absolute advantage  the ability to produce more of a given product using a given amount of resources (p. 443)
aggregate demand  the amount of goods and services in the economy that will be purchased at all possible price levels (p. 307)
aggregate supply  the total amount of goods and services in the economy available at all possible price levels (p. 307)
annual percentage rate (APR)  a finance charge expressed as an annual rate (p. 514)
antitrust laws  laws that encourage competition in the marketplace (p. 173)
appraisal  an increase in the value of a currency (p. 459)
appropriations bill  a bill that sets money aside for specific spending (p. 389)
arable  suitable for producing crops (p. 480)
arbitration  a settlement technique in which a third party reviews the case and imposes a decision that is legally binding for both sides (p. 234)
articles of partnership  a partnership agreement (p. 191)
assets  money and other valuables belonging to an individual or business (p. 192)
authoritarian  requiring strict obedience to an authority, such as a dictator (p. 35)
attributed amortization  a government program that changes automatically depending on GDP and a person’s income (p. 399)

balanced budget  budget in which revenues are equal to spending (pp. 376, 403)
balance of trade  the relationship between a nation’s imports and exports (p. 462)
bank  an institution for receiving, keeping, and lending money (p. 230)
bank holding company  a company that owns more than one bank (p. 421)
bank run  widespread panic in which great numbers of people try to redeem their paper money (p. 252)
barrier to entry  any factor that makes it difficult for a new firm to enter a market (p. 153)
barter  the direct exchange of one set of goods or services for another (p. 243)
 bear market  a steady drop in the stock market over a period of time (p. 290)
black market  a market in which goods are sold illegally (p. 142)

block grant  federal funds given to states in lump sums (p. 350)
blue-collar worker  someone who works in an industrial job, often in manufacturing, and who receives wages (p. 231)
Board of Governors  the seven-member board that oversees the Federal Reserve System (p. 416)
bond  a formal contract to repay borrowed money with interest at fixed intervals (pp. 197, 507)
brokerage firm  a business that specializes in trading stocks (p. 287)
budget  a plan for saving and spending (p. 502)
budget deficit  a situation in which the government spends more than it takes in (p. 403)
budget surplus  a situation in which the government takes in more than it spends (p. 403)
bull market  a steady rise in the stock market over a period of time (p. 290)
business association  nonprofit organization that promotes collective business interests for a city, state, or other geographical area, or for a group of similar businesses (p. 204)
business cycle  a period of macroeconomic expansion followed by a period of contraction (pp. 57, 310)
business franchise  a semi-independent business that pays fees to a parent company in return for the exclusive right to sell a certain product or service in a given area (p. 201)
business license  authorization to start a business issued by the local government (p. 186)
business organization  an establishment formed to carry on commercial enterprise (p. 185)

call option  the option to buy shares of stock at a specified time in the future (p. 288)
capital  any human-made resource that is used to create other goods or services (p. 4)
capital budget  budget for major capital, or investment, expenditures (p. 375)
capital deepening  process of increasing the amount of capital per worker (p. 320)
capital gain  the difference between a higher selling price and a lower purchase price, resulting in a financial gain for the seller (pp. 286, 508)
capital loss  the difference between a lower selling price and a higher purchase price, resulting in a financial loss for the seller (p. 286)
capital market  market in which money is lent for periods longer than a year (p. 283)
cartel  a formal organization of producers that agree to coordinate prices and production (p. 171)
cash transfers  direct payments of money to eligible poor people (p. 69)
census  an official count of the population (p. 334)
central bank  bank that can lend to other banks in times of need (p. 254)
centrally planned economy  economic system in which the central government makes all decisions on the production and consumption of goods and services (p. 27)
certificate of incorporation  license to form a corporation issued by state government (p. 197)
ceteris paribus  a Latin phrase that means “all other things held constant” (p. 85)
check clearing  the process by which banks record whose account gives up money and whose account receives money when a customer writes a check (p. 421)
check register  a booklet used to record checking account transactions (p. 504)
classical economics  the idea that free markets can regulate themselves (p. 395)
closely held corporation  corporation that issues stock to only a few people, often family members (p. 196)
collateral  property used to secure a loan (p. 513)
collective  large farm leased from the state to groups of peasant farmers (p. 36)
collective bargaining  the process in which union and company representatives meet to negotiate a new labor contract (p. 233)
collusion  an agreement among firms to divide the market, set prices, or limit production (p. 171)
command economy  economic system in which the central government makes all decisions on the production and consumption of goods and services (p. 27)
corporate bond  a bond that a corporation issues to raise money in order to expand its business (p. 281)
corporate income tax  a tax on the value of a corporation’s profits (p. 360)
corporation  a legal entity owned by individual stockholders (p. 195)
consumer cooperative  retail outlet owned and operated by consumers (p. 203)
consumer sovereignty  the power of consumers to decide what gets produced (p. 32)
contingent employment  temporary jobs or part-time jobs (p. 215)
continuum  a range with no clear divisions (p. 43)
contract  a binding legal agreement (p. 523)
contraction  period of economic decline marked by falling real GDP (p. 310)
contractionary policies  fiscal policies, like lower spending and higher taxes, that reduce economic growth (p. 389)
cost-push theory  theory that inflation occurs when producers raise prices to meet increased costs (p. 341)
Council of Economic Advisers (CEA)  a group of three respected economists that could advise the President on economic policy (p. 400)
coupon rate  the interest rate that a bond issuer will pay to a bondholder (p. 277)
credit  any form of deferred payment (p. 512)
credit bureau  organization providing information on individuals’ borrowing and bill-paying habits (p. 512)
credit card  a card entitled its holder to buy goods and services based on the holder’s promise to pay for these goods and services (p. 261)
credit rating  an evaluation made by credit bureaus of a borrower’s overall credit history (p. 512)
credit union  nonprofit bank owned by its members, often members of a single organization or trade union  (p. 511)
crowding-out effect  the loss of funds for private investment due to government borrowing  (p. 406)
currency  coins and paper bills used as money  (p. 245)
customs duty  a tax on certain items purchased abroad  (p. 450)
cyclical unemployment  unemployment that rises during economic downturns and falls when the economy improves  (p. 333)
debit card  a card used to withdraw money  (p. 263)
debt rescheduling  lengthening the time of debt repayment and forgiving, or dismissing, part of the loan  (p. 488)
deductible  amount of expenses that must be paid out of pocket before an insurer will cover any expenses  (p. 524)
deductions  variable amounts that you can subtract, or deduct, from your gross income  (p. 366)
default  failure to pay back a loan  (p. 261)
deflation  a sustained drop in the price level  (p. 343)
demand  the desire to own something and the ability to pay for it  (p. 79)
demand curve  a graphic representation of a demand schedule  (p. 82)
demand deposit  the money in checking accounts  (p. 258)
demand-pull theory  theory that inflation occurs when demand for goods and services exceeds existing supplies  (p. 341)
demand schedule  a table that lists the quantity of a good a person will buy at each different price  (p. 81)
demand-side economics  a school of economics that believes government spending and tax cuts help an economy by raising demand  (p. 396)
depreciation  the loss of the value of capital equipment that results from normal wear and tear  (pp. 305, 520), or, a decrease in the value of a currency  (p. 459)
depression  a recession that is especially long and severe  (p. 350)
deregulation  the removal of some government controls over a market  (p. 175)
derived demand  demand that is derived from demand for another service or good  (p. 219)
developed nation  country with a higher average level of material well-being  (p. 471)
development  the process by which a nation improves the economic, political, and social well-being of its people  (p. 471)
differentiation  making a product different from other similar products  (p. 167)
diminishing marginal returns  a level of production at which the marginal product of labor decreases as the number of workers increases  (p. 109)
discount rate  rate the Federal Reserve charges for loans to commercial banks  (p. 422)
discouraged worker  a person who wants a job but has given up looking  (p. 336)
discretionary spending  spending category about which government planners can make choices  (p. 371)
disequilibrium  describes any price or quantity not at equilibrium; when quantity supplied is not equal to quantity demanded in a market  (p. 126)
diversification  spreading out investments to reduce risk  (p. 273)
dividend  the portion of corporate profits paid out to stockholders  (pp. 198, 508)
The Dow  index that shows how certain stocks have traded  (p. 290)
durable goods  goods that last for a relatively long time, such as refrigerators, cars, and DVD players  (p. 302)

easy money policy  monetary policy that increases the money supply  (p. 431)
economic growth  steady, long-term increase in real GDP  (p. 310)
economics  the study of how people seek to satisfy their needs and wants by making choices  (p. 3)
economic system  the method used by a society to produce and distribute goods and services  (p. 23)
economies of scale  factors that cause a producer’s average cost per unit to fall as output rises  (p. 157)
efficiency  using resources in such a way as to maximize the production of goods and services  (p. 15)
elastic  describes demand that is very sensitive to a change in price  (p. 90)
elasticity of demand  a measure of how consumers react to a change in price  (p. 90)
elasticity of supply  a measure of the way quantity supplied reacts to a change in price  (p. 104)
enterprise zone  area where companies can locate free of certain local, state, and federal taxes and restrictions  (p. 350)
extitlement  social welfare program that people are “entitled” to if they meet certain eligibility requirements  (p. 372)
entrepreneur  ambitious leader who combines land, labor, and capital to create and market new goods or services  (p. 6)
equilibrium  the point at which quantity demanded and quantity supplied are equal  (p. 125)
equilibrium wage  the wage rate that produces neither an excess supply of workers nor an excess demand for workers in the labor market  (p. 220)
equities  claims of ownership in a corporation  (p. 285)
estate tax  a tax on the estate, or total value of the money and property, of a person who has died  (p. 368)
euro a single new currency that replaces individual currencies among members of the European Union (p. 454)

European Union (EU) a regional trade organization made up of European nations (p. 454)

excess demand when quantity demanded is more than quantity supplied (p. 126)

excess reserves in banking, reserves of cash more than the required amounts (p. 427)

excess supply when quantity supplied is more than quantity demanded (p. 128)

exchange rate the value of a foreign nation’s currency in terms of the home nation’s currency (p. 458)

excise tax a tax on the production or sale of a good (p. 118)

expansion a period of economic growth as measured by a rise in real GDP (p. 310)

expansionary policies fiscal policies, like higher spending and tax cuts, that encourage economic growth (p. 389)

export a good that is sent to another country for sale (p. 446)

externality an economic side effect of a good or service that generates benefits or costs to someone other than the person deciding how much to produce or consume (p. 65)

factor market market in which firms purchase the factors of production from households (p. 29)

factor payments the income people receive for supplying factors of production: land, labor, or capital (p. 24)

factors of production land, labor, and capital; the three groups of resources that are used to make all goods and services (p. 4)

featherbedding the practice of negotiating labor contracts that keep unnecessary workers on a company’s payroll (p. 225)

Federal Advisory Council (FAC) the research arm of the Federal Reserve (p. 418)

federal budget a plan for the federal government’s revenues and spending for the coming year (p. 387)

Federal Deposit Insurance Corporation (FDIC) the government agency that insures customer deposits if a bank fails (p. 255)

federal funds rate interest rate banks charge each other for loans (p. 422)

Federal Open Market Committee (FOMC) Federal Reserve committee that makes key decisions about interest rates and the growth of the United States money supply (p. 418)

Federal Reserve Districts the twelve banking districts created by the Federal Reserve Act (p. 417)

Federal Reserve note the national currency we use today in the United States (p. 255)

Federal Reserve System the nation’s central banking system (p. 254)

fiat money money that has value because the government has ordered that it is an acceptable means to pay debts (p. 248)

FICA taxes that fund Social Security and Medicare (p. 367)

finance charge interest accrued on, and fees charged for, some forms of credit (p. 513)

financial asset claim on the property or income of a borrower (p. 272)

financial intermediary institution that helps channel funds from savers to borrowers (p. 272)

financial system the system that allows the transfer of money between savers and borrowers (p. 272)

firm an organization that uses resources to produce a product, which it then sells (p. 29)

fiscal policy the use of government spending and revenue collection to influence the economy (p. 387)

fiscal year a twelve-month period that can begin on any date (p. 388)

fixed cost a cost that does not change, no matter how much of a good is produced (p. 111)

fixed exchange-rate system a currency system in which governments try to keep the values of their currencies constant against one another (p. 461)

fixed income income that does not increase even when prices go up (p. 343)

flexible exchange-rate system a currency system that allows the exchange rate to be determined by supply and demand (p. 462)

food stamps government-issued coupons that recipients exchange for food (p. 348)

foreign direct investment the establishment of an enterprise by a foreigner (p. 486)

foreign exchange market the banks and other financial institutions that facilitate the buying and selling of foreign currencies (p. 460)

foreign investment investment originating from other countries (p. 485)

foreign portfolio investment the entry of funds into a country when foreigners make purchases in the country’s stock and bond markets (p. 486)

fractional reserve banking a banking system that keeps only a fraction of funds on hand and lends out the remainder (p. 260)

franchise the right to sell a good or service within an exclusive market (p. 159)

free contract the concept that people may decide what agreements they want to enter into (p. 53)

free enterprise an economic system characterized by private or corporate ownership of capital goods; investments that are determined by private decision rather than by state control; and determined in a free market (p. 43)

free rider someone who would not choose to pay for a certain good or service, but who would get the benefits of it anyway if it were provided as a public good (p. 63)
**free-trade zone**  a region where a group of countries has agreed to reduce or eliminate trade barriers (p. 454)

**frictional unemployment**  unemployment that occurs when people take time to find a job (p. 331)

**fringe benefit**  payment other than wages or salaries (p. 188)

**full employment**  the level of employment reached when there is no cyclical unemployment (p. 335)

**futures**  contracts to buy or sell at a specific date in the future at a price specified today (p. 288)

**G**

**general partnership**  partnership in which partners share equally in both responsibility and liability (p. 190)

**gift tax**  a tax on money or property that one living person gives to another (p. 368)

**glasnost**  a policy of “openness” introduced into the Soviet Union in the late 1980s (p. 491)

**glass ceiling**  an unofficial, invisible barrier that prevents women and minorities from advancing in businesses dominated by white men (p. 224)

**gold standard**  a monetary system in which paper money and coins are equal in value to a certain amount of gold (p. 253)

**goods**  physical objects such as clothes or shoes (p. 3)

**government monopoly**  a monopoly created by the government (p. 159)

**Great Crash**  the collapse of the stock market in 1929 (p. 290)

**Great Depression**  the severe economic decline that began in 1929 and lasted for more than a decade (p. 255)

**greenback**  paper currency issued by the North during the Civil War (p. 253)

**gross domestic product (GDP)**  the total value of all final goods and services produced in a particular economy; the dollar value of all final goods and services produced within a country’s borders in a given year (pp. 57, 301)

**gross national product (GNP)**  the annual income earned by U.S.-owned firms and U.S. residents (p. 305)

**guns or butter**  a phrase that refers to the trade-off that nations face when choosing whether to produce more or less military or consumer goods (p. 8)

**H**

**heavy industry**  industry that requires a large capital investment and that produces items used in other industries (p. 37)

**household**  a person or a group of people living in the same residence (p. 29)

**horizontal merger**  the combination of two or more firms competing in the same market with the same good or service (p. 199)

**human capital**  the skills and knowledge gained by a worker through education and experience (p. 3)

**hyperinflation**  inflation that is out of control; very high inflation (pp. 341, 404)

**imperfect competition**  a market structure that does not meet the conditions of perfect competition (p. 153)

**import**  a good that is brought in from another country for sale (p. 446)

**import quota**  a limit on the amount of a good that can be imported (p. 449)

**incentive**  an expectation that encourages people to behave in a certain way (p. 31)

**incidence of a tax**  the final burden of a tax (p. 363)

**income distribution**  how the nation’s total income is distributed among its population (p. 348)

**income effect**  the change in consumption resulting from a change in real income (p. 80)

**increasing marginal returns**  a level of production in which the marginal product of labor increases as the number of workers increases (p. 109)

**individual income tax**  a tax on a person’s earnings (p. 360)

**industrialization**  the extensive organization of an economy for the purpose of manufacturing (p. 472)

**inelastic**  describes demand that is not very sensitive to a change in price (p. 90)

**infant industry**  a new industry (p. 452)

**infant mortality rate**  the number of deaths that occur in the first year of life per 1,000 live births (p. 474)

**inferior good**  a good that consumers demand less of when their incomes increase (p. 87)

**inflation**  a general increase in prices (p. 338)

**inflation rate**  the percentage rate of change in price level over time (p. 340)

**infrastructure**  the services and facilities necessary for an economy to function (p. 474)

**in-kind benefits**  goods and services provided for free or at greatly reduced prices (p. 70)

**inside lag**  delay in implementing monetary policy (p. 432)

**interest**  the price paid for the use of borrowed money (p. 261), or, money earned by deposited funds (p. 506)

**interest group**  a private organization that tries to persuade public officials to act or vote according to group members’ interests (p. 54)

**intermediate goods**  goods used in the production of final goods (p. 301)

**internal financing**  financing derived from the savings of a country’s citizens (p. 485)

**Internal Revenue Service**  agency within the U.S. Department of the Treasury responsible for interpretation and application of federal tax law (p. 528)

**international free trade agreement**  agreement that results from cooperation between at least two countries to reduce trade barriers and tariffs and to trade with each other (p. 453)

**International Monetary Fund (IMF)**  organization formed to stabilize international exchange rates and facilitate development (p. 488)
investment the act of redirecting resources from being consumed today so that they may create benefits in the future; the use of assets to earn income or profit (p. 271)
invisible hand term economists use to describe the self-regulating nature of the marketplace (p. 32)

J
junk bond a lower-rated, potentially higher-paying bond (p. 281)

K
Keynesian economics form of demand-side economics that encourages government action to increase or decrease demand and output (p. 396)

L
labor the effort that people devote to a task for which they are paid (p. 4)
labor force all nonmilitary people who are employed or unemployed (p. 211)
labor union an organization of workers that tries to improve working conditions, wages, and benefits for its members (p. 225)
laissez faire the doctrine that states that government generally should not intervene in the marketplace (p. 41)
land natural resources that are used to make goods and services (p. 4)
law of comparative advantage the idea that a nation is better off when it produces goods and services for which it has a comparative advantage (p. 444)
law of demand economic law that states that consumers buy more of a good when its price decreases and less when its price increases (p. 79)
law of increasing costs as we shift factors of production from making one good or service to another, the cost of producing the second item increases (p. 17)
law of supply tendency of suppliers to offer more of a good at a higher price (p. 101)
leading indicators key economic variables that economists use to predict a new phase of the business cycle (p. 314)
learning effect the theory that education increases productivity and results in higher wages (p. 214)
lease a rental agreement between landlord and tenant (p. 523)
legal equality the concept of giving everyone the same legal rights (p. 53)
less developed country nation with a low level of material well-being (p. 471)
liability the legally bound obligation to pay debts (p. 187)
license a government-issued right to operate a business (p. 159)
life expectancy the average expected life span of an individual (p. 473)
light industry the production of small consumer goods (p. 494)
limited liability partnership (LLP) partnership in which all partners are limited partners (p. 190)
limited partnership partnership in which only one partner is required to be a general partner (p. 190)
liquidity the ability to be used as, or directly converted to, cash (p. 258)
literacy rate the proportion of the population over age 15 that can read and write (p. 473)
Lorenz Curve the curve that illustrates income distribution (p. 349)

M
macroeconomics the study of the behavior and decision making of entire economies (p. 57)
malnutrition inadequate nutrition (p. 481)
mandatory spending spending on certain programs that is mandated, or required, by existing law (p. 371)
marginal cost the cost of producing one more unit of a good (p. 111)
marginal product of labor the change in output from hiring one additional unit of labor (p. 108)
marginal revenue the additional income from selling one more unit of a good; sometimes equal to price (p. 112)
market an arrangement that allows buyers and sellers to exchange things (p. 28)
market basket a representative collection of goods and services (p. 339)
market demand schedule a table that lists the quantity of a good all consumers in a market will buy at every different price (p. 82)
market economy economic system in which decisions on production and consumption of goods and services are based on voluntary exchange in markets (p. 27)
market failure a situation in which the market does not distribute resources efficiently (p. 64)
market power the ability of a company to change prices and output like a monopolist (p. 163)
market supply curve a graph of the quantity supplied of a good by all suppliers at different prices (p. 104)
market supply schedule a chart that lists how much of a good all suppliers will offer at different prices (p. 103)
maturity the time at which payment to a bondholder is due (p. 277)
mediation a settlement technique in which a neutral mediator meets with each side to try to find a solution that both sides will accept (p. 234)
Medicaid entitlement program that benefits low-income families, some people with disabilities, and elderly people in nursing homes (p. 373)
Medicare a national health insurance program that helps pay for health care for people over age 65 or who have certain disabilities (p. 368)
medium of exchange anything that is used to determine value during the exchange of goods and services (p. 243)
**member bank** bank that belongs to the Federal Reserve System (p. 254)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**outside lag** the time it takes for monetary policy to have an effect (p. 432)
partnership  a business organization owned by two or
more persons who agree on a specific division of
responsibilities and profits (p. 190)
par value  the amount that an investor pays to purchase a
bond and that will be repaid to investor at maturity
(p. 278)
patent  a license that gives the inventor of a new product
the exclusive right to sell it for a certain period of time
(p. 159)
patriotism  the love of one’s country; the passion that
inspires a person to serve his or her country (p. 25)
payroll withholding statement  document attached to a
paycheck detailing the amount of money withheld
(p. 528)
peak  the height of an economic expansion, when real
GDP stops rising (p. 310)
per capita gross domestic product (per capita GDP)  a nation’s
gross domestic product (GDP) divided by its total pop-
ulation (p. 472)
perestroika  Soviet leader Mikhail Gorbachev’s plan for
economic restructuring (p. 492)
perfect competition  a market structure in which a large
number of firms all produce the same product (p. 151)
personal exemption  set amount that you subtract from
your gross income for yourself, your spouse, and any
dependents (p. 366)
personal property  possessions such as jewelry, furniture,
and boats (p. 378)
physical capital  all human-made goods that are used to
produce other goods and services; tools and buildings
(p. 4)
population growth rate  the increase in a country’s popula-
tion in a given year, expressed as a percentage of the
population figure at the start of the year (p. 478)
portfolio  a collection of financial assets (p. 274)
poverty rate  the percentage of people who live in house-
holds with income below the official poverty line
(p. 346)
poverty threshold  an income level below which income is
insufficient to support families or households
(pp. 67, 345)
predatory pricing  selling a product below cost to drive
competitors out of the market (p. 173)
preferred stock  stock whose dividends are based on a
fixed annual rate (p. 508)
premium  money paid to an insurance company for a policy
(p. 524)
price ceiling  a maximum price that can be legally charged
for a good or service (p. 128)
price discrimination  division of customers into groups
based on how much they will pay for a good (p. 163)
price fixing  an agreement among firms to charge one price
for the same good (p. 171)
price floor  a minimum price for a good or service (p. 128)
price index  a measurement that shows how the average price
of a standard group of goods changes over time (p. 339)
price level  the average of all prices in the economy (p. 307)
price war  a series of competitive price cuts that lowers the
market price below the cost of production (p. 171)
primary market  market for selling financial assets that can
only be redeemed by the original holder (p. 283)
prime rate  rate of interest banks charge on short-term
loans to their best customers (p. 427)
principal  the amount of money borrowed (p. 261)
private property  property owned by individuals or companies,
not by the government or the people as a whole
(p. 41)
private property rights  the concept that people have the
right and privilege to control their own possessions as
they wish (p. 33)
private sector  the part of the economy that involves the
transactions of individuals and businesses (p. 63)
privatization  the sale or transfer of state-owned businesses
to individuals (p. 489)
privatize  to sell to individuals state-run firms, which are
then allowed to compete with one another in the mar-
ketplace (p. 43)
producer cooperative  agricultural marketing cooperatives
that help members sell their products (p. 203)
product market  the market in which households purchase
the goods and services that firms produce (p. 30)
production possibilities curve  a curve that shows alterna-
tive ways to use an economy’s resources (p. 13)
production possibilities frontier  the line on a production
possibilities graph that shows the maximum possible
output for a specific economy (p. 14)
productive capacity  the maximum output that an eco-
omy can produce without big increases in inflation
(p. 396)
productivity  value of output produced (p. 219)
professional labor  labor that requires advanced skills and
education (p. 221)
professional organization  nonprofit organization that
works to improve the image, working conditions, and
skill levels of people in particular occupations (p. 203)
profit  the financial gain made in a transaction (p. 29)
profit motive  the force that encourages people and organi-
izations to improve their material well-being (p. 33)
progressive tax  a tax for which the percentage of income
paid in taxes increases as income increases (p. 361)
property tax  a tax on the value of a property (p. 360)
proportional tax  a tax for which the percentage of income
paid in taxes remains the same for all income levels
(p. 361)
prospectus  an investment report to potential investors
(p. 274)
protectionism  the use of trade barriers to protect a
country’s industries from foreign competition (p. 452)
public disclosure laws  laws requiring companies to provide full information about their products (p. 54)

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

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

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

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

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

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

Q

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

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

R

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

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

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

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

recession  a prolonged economic contraction (p. 311)

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

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

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

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

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

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

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

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

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

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

S

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

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

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

saving  income not used for consumption (p. 320)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

share  portion of stock (p. 285)

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

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

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

Social Security  Old-Age, Survivors, and Disability Insurance (OASDI) (p. 367)
sole proprietorship  a business owned and managed by a single individual (p. 185)
special economic zones  designated regions in China where foreign investment is encouraged, businesses can make most of their own investment and production decisions, and foreign companies are allowed to operate (p. 494)
specialization  the concentration of the productive efforts of individuals and firms on a limited number of activities (p. 29)
speculation  the practice of making high-risk investments with borrowed money in hopes of getting a big return (p. 290)
spillover costs  costs of production that affect people who have no control over how much of a good is produced (p. 144)
stabilization program  an agreement between a debtor nation and the IMF in which the nation agrees to revise its economic policy (p. 488)
standard of living  level of economic prosperity (p. 26)
stagflation  a decline in real GDP combined with a rise in the price level (p. 311)
start-up costs  the expenses a firm must pay before it can begin to produce and sell goods (p. 153)
stock  a certificate of ownership in a corporation (pp. 195, 507)
stock exchange  a market for buying and selling stock (p. 287)
stock split  the division of a single share of stock into more than one share (p. 286)
stockbroker  a person who links buyers and sellers of stock (p. 286)
store of value  something that keeps its value if it is stored rather than used (p. 244)
strike  an organized work stoppage intended to force an employer to address union demands (p. 229)
structural unemployment  unemployment that occurs when workers’ skills do not match the jobs that are available (p. 332)
subsidized loans  loans for which the government pays the interest while the student is attending school (p. 518)
subsidy  a government payment that supports a business or market (p. 117)
subsistence agriculture  level of farming in which a person raises only enough food to feed his or her family (p. 472)
substitutes  goods used in place of each other (p. 88)
substitution effect  when consumers react to an increase in a good’s price by consuming less of that good and more of other goods (p. 80)
supply  the amount of goods available (p. 101)
supply curve  a graph of the quantity supplied of a good at different prices (p. 104)
supply schedule  a chart that lists how much of a good a supplier will offer at different prices (p. 103)
supply shock  a sudden shortage of a good (p. 141)
supply-side economics  a school of economics that believes tax cuts can help an economy by raising supply (p. 399)
surplus  situation in which quantity supplied is greater than quantity demanded; also known as excess supply (p. 134)
tariff  a tax on imported goods (pp. 369, 450)
tax  a required payment to a local, state, or national government (p. 359)
taxable income  income on which tax must be paid; total income minus exemptions and deductions (p. 366)
tax assessor  an official who determines the value of a property (p. 380)
tax base  income, property, good, or service that is subject to a tax (p. 360)
tax exempt  not subject to taxes (p. 377)
tax incentive  the use of taxation to encourage or discourage certain behavior (p. 369)
tax return  form used to file one's income taxes (p. 366)
technological progress  an increase in efficiency gained by producing more output without using more inputs (p. 322)
technology  the process used to produce a good or service (p. 59)
thinking at the margin  deciding whether to do or use one additional unit of some resource (p. 10)
tight money policy  monetary policy that reduces the money supply (p. 431)
time deposit  a deposit offering guaranteed interest for a fixed period of time (p. 506)
total cost  fixed costs plus variable costs (p. 111)
total revenue  the total amount of money a firm receives by selling goods or services (p. 95)
trade association  nonprofit organization that promotes the interests of a particular industry (p. 204)
trade barrier  a means of preventing a foreign product or service from freely entering a nation’s territory (p. 449)
trade deficit  the result of a country importing more than it exports (p. 462)
trade-off  an alternative we sacrifice when we make a decision (p. 8)
trade surplus  the result of a nation exporting more than it imports (p. 462)
trade war  a cycle of increasing trade restrictions (p. 451)
traditional economy  economic system that relies on habit, custom, or ritual to decide questions of production and consumption of goods and services (p. 26)
transition  period of change in which an economy moves away from a centrally planned economy toward a market-based system (p. 43)
Treasury bill  a government bond that is repaid within three months to a year (p. 405)
Treasury bond  a government bond that can be issued for as long as 30 years (p. 405)
Treasury note a government bond that is repaid within two to ten years (p. 405)

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

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

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

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

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

T

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

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

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

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

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

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

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

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

V

variable a factor that can change (p. 103)

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

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

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

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

W

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

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

welfare government aid to the poor (p. 68)

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

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

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

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

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

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

Y

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

Z

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