (p. 195)



## structural employment

- structural unemployment** unemployment caused by a fundamental change in the economy that reduces the demand for some workers (p. 385)
- structures** category in the national income and product accounts that includes residential structures, apartments, and commercial buildings (p. 341)
- subsidy** government payment to encourage or protect a certain economic activity (p. 117)
- subsistence** state in which a society produces barely enough to support itself (p. 546)
- substitutes** competing products that can be used in place of one another; products related in such a way that an increase in the price of one increases the demand for the other (p. 98)
- substitution effect** that portion of a change in quantity demanded due to a change in the relative price of the product (p. 96)
- supply** schedule of quantities offered for sale at all possible prices in a market (p. 113)
- supply curve** graphical representation of the quantities produced at each and every possible price in the market (p. 114)
- supply elasticity** responsiveness of quantity supplied to a change in price (p. 118)
- supply schedule** tabular listing showing the quantities produced or offered for sale at each and every possible price in the market (p. 114)
- supply-side economics** economic policies designed to increase aggregate supply or shift the aggregate supply curve to the right (p. 451)
- surcharge** additional tax or charge added to other charges already in place (p. 245)
- surplus** situation where quantity supplied is greater than quantity demanded at a given price (p. 144)



- takeoff** third stage of economic development during which barriers of primitive equilibrium are overcome (p. 528)
- target price** agricultural floor price set by the government to stabilize farm incomes (p. 153)
- tariff** tax placed on an imported product (p. 472)
- tax assessor** person who examines and values property for tax purposes (p. 241)
- tax base** incomes and properties that are potentially subject to tax by local, state, or federal governments (p. 366)
- tax-exempt** income from a bond or other investment not subject to tax by federal or state governments (p. 323)
- tax loophole** exception or oversight in the tax law allowing taxpayer to avoid taxes (p. 226)
- tax return** annual report filed with local, state, or federal government detailing income earned and taxes owed (p. 232)

## Treasury note

- technological monopoly** market situation where a firm has a monopoly because it owns or controls a manufacturing method, process, or other scientific advance (p. 170)
- technological unemployment** unemployment caused by technological developments or automation that make some worker's skills obsolete (p. 386)
- theory of negotiated wages** explanation of wage rates based on the bargaining strength of organized labor (p. 208)
- theory of production** theory dealing with the relationship between the factors of production and the output of goods and services (p. 122)
- thrift institution** savings & loan associations, mutual savings banks, and other depository institutions historically catering to savers (p. 303)
- tight money policy** monetary policy resulting in higher interest rates and restricted access to credit; associated with a contraction of the money supply (p. 419)
- time deposit** interest-bearing deposit requiring prior notice before a withdrawal can be made, even though the requirement may not always be enforced (p. 417)
- total cost** variable plus fixed cost; all costs associated with production (p. 128)
- total product** total output or production by a firm (p. 123)
- total revenue** total receipts; price of goods sold times quantity sold (p. 130)
- trade deficit** balance of payments outcome when spending on imports exceeds revenues received from exports (p. 484)
- trade-offs** alternatives that must be given up when one is chosen rather than another (p. 19)
- trade surplus** situation occurring when the value of a nation's exports exceeds the value of its imports (p. 484)
- trade union** see craft union (p. 195)
- trade-weighted value of the dollar** index showing strength of the United States dollar against a market basket of other foreign currencies (p. 484)
- traditional economy** economic system in which the allocation of scarce resources and other economic activity is the result of ritual, habit, or custom (p. 34)
- traditional theory of wage determination** explanation of wage rates relying on theory of supply and demand (p. 207)
- transfer payment** payment for which the government receives neither goods nor services in return (p. 257)
- transparency** making business dealings more visible to everyone, especially government regulators (p. 512)
- Treasury bill** short-term United States government obligation with a maturity of one year or under in denominations of \$10,000 (p. 324)
- Treasury bond** United States government bond with maturity of 10 to 30 years (p. 324)
- Treasury coin note** paper currency printed from 1890 to 1893, redeemable in both gold and silver (p. 296)
- Treasury note** United States government obligation with a maturity of 2 to 10 years (p. 324)

## trend line

**trend line** growth path the economy would follow if it were not interrupted by alternating periods of recession and recovery (p. 376)

**trough** point in time when real GDP stops declining and begins to expand (p. 376)

**trust** illegal combination of corporations or companies organized to hinder competition (p. 178)

**trust fund** special account used to hold revenues designated for a specific expenditure such as Social Security, medicare, or highways (p. 275)

**two-tier wage system** wage scale paying newer workers a lower wage than others already on the job (p. 212)

## U

**underground economy** unreported legal and illegal activities that do not show up in GDP statistics (p. 343)

**unemployed** state of working for less than one hour per week for pay or profit in a non-family owned business, while being available and having made an effort to find a job during the past month (p. 382)

**unemployment insurance** government program providing payments to the unemployed; an automatic stabilizer (p. 449)

**unemployment rate** ratio of unemployed individuals divided by total number of persons in the civilian labor force, expressed as a percentage (p. 383)

**union shop** arrangement under which workers must join a union after being hired (p. 201)

**unit elastic** elasticity where a change in the independent variable (usually price) generates a proportional change of the dependent variable (quantity demanded or supplied) (p. 103)

**United States note** paper currency with no backing, first printed by the United States government in 1862 to finance the Civil War (p. 295)

**unlimited liability** requirement that an owner is personally and fully responsible for all losses and debts of a business; applies to proprietorships, general partnerships (p. 58)

**unrelated individual** person living alone or with nonrelatives even though that person may have relatives living elsewhere (p. 346)

**unskilled labor** workers not trained to operate specialized machines and equipment (p. 205)

**urban population** those persons living in incorporated cities, towns, and villages with 2,500 or more inhabitants (p. 357)

**user fee** fee paid for the use of good or service; form of a benefit tax (p. 236)

**utility** ability or capacity of a good or service to be useful and give satisfaction to someone (p. 13)

## zero population growth

## V

**value** worth of a good or service as determined by the market (p. 13)

**value-added tax** tax on the value added at every stage of the production process (p. 246)

**variable cost** production cost that varies as output changes; labor, energy, raw materials (p. 128)

**vertical merger** combination of firms involved in different steps of manufacturing or marketing (p. 71)

**voluntary arbitration** see arbitration (p. 202)

**voluntary exchange** act of buyers and sellers freely and willingly engaging in market transactions; characteristic of capitalism and free enterprise (p. 47)

## W

**wage-price controls** policies and regulations making it illegal for firms to give raises or raise prices (p. 454)

**wage rate** prevailing pay scale for work performed in a given area or region (p. 207)

**want** way of expressing or communicating a need; a broader classification than needs (p. 6)

**wealth** sum of tangible economic goods that are scarce, useful, and transferable from one person to another; excludes services (p. 14)

**welfare** government or private agency programs that provide general economic and social assistance to needy individuals (p. 397)

**wholesale price index** see producer price index (p. 352)

**workfare** program requiring welfare recipients to provide labor in exchange for benefits (p. 398)

**World Bank** international agency that makes loans to developing countries; formally the International Bank for Reconstruction and Development (p. 526)

**World Trade Organization (WTO)** international agency that administers trade agreements, settles trade disputes between governments, organizes trade negotiations, and provides technical assistance and training for developing countries (p. 477)

## Z

**zero population growth** condition in which the average number of births and deaths balance so that population size is unchanged (p. 524)