

## GLOSSARY

**Accelerated Depreciation.** A system that allows companies to increase the depreciation charges for tax purposes. This would lower the tax paid by corporations and therefore provide more funds for business investment spending.

**Accelerator.** A theory that states that the amount of business investment spending depends on the amount of expected sales.

**Accommodation.** The Federal Reserve increases the money supply in response to the increase in interest rates that result from an increase in the federal government budget deficit.

**Adaptive Expectations.** Expectations of the future are based on the present and recent past.

**Adjusted Gross Income.** The income on which one will pay taxes. It includes income minus deductions and exemptions.

**Aggregate Demand.** The demand for all goods and services produced in the United States.

**Aggregate Supply (Short Run).** The supply of all goods and services produced in the United States in the short run (see below for the definition of the short run).

**Appreciation** The increase in the value of one country's money in relation to other countries' monies.

**Appropriations Bills.** Bills that authorize government spending in 13 different areas.

**Asset Demand for Money.** People holding money as part of their wealth as an asset. This depends mainly on real interest rates and on expected inflation. The lower the real interest rates and the lower the expected inflation, the more money people are willing to hold as part of their wealth.

**Austerity.** Conditions set by the International Monetary Fund as a condition of its loans. These acted to reduce total spending in the borrowing country and included reductions in government spending, raises in taxes, reductions in the money supply, and higher interest rates.

**Automatic Stabilizers.** Increases in government spending for unemployment benefits, welfare, and Social Security and reductions in income taxes that occur automatically as income falls. These increase aggregate demand when it is too low to generate full employment.

**Average Indexed Monthly Earnings (AIME).** The Social Security Administration takes the monthly earnings on which Social Security taxes were paid over the best 35 years of one's working life, adjusts each month to the purchasing power of the date one turns 62, and then takes an average. This is used to determine one's monthly Social Security benefit.

**Average Propensity to Consume.** The percent of disposable income spent on consumer goods.  
(147)

**Average Tax Rate.** Taxes paid as a percent of income.

**Bail In.** Foreign financial institutions agree to roll-over the debt of developing countries and to substitute longer-term debt for the short-term debt that had existed.

**Balanced Budget Multiplier.** A number that multiplies an equal change in both government spending and taxes in the same direction. The number equals one.

**Barter.** The act of trading goods for goods.

**Beneficial Supply Shocks.** Factors that acted to decrease costs of production and thereby increase aggregate supply. Included here are the increase in labor productivity, the reduction in oil prices, the reduction in the growth of health care costs, the strong American dollar, and so forth.

**Black Market.** Selling illegally at a price higher than is allowed by law

**Bracket Creep.** Inflation causing one to creep up into a higher tax bracket.

**Bretton Woods System.** An international financial system in which foreign monies were based on the American dollar at fixed exchange rates and the American dollar was tied to gold at \$35 equal one ounce. The dollar supplemented gold as international money. Countries experiencing inflation would experience a reduction in their money supply, reducing the inflation rates.

**Budget Deficit.** The government has a budget deficit when it spends more than it takes in as tax revenue.

**Budget Resolution.** By April 15, both Houses of Congress must agree to the total spending in the coming fiscal year, the total tax revenues, the budget deficit or surplus, and spending in broad areas, such as defense.

**Business Cycle.** Production, measured by Real Gross Domestic Product, rises for some time, stops rising, falls for some time, stops falling, and then begins to rise again.

**Capacity Utilization.** The percent of the current capacity of the capital goods that is being used in production. An increase in capacity utilization, other things equal, should cause an increase in business investment spending.

**Capital Gains.** An increase in the value of an asset, usually a stock or a home. The maximum tax on capital gains from stocks is now 20%. For most people now, there is no capital gains tax from the sale of a home one lived in.

**Capital Goods.** Goods that will increase the ability of the business to produce --- goods such as machines, tools, equipment, factory buildings, office buildings, and so forth.

**Central Bank.** A bank for commercial banks.

**Certificate of Deposit (CD).** An account at a financial institution for which the depositor cannot ask for payment until a specified time has passed.

**Classical Economics.** The views of economists up to about 1930 who believed that an economy has ways to cure itself of recession or inflation in a short time if left alone.

**COLA (Cost-of-Living Adjustment).** If you have a COLA, your income is adjusted automatically to reflect the increase in prices, as measured by the increase in the Consumer Price Index (CPI)

**Collateral.** Something physical that a lender gets if a borrower is unable to pay a debt.

**Commercial Paper.** The short-term IOU of a very large corporation.

**Commodity Money.** Commodities that serve as a medium of exchange, such as gold or silver.

**Compensation.** The total of wages, salaries, and fringe benefits.

**Complement.** A different good that goes together with the one under consideration.

**Congressional Budget Office (CBO).** The agency that works for Congress and primarily analyzes the President's budget proposal. It is headed by a Director.

**Constant Money Growth Rule.** The belief by Monetarist economists that the Federal Reserve Board should be bound by a fixed rule to increase the money supply by a fixed percent every year.

**Consumer Confidence.** A measure of consumer expectations about the future of the economy. The number for 1985 is called 100. A rise (fall) in the number means that consumers are becoming more optimistic (pessimistic).

**Consumer Price Index.** Compares the amount one would pay to buy the goods and services included in the "market basket" today to the amount one would have paid to buy the same goods and services in the base year

**Consumption.** Spending by consumers, people who buy goods and services to consume them, or use them up.

**Contractionary Fiscal Policy.** A decrease in the structural budget deficit from one year to the next, causing aggregate demand to decrease.

**Corporation.** A business owned by stockholders, but legally separate from its stockholders, with limited liability for each stockholder.

**Cost Inflation (or cost-push inflation).** This inflation is caused by something that causes the cost of producing products to rise

**Crowding out.** A government budget deficit causes interest rates to rise, thereby decreasing business investment spending. Government "crowds out" business investment spending.

**Current Account Deficit.** The amount that American imports of both goods and services are greater than American exports of both goods and services.

**Cyclical Unemployment.** People who are unemployed because the number of jobs declines as buyers buy fewer products.

**Deduction.** See Tax Deduction.

**Deflation.** A general decrease in the aggregate price level.

**Demand.** The quantity of a product that buyers desire to buy at each possible price.

**Demand for Money.** The quantity of money that people choose to hold as part of wealth.

**Demand Inflation (or demand-pull inflation).** This inflation is caused by something that causes buyers of products to want to buy more products than are presently available.

**Depreciation.** The decrease in the value of one country's money in relation to other countries' monies. Also, the decrease in the value of capital goods due to wearing out or to obsolescence.

**Depression.** A very severe decline in production, measured by the Real Gross Domestic Product.

**Determinants of Demand.** The six factors, other than the price, that affect the demand for a product.

**Devaluation.** Under the Bretton Woods System, this was an official reduction in the value of a country's money in relation to the monies of other countries. It could occur only if there were a "fundamental disequilibrium".

**Direct Foreign Investment.** Owning and controlling a company in another country.

**Discounting.** A commercial bank borrows from the central bank.

**Discount Rate.** The interest rate charged by the central bank to a commercial bank.

**Discouraged Workers.** People who are not employed but are not counted as officially unemployed because they have given up searching for work.

**Discretionary Fiscal Policy.** Changes in government spending and in taxes that the President and Congress must determine every year.

**Discretionary Spending.** That part of the federal government over which the President and Congress must determine an amount of spending each year. Defense spending is an example.

**Disinflation.** A period in which the aggregate price level is rising, but at a lower rate than previously.

**Disposable Income.** The National Income minus Taxes paid plus Transfer Payments. (146)

**Dividend.** Profits of a corporation distributed in cash to the owners.

**Downsize.** A worker who loses a job because the employer is permanently reducing the number of workers.

**Durable Good.** A physical good that one can reasonably expect to last three years or more when one buys the good.

**Entitlement.** An entitlement program is a government spending program for which the government determines two aspects: who qualifies for the money and how much money one is qualified for. No upper limit is placed on the amount spent.

**Entrepreneur.** Someone who recognizes the desires of consumers and then brings together the appropriate natural resources, labor, and capital to meet these desires.

**Equation of Exchange.** The money supply times the velocity is equal to the price level (GDP Deflator) times the Quantity (Real GDP).

**Equilibrium.** The price for which the quantity demanded of a product is equal to the quantity supplied. There is no shortage or surplus.

**Equilibrium Real GDP.** The amount of production (real GDP) that will occur. It is determined where the amount buyers wish to buy (consumption plus business investment spending plus government purchases plus new exports) equals the amount sellers wish to sell (the real GDP).

**European Monetary System (EMS).** A system of maintaining fixed exchange rates between the European countries involved as a prelude to introducing a common currency, the Euro.

**Excess Reserves.** The amount in the account of a commercial bank at the central bank above the amount the commercial bank is required to have.

**Exchange Rate.** The number of dollars and American must pay for the money of another country.

**Exemption.** See Tax Exemption.

**Expansion.** A period during which production, measured by Real Gross Domestic Product, is increasing.

**Expansionary Fiscal Policy.** An increase in the structural budget deficit from one year to the next, causing aggregate demand to increase.

**Export.** Sale of a good to someone in another country.

**Extensive Growth.** Increasing the quantities of the factors of production.

**External Technological Benefit.** One company's technological advantage is passed along to other companies as workers move, companies engage in joint projects, and so forth.

**Factors of Production.** Factors that are used to produce goods and services. These include natural resources, labor, capital goods, and entrepreneurship.

**Federal Deposit Insurance Corporation (FDIC).** A government agency which insures banks and other financial institutions against an inability to pay their depositors.

**Federal Insurance Contributions Act (FICA).** The tax to pay for Social Security. Currently 6.2% of income up to \$84,000 of income --- matched by the employer.

**Federal Funds.** One commercial bank lends to another commercial bank.

**Federal Funds Rate.** The interest rate charged by one commercial bank to another commercial bank.

**Federal Open Market Committee (FOMC).** A main policy-making body of the Federal Reserve composed of seven Governors and five of the twelve Federal Reserve Bank Presidents.

**Fiat Money.** A medium of exchange whose value as a commodity is less than its value in exchange for goods and services. A token.

**Fiscal Policy.** There are two kinds of fiscal policy. First, there is a deliberate change in government spending to try to eliminate recessions or inflations. And second, there is a deliberate change in the tax system to try to eliminate recessions or inflations.

**Fiscal Year (FY).** October 1 to September 30. The federal government's year.

**Foreign Direct Investment.** See Direct Foreign Investment

**Foreign Exchange.** The monies of other countries that are traded.

**Frictional Unemployment.** People unemployed because they are searching for a new job (or a first job).

**Full Employment.** Occurs when there is no cyclical unemployment. In other words, full-employment exists if the economy creates a job for every worker who wants one.

**Fundamental Disequilibrium.** Under the Bretton Woods System, this was a situation in which a country could not maintain its exchange rates with other countries and had to devalue its money.

**Globalization.** The increase in economic integration between the economies of the world --- increased foreign trade, portfolio investment, and foreign direct investment.

**Gold Standard.** A country "went on" the Gold Standard by defining its money in a fixed relation to gold and by allowing free entry and exit of gold.

**"Golden Straitjacket".** See Washington Consensus.

**Government Purchase.** The federal government buys a good or service in the market from a private company or individual. Defense spending is an example.

**Government Purchases Multiplier.** A number that multiplies a change in government purchases in order to determine by how much equilibrium Real GDP will change. It is calculated as  $1 \div (1 - \text{marginal propensity to consume})$ .

**Government Transfer.** The government takes income from a person who earned it and transfers that income to someone else. The recipient does the spending. Social Security is an example.

**Gramm Rudman Hollings Act.** An act designed to reduce and then eliminate the federal government budget deficits. It requires yearly targeted reduction in the budget deficit and specified decreases in government spending that had to be made in the President and the Congress could not agree on a way to meet these targets.

**Gray Market.** Finding ways to “get around” a price ceiling by charging for services that had formerly been provided free or by changing the nature of the product

**Gross Private Business Investment Spending.** The total spent by private businesses to buy capital goods.

**Gross Domestic Product (GDP).** Gross Domestic Product (GDP) is defined as the value of all final goods and services produced in the United States for the purpose of being sold during a year.

**Gross Domestic Product (GDP) Deflator.** A measure of the aggregate price level calculated as the Nominal Gross Domestic Product divided by the Real Gross Domestic Product (multiplied by 100)

**Gross Domestic Product (GDP) Gap.** The difference between the actual Real Gross Domestic Product and the Potential Gross Domestic Product.

**Hedge Fund.** A fund that collects money from rich investors and uses the money to speculate in the foreign exchange market.

**Herding Behavior.** One financial manager buys or sells a foreign money simply because all of the others are doing that.

**Hyperinflation.** Inflation rates that are extremely high.

**Import.** The purchase of a good produced in another country.

**Index of Leading Economic Indicators.** Composed of 11 economic variable that should rise or fall before Real Gross Domestic Production (Real GDP) rises or falls

**Indexation.** Adjusting the tax brackets by the amount of inflation so that a person will not go into a higher tax bracket because his or her income rises by the amount of inflation

**Individual Retirement Account (IRA).** A type of savings (or similar) account. One does not pay income tax on income put into this account. The interest is tax deferred.

**Induced Consumption.** The additional consumption caused by a change in disposable income, after there is a change in business investment spending, government purchases, or net exports. (156)

**Inflation.** A period during which prices in general are rising.

**Inflation Hedge.** Certain forms of saving tend to hold their value during a period of inflation. This means that if prices rise 10%, the value of these “inflation hedges” is likely to rise by at least 10%

**Inflationary Gap.** The amount production is above the goal (that is, the amount Real Gross Domestic Product is greater than Potential Real Gross Domestic Product). (154)

**Infrastructure (or public capital).** This includes goods such as roads, ports, airports, and communication facilities.

**Initial Public Offering (IPO).** The first sale of shares of stock by a company to the general public.

**Injections.** Additions to spending in the circular flow beyond that spent by consumers --- business investment spending + government purchases + exports

**Insolvency.** The assets of a financial institution have a lower value than the liabilities.

**Intensive Growth.** Increasing the quality of the factors of production

**Intermediate goods.** Goods that are part of the production process. They are sold to someone who will transform them and sell them on to someone else.

**Internal Revenue Service (IRS).** The agency, part of the Treasury Department, responsible for collecting the federal income tax.

**International Monetary Fund (IMF).** An international agency in which member countries contribute gold and their own monies. The agency lends foreign money to member countries that need them in order to sell them to maintain the exchange rate.

**Inventories.** Those goods on hand in the stores and the warehouses to be sold in the very near future.

**Investment Spending.** The purchase by private businesses of capital goods.

**Investment Tax Credit.** A certain percent of the purchase price of a new capital good is taken off of a corporation's taxes. The purpose was to allow the companies to keep more of their profits so that these could be spent on business investment spending.

**Junk Bonds.** Debt, usually of companies, in which there is a high risk of not being repaid.

**Keynesian Economics.** The views of economists who followed John Maynard Keynes. They believe that, if an economy enters a recession, the recession could go on and on, and perhaps even worsen, much as a cancer will grow if left untreated. Government action is necessary to end the recession. And this government action relied on fiscal policy --- changes in government spending or in taxes.

**Laffer Curve.** A curve showing that if marginal tax rates rise, tax revenues will fall and vice versa.

**Law of Demand.** as the price of a product rises (falls), the quantity demanded of that product falls (rises).

**Law of Supply.** As the price of the product rises (falls), the quantity supplied will rise (fall).

**Layoff.** A worker who loses a job during a recession, but expects to get the job back with the recession is over.

**Leakages.** The amount earned by consumers but not spent on consumer spending (in the circular flow) --- savings + taxes + imports

**Legal Tender.** Something that one is required to accept in payment for all debts.

**Life Cycle Theory of Consumer Spending.** A theory that states that consumer spending in one year depends on the expected disposable income over one's lifetime.

**Limited Liability.** Those who invest in a corporation can lose only the amount of money invested and no more.

**Liquidity.** Easily converted into money without loss.

**Long run.** The period of time during which people catch on to inflation so that expected inflation equals the actual inflation rate.

**Long run Aggregate Supply.** A curve showing the relation between the price level and the Real GDP (production) when people correctly expect the inflation rate that is occurring. It is vertical -- an increase in the money supply is accompanied only by an increase in prices (inflation) in the long run.

**Long run Phillips Curve.** A curve showing the relation between the inflation rate and the unemployment rate when people correctly expect the inflation rate that is occurring. It is vertical --- there is no trade off between inflation and unemployment in the long run

**M-1.** The first definition of the money supply – currency plus checkable deposits.

**M-2.** The second definition of the money supply --- currency plus checkable deposits plus savings deposits plus small time deposits (CDs) plus money market funds plus money market deposit accounts.

**Managed Float.** Countries allow foreign exchange rates to be determined by demand and supply. However, they intervene in the foreign exchange markets as they believe is best for them.

**Mandatory Spending.** That part of the federal budget that is written into established laws. The government can change those laws. But without such a change, the government spending is mandated. Social Security is an example.

**Margin.** The percent one must put down in cash when buying stock.

**Marginal Propensity to Consume.** The additional consumption that results from \$1 additional income.

**Marginal Tax Rate.** The additional taxes that must be paid because of earning an additional \$1 of income.

**Medicare.** The government program to pay for health care for people over age 65.

**Medium of Exchange.** Something generally accepted in exchange for goods and services.

**Monetarism.** Monetarism, a view that has become very influential since 1970, stresses the importance role played by the money supply in determining economic performance.

**Monetary Base.** Currency plus Reserves. Represents the two IOUs of the Federal Reserve Bank.

**Monetary Policy** – changing the money supply (the number of dollars in existence) in order to influence the performance of the economy.

**Money Market.** A market for short-term IOUs.

**Money Market Fund.** A business which pools savings from many people and invests it in CDs or Treasury Bills. They are very liquid in that they often have a checking privilege.

**Money Multiplier.** A number that multiplies a change in the monetary base to determine the resulting change in the money supply. Calculated as 1 divided by the reserve requirement.

**Moral Hazard.** Foreign financial institutions would make excessively risky loans to financial institutions in developing countries because they believed that, if the loans could not be repaid, they would be bailed out by the IMF.

**Movement Along the Demand or Supply Curve.** A change in the quantity demanded or the quantity supplied caused by a change in the price of the product.

**Multinational Firm.** A company that has subsidiaries in more than one country.

**Multiplier.** A number that multiplies a change in business investment spending or a change in government purchases to determine the change in equilibrium real GDP. Also a number that multiplies a change in the monetary base to determine the resulting change in the money supply. See the text for formulas. (155)

**Mutual Fund.** A pooling of the savings of many people. Some invest the money in stocks. Some invest the money in bonds. And so forth.

**National Debt.** The cumulative borrowing of the federal government due to the budget deficits.

**National Income.** The sum of the income of everyone in the nation

**Natural Rate of Unemployment.** The lowest rate of unemployment that could occur before inflation accelerates. Or the rate of unemployment that occurs when the number of job seekers is equal to the number of vacant jobs.

**Net Exports.** Exports minus imports.

**Nominal Gross Domestic Product.** Nominal means “name”. Nominal GDP is the Gross Domestic Product in current dollars – not adjusted for inflation.

**Off-Budget Spending.** Spending by some agency of government other than the Treasury Department (for example, the Social Security Administration) that does not appear on the official government budget.

**Office of Management and Budget (OMB).** The office that works for the President and basically prepares the details of the federal budget for the President to propose. Headed by a Director.

**Oil Supply Shock.** A large, unexpected rise in the price of oil causing costs of production to rise and Short-run Aggregate Supply to shift to the left (increasing both the unemployment rate and the inflation rate).

**Okun's Law.** This law says that raising (lowering) the unemployment rate by one percentage point will cause Real Gross Domestic product to fall (rise) by 2%

**Open Market Operations.** The buying and selling of Treasury securities in the open (resale) market by the Federal Reserve. To increase (decrease) the money supply, the Federal Reserve buys (sells) the Treasury securities.

**Openness.** Exports plus Imports as a percent of GDP

**Parent.** The dominant company in a multinational company, located in the investing country.

**Partnership.** A business owner by two or more people with unlimited liability for each owner.

**Peak.** The end of an expansion, when production, measured by Real Gross Domestic Product, stops rising.

**Permanent Income Theory of Consumer Spending.** A theory that states that consumer spending in one year depends on the expected (or permanent) part of the disposable income and that consumer spending depends very little on the transitory (one time only) part of disposable income.

**Phillips Curve (Short Run).** A curve showing a trade-off (an inverse relation) between the inflation rate and the unemployment rate in the short run. See below for the definition of the short run.

**Portfolio Investment.** Lending to a financial institution or a government in another country.

**Potential Real Gross Domestic Product (GDP).** The amount of production needed to have full employment.

**Price Ceiling.** A restriction that forces the price of a product to remain below equilibrium, causing shortages

**Price Floor.** A restriction that forces the price of a product to remain above equilibrium, causing surpluses

**Price Support Program.** A price floor on certain agricultural products, maintaining their prices above equilibrium. The resulting surpluses are bought by the government.

**Private Corporation.** A corporation in which the shares of stock are held exclusively by a select group of people and are not traded.

**Productivity.** Measured by the amount produced (Real GDP) per hour of work.

**Profits.** Calculated as the difference between the total revenues and the total costs.

**Progressive Tax.** A tax that takes an increasing percent of one's income as one's income increases.

**Proportional (Flat) Tax.** A tax that takes the same percent of one's income as one's income increases.

**Public Corporation.** A corporation in which the shares of stock are traded and may be purchased by anyone.

**Q.** The ratio of the market value of a company to the replacement cost of its assets. The higher is Q the greater investment spending should be, other things the same.

**Quantity Theory of Money.** If the velocity is a constant and the Real GDP is always at the level of Potential Real GDP, then an increase in the money supply would cause only inflation. Inflation would have to be caused only by increases in the money supply.

**Rational Expectations.** The belief that people understand how the economy operates and therefore can predict future inflation. This prediction is then used to form the wages they are seeking in the labor market.

**Real.** Adjusted for inflation.

**Real Gross Domestic Product (Real GDP).** The measure of production. It is the amount we would we have spent this year if we bought the same things that we actually bought this year but paid for each good the price that existed in the base year (1996).

**Real Gross Domestic Product Per Capita.** The Real Gross Domestic Product per person.

**Real Rate of Interest.** Calculated as the nominal rate of interest minus the rate of inflation.

**Recession.** A period during which production, measured by Real Gross Domestic Product, declines.

**Recessionary Gap.** The amount production is below the goal (that is, the amount Real Gross Domestic Product is less than Potential Real Gross Domestic Product). (154)

**Recovery.** The period during which Real Gross Domestic Product (Real GDP) is making up for the production that was lost during the recession.

**Regressive Tax.** A tax that takes a decreasing percent of one's income as one's income increases.

**Reservation Wage.** In the process of job search, this is the lowest wage offer that one will accept.

**Reserves.** An IOU of the central bank to a commercial bank. This is the commercial bank's account at the central bank

**Reserve Currency.** A supplement to gold that serves as international money. The American dollar has served as a reserve currency since the end of World War II. Countries hold American

dollars as a base for their own money and may sell the dollars to buy goods and services from other countries. The Japanese yen and the German mark have also served as reserve currencies.

**Reserve Requirement.** The percent of checkable deposits that a commercial bank is required to keep in its reserves – its account at the central bank. Currently 10%.

**Retained Earnings.** Profits of a corporation retained in the company and typically used to buy capital goods.

**Revaluation.** Under the Bretton Woods System, this was an official increase in the value of a country's money in relation to the monies of other countries. It could occur only if there were a "fundamental disequilibrium".

**Revenue.** The money taken in from selling our product, calculated as the price of the product times the quantity sold.

**Rule of 72.** Simply divide the rate of growth into 72. The result will provide a good approximation of the amount of time needed for something to double.

**Say's Law.** Supply creates its own demand. Everything that can be produced (Potential Real GDP) will be bought. There will be full employment (no cyclical unemployment). If there were a recessionary gap, prices, wages, and interest rates would fall, eliminating the recessionary gap.

**Seasonal Unemployment.** Workers who are unemployed because of the time of the year.

**Sell Short.** A speculator borrows a financial instrument and sells it. There is a promise to buy it back in the future and repay the loan. The speculator is betting that the price will fall; he or she can buy it back for a lower price than it was sold for. The difference is the speculator's profit.

**Senate Finance Committee.** The committee in the Senate responsible for tax matters.

**Shift in the Demand or Supply Curve.** We draw a new demand or supply curve to replace to original one. At every price of the product, buyers (sellers) now wish to buy (sell) a different quantity than they did before.

**Short run.** The period of time so that people are fooled by inflation. The inflation rate people expect is either less than or greater than the actual rate of inflation that is occurring.

**Shortage.** Buyers wish to buy more of a product than sellers wish to sell at the prevailing price.

**Smoot Hawley Tariff of 1930.** A very high tariff placed on imported products in 1930. It is associated with what is called a "beggar-thy-neighbor" economic policy.

**Social Security.** The government program of income protection for retirees as well as some others.

**Soft Landing.** The ability of the Federal Reserve to decrease the money supply to decrease inflationary pressures without causing unemployment to rise.

**Sole Proprietorship.** A business owned by a single individual, with unlimited liability.

**Stagflation.** A period in which prices are rising (inflation) due to an increase in costs of production while Real GDP is falling (recession).

**Stock.** Represents ownership in a corporation. One who owns the stock is called a stockholder or shareholder.

**Store of Value.** One of the functions of money. Money is one way of holding wealth.

**Strong Dollar Policy.** The policy from 1995 to 1999 of deliberately appreciating the American dollar to reduce import costs of production and to reduce aggregate demand (by reducing exports and increasing imports) in order to reduce inflationary pressures.

**Structural Budget Deficit or Surplus.** The amount of budget deficit or budget surplus that would have existed had the economy experienced full employment (an unemployment rate of 4%). It takes out the effects of the automatic stabilizers.

**Structural Unemployment.** One is unemployed because of a lack of the right skills, because of being over-qualified, because of being in a different location, or because of lack of job information.

**Subsidiary.** The non-dominant part of a multinational company located in the host country.

**Substitute.** Different goods that compete with the one under consideration.

**Substitution Bias.** As relative prices change, people tend to substitute products that are relatively cheaper for those that are more expensive.

**Supply Shock.** Something that occurs which surprisingly increases costs of production and therefore decreases aggregate supply.

**Supply-side Economics.** The view, largely associated with the policies of President Reagan, that involves the idea that production will increase greatly if the tax system is changed so that marginal tax rates are lower.

**Surplus.** Sellers wish to sell more of a product than buyers wish to buy at the prevailing price.

**Tariff.** A tax on imported goods.

**Tax Avoidance.** Finding legal ways (“loopholes”) to reduce one’s tax obligations.

**Tax Credit.** An amount subtracted directly from the tax owed. A \$1,000 tax credit means that one pays \$1,000 less in tax.

**Tax Deduction.** A subtraction from income for certain expenses in the calculation of one’s income taxes. Interest on a home mortgage, charitable contributions, some medical expenses, and so forth can be deducted from income.

**Tax Evasion.** Illegally cheating on one’s taxes to reduce the amount owed.

**Tax Exemption.** An amount subtracted from income in calculating one’s income taxes. Presently, one can subtract \$2,800 for every member of the household.

**Tax Multiplier.** A number that multiplies a change in taxes or in transfers in order to determine by how much equilibrium Real GDP will change. It is calculated as the marginal propensity to consume divided by 1 minus the marginal propensity to consume.

**Time Lags.** The time it takes for an economic problem to be recognized, for policy to be made to try to solve that problem, and for that policy to become effective in treating the problem. This can be many months, or even years.

**Trade Deficit.** Americans spending more on goods from other countries (imports) than has been earned by selling goods to people in these other countries (exports)

**Transactions Demand for Money.** The quantity of money that people choose to hold as part of their wealth for the purpose of making daily transactions. This depends on the price level (GDP Deflator) and the quantity of goods and services produced (Real GDP).

**Transfer Payments.** Income taken by the government in taxes and transferred to others, who did not earn it. The largest transfer payment is Social Security. Welfare payments would be another transfer payment.

**Transitory Income.** The part of disposable income that is one time only and will not be repeated. This can be an addition to or a deletion from one's income.

**Transmission Mechanism.** The means by which a change in the money supply is transmitted into being a change in aggregate demand. When the money supply increases, real interest rates fall, consumer spending and business investment spending rise, and aggregate demand correspondingly rises.

**Treasury Department.** The department of the Executive branch of the federal government responsible for the spending of the government's money, the collection of the government's tax revenues, and the borrowing by the government. Headed by the Secretary of the Treasury, a cabinet position.

**Treasury Security.** A debt of the American government. A **Treasury Bill (T-Bill)** will be paid back in one year or less. A **Treasury Note** will be paid back in more than one year but usually less than ten years. A **Treasury Bond** will usually be paid back in ten years or more.

**Trough.** The time at which Real Gross Domestic Product (Real GDP) has stopped falling.

**Underground Economy.** Such goods or services that are produced but not counted because they are illegal or because people are trying to avoid paying tax on the income.

**Unintended Inventory Investment.** The increase or decrease in the stocks of goods on hand in a way not planned. In GDP accounting, this is included in the investment category. (150)

**Unit Labor Costs.** The cost of wages, salaries, and fringe benefits adjusted for changes in labor productivity. An increase in unit labor costs will, other things equal, act to reduce business investment spending.

**Unit of Account.** One of the functions of money. Money provides a unit of measurement of value.

**Wage and Price Controls.** Policies that existed from 1971 to 1973 to create price ceilings by limiting the rise in both wages and prices. The result was massive shortages.

**Washington Consensus (also known as the “Golden Straightjacket”).** Policies pushed by the IMF, the World Bank, and the United States Treasury on developing countries --- forcing privatization, opening to trade, portfolio investment, and direct investment, and austerity.

**Ways and Means.** The committee in the House of Representatives that is responsible for tax matters.

**Wealth.** The value of everything one owns. One’s assets minus one’s liabilities.

**World Trade Organization (WTO).** An international organization to provide rules for international trade, successor to the **General Agreement on Trade and Tariffs**