Glossary

Macroeconomics in Context, Goodwin, et al.
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Last revised Nov. 30, 2006

Note: Chapter numbers are in parentheses.

abundance: resources are abundant to the extent that they exist in plentiful supply for meeting various goals (2)
accelerator principle: the idea that high GDP growth leads to high investment growth (11)
accommodating monetary policy: loose or expansionary monetary policy intended to counteract recessionary tendencies in the economy (11)
aggregate demand (AD) (traditional macro model, with no government and a closed economy): what households and firms intend to spend on consumption and investment: AD = C + I (9)
aggregate demand: the total demand for all goods and services in a national economy (1)
automatic stabilizers: tax and spending institutions that tend to increase government revenues and lower government spending during economic expansions, but lower revenues and raise government spending during economic recessions (10)
balance of payments (BOP) account: the national account that tracks inflows and outflows arising from international trade, earnings, transfers, and transactions in assets (13)
balanced budget multiplier: the impact on economic equilibrium of simultaneous increases of equal size in government spending and taxes. The effect is positive, and equal in size to the original change in government spending and taxes (10)
bank reserves: funds not loaned out by a private bank, but kept as vault cash or on deposit at the Federal Reserve (11)
barter: exchange of goods, services, or assets directly for other goods, services, or assets, without the use of money (11)
base year (in the constant dollar method of estimating GDP): the year whose prices are chosen for evaluating production in all years. Real and nominal GDP are equal in the base year (5)
basic neoclassical model: a simple, mechanical model that portrays the economy as a collection of profit-maximizing firms and utility-maximizing households interacting through perfectly competitive markets (2)
behavioral equation: in contrast to an accounting identity, a behavioral equation reflects a theory about the behavior of one or more economic agents or sectors. The variables in the equation may or may not be observable (9)
Bilateral development assistance: aid (or loans) given by one country to another to promote development (14)
birth rate: the annual number of births per 1,000 population (15, Appendix)
bond price: the price at which trades are made (11)
**bond yield to maturity:** the amount a bond returns during a year, if held to maturity, expressed in percentage terms. The yield is determined by the coupon amount, the bond price, and the time to maturity (11)

**bond:** a financial instrument that, in return for the loan of funds, commits its seller to pay a fixed amount every year (called the coupon amount), as well as to repay the amount of principal (called the bond’s face value) on a particular date in the future (called the maturity date) (11)

**Bureau of Economic Analysis (BEA):** the agency in the United States in charge of compiling and publishing the national accounts (5)

**Bureau of Labor Statistics (BLS):** In the United States, the government agency that compiles and publishes employment and unemployment statistics (7)

**business (trade) cycle:** recurrent fluctuations in the level of national production, with alternating periods of recession and boom (1)

**business sector (BEA definition):** the sector including all entities concerned with producing goods and services for profitable sale. It also includes business-serving nonprofit organizations and government enterprises (5)

**business sphere:** firms that produce goods and services for profitable sale (3)

**capabilities:** the opportunities people have to pursue important aspects of well-being, such as being healthy and able to participate in society (15)

**capital controls:** the regulation or taxation of international transactions involving assets (13)

**capital gain:** an increase in the value of an asset over time (3)

**capital income:** rents, profits, and interest (3)

**capital stock:** a quantity of any resource that is valued for its potential economic contributions (3)

**capital-intensive production:** production using methods that involve a high ratio of capital to labor (13)

**ceteris paribus:** a Latin phrase meaning “other things equal” or “all else constant” (2)

**chain-type quantity index:** an index comparing real production in the current year to the reference year, calculated using a series of year-to-year Fisher quantity indexes (5)

**change in demand:** a shift of the demand curve in response to some determinant other than the item’s price (4)

**change in quantity demanded:** movement along a demand curve in response to a price change (4)

**change in quantity supplied:** movement along a supply curve in response to a price change (4)

**change in supply:** a shift of the supply curve in response to some determinant other than the item’s price (4)

**classical economics:** the school of economics which originated in the 18th century and which stressed issues of growth and distribution, based on an image of smoothly-functioning markets (1)

**closed economy:** an economy with no foreign sector (5)

**commodity money:** a good used as money that is also valuable in itself (11)
comparative advantage (principle of): gains from trade occur when producers specialize in making goods for which their opportunity costs are relatively low (13)
complementary good: a good that is used along with another good (4)
consumer durable goods: consumer purchases that are expected to last longer than three years. These are generally items of equipment, such as vehicles and appliances, used by households to produce goods and services for their own use (5)
consumer price index (CPI): an index measuring changes in prices of goods and services bought by households (5)
consumption (C) (traditional macro model): the component of GDP that represents spending by households (5)
consumption: the final use of a good or service to satisfy current wants
contractionary fiscal policy: reductions in government spending or transfer payments, or increases in taxes, leading to a lower level of economic activity (10)
contractionary monetary policy: the use of monetary policy tools to limit the money supply, raise interest rates, and encourage a leveling-off or reduction in economic activity (11)
convergence: (in reference to economic growth) the idea that underlying economic forces will cause poorer countries and regions to “catch up” with richer ones (14)
core sphere: households, families, and communities (3)
counter cyclical movement: when an indicator moves in the opposite direction from the business cycle. It moves up as the economy goes down (into recession), and down as the economy goes up (into recovery) (6)
coupon amount: the fixed amount paid by the seller of a bond every year (11)
credit rationing: when banks keep their interest rates below “what the market would bear” and deny loans to some potential borrowers, in the interest of maintaining their own profitability (11)
current account (in the BOP account): the national account that tracks inflows and outflows arising from international trade, earnings, and transfers (13)
cyclical unemployment: unemployment caused by a drop in aggregate demand (7)
damage cost approach: assigning a monetary value to an environmental service that is equal to the actual damage done when the service is withdrawn (6)
death rate: the annual number of deaths per 1,000 population (15, Appendix)
defensive expenditures: expenditures necessary just to maintain a status quo situation (that is, necessary to keep well-being from going down in the face of negative developments) (6)
deflation: when the aggregate price level falls (11)
demand curve: a curve indicating the quantities that buyers are ready to purchase at various prices (4)
demographic transition: the change over time from a combination of high birth and death rates to a combination of low birth and death rates (15, Appendix)
dependency needs: the need to have others provide one with care, shelter, food, etc. when one is unable to provide these for oneself (3)
depreciation: decreases in the quantity or quality of a stock of capital (3)
devaluation: lowering an exchange rate within a fixed exchange rate system (13)
**direct** (or **positive**) **relationship:** the relationship between two variables when an increase in one is associated with an increase in the other (2)

**discount rate:** the interest rate at which banks can borrow reserves from the Fed discount window (11)

**discouraged workers:** people who desire and are available for a job, but give discouragement as the reason for no longer looking for a job (7)

**disposable income:** income remaining for consumption or saving after subtracting taxes and adding transfer payments (10)

**distribution:** the allocation of products and resources among people (3)

**division of labor:** an approach to production in which a process is broken down into smaller tasks, with each worker assigned only one or a few tasks (1)

**double auction market:** a market in which both buyers and sellers state prices at which they are willing to make transactions, and the item is sold to the highest bidder (4)

**dumping:** selling products at prices that are below the cost of production (13)

**dynamic analysis:** analysis that takes into account the passage of time (2)

**economic actor (economic agent):** an individual, group, or organization that is involved in economic activities (1)

**economic development:** the process of moving from a situation of poverty and deprivation to a situation of increased production and plenty, through investments and changes in the organization of work (1)

**economic growth:** increases in the level of production in a country or region (1)

**economics:** the study of the way people organize themselves to sustain life and enhance its quality (1)

**economies of scale:** reductions in the average cost of production resulting from a higher output level (13)

**efficiency wage theory:** the theory that an employer can motivate workers to put forth more effort by paying them somewhat more than what they could get elsewhere (7)

**efficiency:** the use of resources in a way that does not waste any inputs. Inputs are used in such a way that they yield the highest possible value of output, or a given output is produced using the lowest possible value of inputs (2)

**empirical investigation:** observation and recording of the specific phenomena of concern (2)

**employed person (BLS household survey definition):** a person who did any work for pay or profit during the week before they are surveyed by the BLS or who worked 15 hours or more in a family business (7)

**environmental service functions:** the provision by the natural environment of the ecosystem services that support and enhance life (6)

**environmentally adjusted net domestic product (eaNDP):** suggested by the United Nations, this is equal to GDP less depreciation of both manufactured and natural capital (6)

**equilibrium:** a situation of rest, in which there are no forces that create change (4)

**exchange rate:** the number of units of one currency that can be exchanged for a unit of another currency (13)

**exchange:** trading one thing for another (3)
expansionary fiscal policy: the use of government spending, transfer payments, or tax cuts to stimulate a higher level of economic activity (10)

expansionary monetary policy: the use of monetary policy tools to increase the money supply, lower interest rates, and stimulate a higher level of economic activity (11)

expected real interest rate: the nominal interest rate minus expected inflation, $r^e = i - \pi^e$ (11)

explicit contract: a formal, often written, agreement that states the terms of exchange and may be enforceable through a legal system (2)

externalities: side effects or unintended consequences, either positive or negative, that affect persons, or entities such as the environment, that are not among the economic actors directly involved in the economic activity that caused the effect (2)

face value: the amount of principle associated with a bond (11)

factor-price equalization: the theory that trade should eventually lead to returns to factors of production being equal across countries (13)

factors of production: the essential inputs for economic activity, including labor, capital, and natural resources (14)

federal funds rate: the interest rate determined in the private market for overnight loans of reserves among banks (11)

fertility rate: the average number of births per woman of reproductive age (15, Appendix)

fiat money: a medium of exchange used as money because a government says it has value, and people accept it (11)

final good: a good that is ready for use, needing no further processing (5)

financial account (in the BOP account): the account that tracks flows arising from international transactions in assets (13)

financial assets: stocks (or shares in ownership of companies); bonds (or certificates indicating that the holder has loaned money to a government entity, which will repay the loan, with interest, over time); money market accounts; and other holdings in which wealth can be invested with an expectation of future return (8)

financial capital: funds of purchasing power available to facilitate economic activity (3)

financial intermediary: an institution such as a bank, savings and loan association, or life insurance company that accepts funds from savers and makes loans to borrowers (11)

fiscal policy: the manipulation of levels of government spending and taxation to raise or lower the level of aggregate demand (1, 10)

Fisher quantity index: an index which measures production in one year relative to an adjacent year by using an average of the ratios that would be found by using first one year, and then the other, as the source of prices at which production is valued (5)

fixed assets (BEA): equipment owned by businesses and governments, structures, residences, and software (5)

fixed exchange rate system: a system in which currencies are traded at fixed ratios (13)

flexible (floating) exchange rate system: a system in which exchange rates are determined by the forces of supply and demand (13)

flow: something whose quantity can be measured over a period of time (3)
foreign direct investment (FDI): investment in a business in a foreign country (13)
foreign exchange market intervention: an action by central banks which buy or sell foreign exchange reserves in order to keep exchange rates at desired levels (13)
foreign sector (BEA definition): the sector consisting of entities located outside the borders of the United States (5)
foreign trade zone: a designated area of a country within which foreign-owned manufacturers can operate free of many taxes, tariffs, and regulations (13)
free riders: people who seek to enjoy the benefit of a public good without paying for it (2)
free trade: exchange in international markets that is not regulated or restricted by government actions (13)
frictional unemployment: unemployment that arises as people are in transition between jobs (7)
“full employment output” \( (Y^*) \): For modeling purposes, a level of output that is assumed to correspond to a case of no excessive or burdensome unemployment, but the likely existence of at least some transitory unemployment (9)
full employment: a situation in which everyone is working up to their potential and consistent with their desires. An economy may be considered to be at full employment even though some people may be temporarily in transition between jobs (2)
GDP deflator (or implicit price deflator): a price index derived by dividing nominal GDP by real GDP (5)
Genuine Progress Indicator (GPI): a measure of economic well-being that adds many benefits, and subtracts many costs, that are not included in GDP. This measure is calculated by the nonprofit group Redefining Progress (6)
genuine saving: Proposed by the World Bank, this is equal to gross saving less depreciation of both manufactured and natural capital (6)
Gini ratio: a measure of inequality, based on the Lorenz curve, that goes from 0 (perfect equality) up to 1 (complete inequality) (3)
global economy: the system of economic rules, norms and interactions by which economic actors and actions in different parts of the world are connected to one another (1)
government bond: An interest-bearing security constituting a promise to pay at a specified future time (10)
government outlays: Total government expenditures including spending on goods and services and transfer payments (10)
government sector (BEA definition): the sector that includes all federal, state and local government entities (except for government enterprises) (5)
government spending \((G)\) (traditional macro model): the component of GDP that represents spending by federal, state and local governments (and which is assumed to be consumption-oriented) (5)
gross domestic product (GDP) (BEA definition): A measure of the total value of final goods and services newly produced in a country over a period of time (usually one year) (5)
gross investment: all flows into the capital stock over a period of time (3)
high-powered money (or monetary base): currency plus bank reserves (directly controlled by the Fed) (11)
historical investigation: study of past events (2)
households and institutions sector (BEA definition): the sector consisting of households and nonprofit institutions serving households (5)
human capital: people’s capacity for labor and their individual knowledge and skills (3)
human development (United Nations Development Program): the process of creating an environment which expands people’s choices, allowing people to develop their full potential and lead productive, creative lives in accord with their needs and interests (15)
Human Development Index (HDI): an index of well-being made by combining measures of health, education, and income. Calculated by the United Nations Development Program (UNDP) (6)
identity (accounting identity): an equation where the two sides are equal by definition (5)
imPLICIT contract: an informal agreement about the terms of exchange, based on verbal discussions and on common norms, traditions, and expectations (2)
imPLICIT price deflator (or GDP deflator): a price index derived by dividing nominal GDP by real GDP (5)
import substitution: the policy of encouraging domestic producers to make products that can be used in place of imported goods (13)
imputation: a procedure in which values are assigned for some category of products, usually using values of related products or inputs (5)
index number: a figure that measures the change in size of a magnitude, such as a quantity or price, as compared to its magnitude in some other period (5)
Industrial Revolution: a process of social and economic change, beginning in 18th century England, which developed and applied new methods of production and work organization that resulted in a great increase in output per worker (14)
infant industry: an industry which is relatively new to its region or country (13)
informal sphere: made up of businesses operating outside of government oversight and regulation. In less industrialized countries it may constitute the majority of economic activity (3)
in-kind transfers: transfers of goods or services (3)
inputs: resources that go into production (3)
insider-outsider theory: the theory that “insider” workers who are already employed may have the power to prevent “outsider” workers from competing with them and lowering their wages (7)
institutions: ways of structuring the interactions between individuals and groups, including both formally constituted establishments and the generally recognized patterns of organization embodied in customs, habits, and laws (2)
intermediate good: a good that will undergo further processing (5)
International Monetary Fund (IMF): an international agency charged with overseeing international finance, including exchange rates, international payments, and balance of payments issues (13)
inventories: stocks of raw materials or manufactured goods being held until they can be used (5)
inverse (or negative) relationship: the relationship between two variables if an increase in one is associated with a decrease in the other (2)

investment (I) (traditional macro model): the component of GDP that represents spending on structures, equipment and inventories by business firms (5)

investment: actions taken to increase the quantity or quality of a resource now, in order to make benefits possible in the future (3)

Keynesian economics: the school of thought, named after John Maynard Keynes, that argued for the active use of fiscal policy to keep aggregate demand high and employment rates up (1)

labor income: payments to workers, including wages, salaries, and fringe benefits (3)

labor force (BLS definition): made up of people who are employed or unemployed

labor productivity: the level of output that can be produced per worker (1)

labor-intensive production: production using methods that involve a high ratio of labor to capital (13)

laissez-faire economy: an economy with little government regulation (1)

liquidity trap: when interest rates are so low that the central bank finds it impossible to reduce them further (11)

liquidity: the ease of use of an asset as a medium of exchange (11)

living standards growth: improvements in people’s diet, housing, medical attention, education, working conditions and access to care, transportation, communication, entertainment and the like, that can allow people to have long and enjoyable lives and have the opportunity to accomplish the things that give their lives meaning (1)

Lorenz curve: a line used to portray an income distribution, drawn on a graph with percentiles of households on the horizontal axis and the cumulative percentage of income on the vertical axis (3)

M1: a measure of the money supply equal to currency, checkable deposits, and traveler's checks (11)

macroeconomics: the study of how economic activities at all levels create a national (and global) economic environment (1)

macroeconomy: an economic system whose boundaries are normally understood to be the boundaries of a nation (1)

maintenance cost approach: assigning a monetary value to an environmental service that is equal to what it would cost to maintain the same standard of services using an alternative method (6)

manufactured capital: physical assets generated by applying human productive activities to natural capital (3)

market (first meaning): a physical place where there is a reasonable expectation of finding both buyers and sellers for the same product or service (2)

market (second meaning): an institution that brings buyers and sellers into communication with each other, structuring and coordinating their actions (2)

“market, the” (third meaning): a phrase that people often use to mean an abstract situation of pure exchange or a global system of exchange relationships (2)

market disequilibrium: a situation of either shortage or surplus (4)

market failure: a situation in which markets yield inefficient or inappropriate outcomes (2)
market power: the ability to control, or at least affect, the terms and conditions of the exchanges in which one participates (2)

market-clearing equilibrium: a situation in which the quantity supplied is equal to the quantity demanded (4)

maturity date: the date the principle of a bond will be repaid (11)

maximum capacity output: the level of output an economy would produce if every resource in the economy were fully utilized (12)

means-tested programs: programs designed to transfer income to those most in need (3)

menu costs: the costs to a supplier of changing prices listed on order forms, brochures, menus and the like (4)

microeconomics: the study of the economic activities and interactions of individuals, households, businesses, and other groups at the sub-national level (1)

migration controls: restrictions on the flows of people into and out of a country (13)

Millennium Development Goals (MDGs): A set of goals declared by the United Nations in 2000, emphasizing eradication of extreme poverty; promotion of education, gender equity, and health; environmental sustainability, and partnership between rich and poor countries (15)

model: an analytical tool that highlights some aspects of reality while ignoring others (2)

monetarism: a theory associated with Milton Friedman, which claims that macroeconomic objectives are best met by having the money supply grow at a steady rate (11)

monetarist economics: the school that focused on the effects of monetary policy, and argued that governments should aim for steadiness in the money supply rather than play an active role (1)

monetary base (or high-powered money): currency plus bank reserves (directly controlled by the Fed) (11)

monetary neutrality: the idea that changes in the money supply may affect only prices, while leaving output unchanged (11)

monetary policy: the use of tools controlled by the government, such as banking regulations and the issuance of currency, to try to affect the levels of money supply, interest rates, and credit (1)

monetizing the deficit: when a central bank buys government debt as it is issued (equivalent to “running the printing presses”) (11)

money multiplier: defined as the ratio of the money supply to the monetary base, it tells by how much the money supply will change for a given change in high-powered money (11)

money supply rule: committing to letting the money supply grow at a fixed percentage rate per year (11)

mortality rate: the average number of deaths among a specific group (such as mothers or children) (15, Appendix)

multilateral development assistance: aid or loans provided with the announced intention of promoting development by the World Bank, regional development banks, or United Nations agencies such as the United Nations Development Program (UNDP) (14)

national income (NI): a measure of all domestic incomes earned in production (5)
National Income and Product Accounts (NIPA): a set of statistics compiled by the BEA concerning production, income, spending, prices and employment (5)

natural capital: physical assets provided by nature (3)

“natural” rate of unemployment: the rate of unemployment that would prevail in the absence of business cycles, according to some theories (7)

negative (or inverse) relationship: the relationship between two variables if an increase in one is associated with a decrease in the other (2)

net exports (NX): (traditional macro model): the component of GDP that represents the value of exports less the value of imports (5)

Net exports: the value of exports less the value of imports (5)

net investment: gross investment minus an adjustment for depreciation of the capital stock (3)

net migration rate: the net gain in population from migration, per 1,000 population (15, Appendix)

net national product (NNP): a measure of national production above that needed to replace worn-out manufactured capital, found by subtracting depreciation from GDP (5)

New Keynesian macroeconomics: a school which bases its analysis on micro-level market behavior, but which justifies activist macroeconomic policies by assuming that markets have “imperfections” (12)

nominal GDP: gross domestic product expressed in terms of current prices (5)

non-accelerating inflation rate of unemployment (NAIRU): the lowest rate of unemployment that can be sustained without causing rapidly rising inflation (7)

nonrenewable resource: a resource that cannot be reproduced on a human time-scale, so that its stock diminishes with use over time (3)

normative questions: questions about how things should be (1)

“not in the labor force” (BLS definition): the classification given to people who are neither “employed” nor “unemployed” (7)

Okun’s “Law”: an empirical inverse relationship between the unemployment rate and rapid (above-average) real GDP growth (9)

old-age dependency ratio: the number of people age 65 and over for each 100 people age 15-64 (15, Appendix)

open economy: an economy with a foreign sector (5)

open market operations: sales or purchases of government bonds by the Fed (11)

opportunity cost method (for estimating the value of household production): valuing hours at the amount the unpaid worker could have earned at a paid job (6)

opportunity cost: the value of the best alternative to a particular economic choice (2)

outputs: the results of production (3)

perfectly competitive market: a market in which there are many buyers and sellers, all units of the good are identical, and there is free entry and exist and perfect information (4)

physical infrastructure: the equipment, buildings, physical communication lines, roads and other tangible structures that provide the foundation for economic activity (2)

population momentum: the trend in population size that results from its age profile, in particular the number of women who are of child-bearing age or younger. For example, a population can continue to grow, in spite of having a fertility rate at or
below replacement, if a large proportion of its members are of childbearing age. (15, Appendix)

**positive (or direct) relationship:** the relationship between two variables when an increase in one is associated with an increase in the other (2)

**positive questions:** questions are about how things are (1)

**Post Keynesian macroeconomics:** a school which stresses the importance of history and uncertainty in determining macroeconomic outcomes (12)

**precautionary principle:** the principle that we should err on the cautious side when dealing with natural systems, especially when major health or environmental damage could result (1, 3)

**price elasticity of demand:** the percentage change in quantity demanded divided by the percentage change in price (4)

**price elasticity of supply:** the percentage change in quantity supplied divided by the percentage change in price (4)

**primary sector:** the sector of the economy that involves the harvesting and extraction of natural resources and simple processing of these raw materials into products which are generally sold to manufacturers as inputs (8)

**prime bank rate:** the interest rate that banks charge their most trusted commercial borrowers (11)

**private property:** ownership of assets by nongovernment economic actors (2)

**production possibilities frontier (PPF):** a curve showing the maximum amounts of two outputs that society could produce from given resources, over a given time period (2)

**production:** the conversion of resources to goods and services (3)

**progressive income tax:** a tax which collects a larger share of the income from those most able to pay (3)

**proportional income tax:** a tax which collects the same share of income from households, no matter what their income level (3)

**protectionist policies:** the use of trade policies such as tariffs, quotas, and subsidies to protect domestic industries from foreign competition (13)

**public goods:** goods for which (1) use by one person does not diminish usefulness to others, and (2) it would be difficult to exclude anyone from benefiting (2)

**public purpose sphere:** governments and other local, national, and international organizations established for some public purpose beyond individual or family self-interest, and not operating with the goal of making a profit (3)

**purchasing power parity (PPP) adjustments:** adjustments to international income statistics to take account of differences in the cost of living across countries (13)

**purchasing power parity (PPP):** the theory that exchange rates should reflect differences in purchasing power among countries (13)

**quantity adjustments:** a response by suppliers in which they react to unexpectedly low sales of their good primarily by reducing production levels rather than by reducing the price, and to unexpectedly high sales by increasing production rather than raising the price (4)

**quantity equation:** \( M \times V = P \times Y \), where \( M \) is the money supply, \( V \) is the velocity of money, \( P \) is the price level and \( Y \) is real output (11)

**quantity index:** an index measuring changes in levels of quantities produced (5)
quantity theory of money: the theory that money supply is directly related to nominal GDP, according to the equation $M \times V = P \times Y$ (11)

race to the bottom: a situation in which countries or regions compete in providing low-cost business environments, resulting in deterioration in labor, environmental or safety standards (13)

rational expectations school: a group of macroeconomists who theorized that people's expectations about Fed policy would cause predictable monetary policies to be ineffective in changing output levels (12)

real business cycle theory: the theory that changes in employment levels are caused by change in technological capacities or people's preferences concerning work (12)

real exchange rate: the exchange rate between two currencies, adjusted for inflation in both countries (12)

real GDP: a measure of gross domestic product that seeks to reflect the actual value of production goods and services produced, by removing the effect of changes in prices (5)

real interest rate: nominal interest rate minus inflation, $r = i - \pi$ (11)

recession: traditionally defined as occurring when GDP falls for two consecutive calendar quarters, now “officially” marked by the National Bureau of Economic Research (7)

regressive income tax: a tax which collects a larger share of income from poorer households (3)

regulation: setting standards or laws to govern behavior (3)

renewable resource: a resource that regenerates itself through short-term processes (3)

replacement cost method (for estimating the value of household production): valuing hours at the amount it would be necessary to pay someone to do the work (6)

replacement fertility rate: the fertility rate required in order for each generation to be replaced by a next generation of the same size. This requires an average fertility of 2.1 children per woman in industrialized countries. (15, Appendix)

required reserves: reserves that banks are required to hold by the Fed (11)

resource functions: the provision by the natural environment of inputs into human production processes (6)

resource maintenance means managing capital stocks so that their productivity is sustained (3)

revaluation: raising an exchange rate within a fixed exchange rate system (13)

Ricardian model of trade: A two-good, two-country model, created by David Ricardo in 1817, that shows both countries gaining from specialization and trade (13)

rule of 72: a shorthand calculation which states that dividing an annual growth rate into the number 72 yields approximately the number of years it will take for an amount to double (5)

satellite accounts: additional or parallel accounting systems that provide measures of social and environmental factors in physical terms, without necessarily including monetary valuation (6)

saving: refraining from consuming in the current period (3)

Say's Law: the classical belief that “supply creates its own demand” (1)

scarcity: resources are scarce to the extent that they are not sufficient to allow all goals to be accomplished at once (2)
secondary sector: the sector of the economy that involves converting the outputs of the primary sector into products suitable for use or consumption. It includes manufacturing, construction, and utilities (8)
shortage: a situation in which the quantity that buyers wish to buy at the stated price is greater than the quantity that sellers are willing to sell at that price (4)
sink functions: the provision by the natural environment of places to put waste materials (6)
social capital: the stock of trust, mutual understanding, shared values, and socially held knowledge that facilitates the social coordination of economic activity (3)
social discount rate: a discount rate that reflects social rather than market valuation of future costs and benefits; usually lower than the market discount rate (15)
social insurance programs: programs designed to transfer income to recipients if and when certain events (like retirement or disability) occur (3)
specialization: in production, a system of organization in which each worker performs only one type of task (1)
speculation: buying and selling assets with the expectation of profiting from appreciation or depreciation in asset values (4)
speculative bubble: the situation that occurs when mutually reinforcing investor optimism raises the value of an asset far above what could be realistically justified (4)
spot market: a market for immediate delivery (4)
stagflation: a combination of rising inflation and economic stagnation (12)
static analysis: analysis that does not take into account the passage of time (2)
“sticky wage” theories: theories about why wages may stay at above-equilibrium levels, in spite of the existence of a labor surplus (7)
stock: something whose quantity can be measured at a point in time (3)
stock-flow diagram: an illustration of how stocks can be changed, over time, by flows (3)
structural unemployment: unemployment that arises because people's skills, experience, education and location do not match what employers are looking for (7)
substitutability: the possibility of using one resource instead of another (3)
substitute good: a good that can be used in place of another (4)
supply curve: a curve indicating the quantities that sellers are willing to supply at various prices (4)
supply-side economics: an economic theory that emphasizes policies to stimulate production, such as lower taxes. The theory predicts that such incentives stimulate greater economic effort, saving, and investment, thereby increasing overall economic output and tax revenues (10)
surplus: a situation in which the quantity that sellers wish to sell at the stated price is greater than the quantity that buyers will buy at that price (4)
sustainable socioeconomic system: a system in which the overall quality and quantity of the resource base required for sustaining life and well-being do not erode (3)
tariffs: taxes put on imports or exports (13)
tax multiplier: the impact of a change in a lump sum tax on economic equilibrium, expressed mathematically as $\frac{\Delta Y}{\Delta \bar{T}} = -(\text{mult}) \cdot (\text{mpc})$ (10)
technological progress: the development of new products and new, more efficient, methods of productions (2)
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terms of trade: the price of imports relative to exports (13)
tertiary sector: the sector of the economy that involves the provision of services rather than of tangible goods (8)
theoretical investigation: analysis based in abstract thought (2)
theory of market adjustment: the theory that market forces will tend to make shortages and surpluses disappear (4)
third person criterion: the convention that says that an activity should be considered to be production (rather than leisure) if a person could buy a market replacement or pay someone to do the activity in his or her place (6)
time lags: the time elapsing between the formulation of an economic policy and its actual effects on the economy (10)
time series data: observations of how a numerical variable changes over time (2)
total factor productivity (Solow growth model): a measure of the productivity of all factors of production. It represents contributions to output from sources other than quantities of manufactured capital and labor (14)
trade ban: a law preventing the import or export of goods or services (13)
trade deficit: an excess of imports over exports, causing net exports to be negative (10)
trade quota: a restriction on the quantity of a good that can be imported or exported (13)
trade-related subsidies: payments given to producers to encourage more production, either for export or as a substitute for imports (13)
traditional macroeconomic model: a simple, mechanical model that portrays the macroeconomy as being made up of businesses that produce and invest, and households and governments that (only) consume (5)
transaction costs: the costs of arranging economic activities (2)
transactions demand model: a model of the money market in which money is assumed to be liquid and pay no interest, while an alternative asset is assumed to be illiquid and pay interest (11)
transfer payments: payments by government to individuals or firms, including social security payments, unemployment compensation, and interest payments (10)
transfer: the giving of something with nothing specific expected in return (3)
underemployment: working fewer hours than desired, and/or at a job that does not utilize one’s skills (7)
unemployed person (BLS definition): a person who is not employed, but who is actively seeking a job and who is immediately available for work (7)
unemployment rate: the percentage of the labor force made up of people who do not have paid jobs, but who are immediately available and actively looking for paid jobs (7)
United Nations System of National Accounts (SNA): a set of guidelines for countries about how to construct systems of national accounts (5)
value-added: the value of what a producer sells less the value of the intermediate inputs it uses. This is equal to the incomes paid out by the producer (5)
velocity of money: the number of times a dollar would have to change hands during a year to support nominal GDP, calculated as $V = (P \times Y)/M$ (11)
**virtuous cycles (in development):** self-reinforcing patterns of high savings, investment, productivity growth, and economic expansion (14)

**wage and price controls:** government regulations setting limits on wages and prices, or on the rates at which they are permitted to increase (12)

**wage-price spiral:** when high demand for labor and other resources creates upwards pressure on wages, which in turn leads to upwards pressure on prices and, as a result, further upwards pressure on wages (12)

**waste products:** outputs that are not used either for consumption or in a further production process (3)

**well-being:** a shorthand term for the broad goal of promoting the sustenance and flourishing of life (1)

**World Bank:** an international agency charged with promoting economic development, through loans and other programs (13)

**World Trade Organization (WTO):** An international organization that provides a forum for trade negotiations, creates rules to govern trade, and investigates and makes judgment on trade disputes (13)