Glossary

absolute advantage Where a country is able to produce more output than other countries using the same input of factors of production.

ad valorem taxes An indirect tax where a given percentage is added to the price of a good or service.

administrative barriers (in the context of trade) Any administrative requirement that might prevent or reduce the amount of imports.

aggregate demand Total spending in the economy, made up of consumption, investment, government spending and net export spending.

aggregate supply the total amount of domestic goods and services supplied by businesses and the government, including both consumer goods and capital goods.

allocative efficiency Occurs where the marginal social cost of producing a good is equal to the marginal social benefit of the good to society. In different words, it occurs where the marginal cost of producing a good (including any external costs) is equal to the price that is charged to consumers. (P = MC)

anti-dumping Legislation to protect an economy against the importing of a good at a price below its unit cost of production.

appreciation An increase in the value of a country's currency in a floating exchange rate system.

appropriate technology Where technology caters to the particular economic, social and environmental characteristics of its users.

automatic stabilizers Features of government fiscal policy, e.g. unemployment benefits and direct tax revenues, that automatically counter-balance fluctuations in economic activity. For example, government spending on unemployment benefits automatically rise and direct tax revenues automatically fall when economy activity is slow.

balance of payments The accounting record of all transactions (debits and credits) between the households, firms and government of one country, and the rest of the world.

balanced budget A situation that exists when planned government spending is equal to planned government expenditure.

barrier to trade Anything which prevents free trade between two countries, e.g. tariffs, quotas.

barriers to entry Obstacles that prevent a new firm from entering a market, such as economies of scale, product differentiation and legal protection.

break-even price The price where average revenue is equal to average total cost. Below this price, the firm will shut down in the long run.

budget deficit A situation that exists when planned government spending exceeds planned government revenue. A government may 'run a budget deficit' in order to increase aggregate demand (AD) in the economy.

budget surplus A situation that exists when planned government revenue exceeds planned government spending .

business cycle A diagram showing the periodic or cyclical fluctuations in economic activity. The business cycle shows that economies typically move through a pattern of economic growth with the phases: recovery, boom, slowdown, recession.

capital The factor of production that is made by humans and is used to produce goods and services. It occurs as a result of investment.

cartel A formal agreement among firms in a collusive oligopoly.

central bank The government's bank. The institution that is responsible for an economy's monetary policy.

ceteris paribus A latin expression meaning 'let all other things remain equal' used by economists to develop economic theories or models.

circular flow of income model A simplified model of the economy that shows the flow of money through the economy.

classical AS model A model showing that the long-run aggregate supply curve is vertical at the full employment level of output.

collusive oligopoly Where a few firms in an oligopoly act together to avoid competition by resorting to agreements to fix prices or output.

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common access resources Also known as common pool resources or common property resources, these are resources which have properties similar to public goods in that it is very difficult or impossible to prevent people from using or consuming the resource. Therefore, they are vulnerable to overuse and/or degradation.

common market A customs union with common policies on product regulation, and free movement of goods, services, capital and labour.

comparative advantage* Where a country is able to produce a good at a lower opportunity cost of resources than another country.

complementary good Goods used in combination with each other, e.g. digital cameras and memory cards. Complementary goods have negative cross-price elasticity.

constant returns to scale A given percentage increase in the quantity of all factors of production results in an equal percentage change in output and thus no change in long-run average costs.

consumer price index A measure of the average rate of inflation which calculates the change in the price of a representative basket of goods and services purchased by the 'average' consumer.

consumer surplus The additional benefit or utility received by consumers by paying a price that is lower than they are willing to pay.

consumption Spending by households on consumer goods and services.

core inflation A measure of inflation that factors out the changes in the prices of products that tend to experience volatile price swings, e.g. food and energy prices. This gives policy makers a better indication of long-term changes in the price level.

corporate social responsibility An approach taken by firms where they attempt to produce responsibly or ethically towards the community and environment, demonstrating a positive impact on society.

cost-push inflation A persistent increase in the average price level that comes about as a result of increases in the costs of production and a decrease in aggregate supply (AS).

credit Borrowed money.

cross price elasticity of demand A measure of the responsiveness of the quantity of one good demanded in response to a change in the price of a related good. XED = %D in Qd of Good A/%D in price of Good B

crowding out A situation where the government spends more (government expenditure) than it receives in revenue and needs to borrow money, forcing up interest rates and 'crowding out' private investment and private consumption,

current account (of the balance of payments) A measure of the international flow of funds from trade in goods and services, plus net investment income flows (profit, interest and dividends) and net transfers of money (foreign aid, grants and remittances).

current account deficit Where revenue from the exports of goods and services and income flows is less than the expenditure on the import of goods and services and income flows in a given year.

current account surplus Where the revenue from the export of goods and services and income flows is greater than the expenditure on the import of goods and services and income flows in a given year.

customs union An agreement made between countries, where the countries agree to work towards free trade among themselves and they also agree to adopt common external barriers against any country attempting to import into the customs union.

cyclical (demand-deficient) unemployment Unemployment that exists when there is insufficient aggregate demand in the economy and wages do not fall to compensate for this. This is usually associated with a slowdown in economic growth or negative growth.

de-merit goods Products that are considered to be harmful for people that would be over-provided or over-consumed in a purely free market economy. De-merit goods are generally considered to be products whose consumption creates negative externalities.

debt cancellation The act of eliminating the debt owed by a developing country government in order to allow it to achieve development objectives.

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decreasing returns to scale A given percentage increase in the quantity of all factors of production results in a smaller percentage increase in output and thus an increase in long-run average costs (diseconomies of scale).

deflation A persistent fall in the average level of prices.

deflationary (recessionary) gap The gap that occurs when macroeconomic equilibrium occurs at a level that is less than the full emplyoment level of output.

demand The quantity of a product that consumers are willing and able to buy at a given price in a given time period.

demand curve A curve, or line showing the relationship between the price of a product and quantity demanded over a range of prices.

demand-pull inflation A persistent increase in the average price level that comes about as a result of increases in aggregate demand (AD).

demand schedule A chart or table showing the quantity of a product demanded at each price. A demand schedule, or a demand function, is used to draw a demand curve.

demand-side policies Also known as demand-management policies, these are policies to change the level of aggregate demand (AD) in the economy deliberately in order to achieve macroeconomic objectives.

depreciation A decrease in the value of a country's currency in a floating exchange rate system.

deregulation A type of supply-side policy where the government reduces the number or type of regulations governing the behaviour of firms.

deterioration (worsening) in the terms of trade Where the index of the average price of exports falls relative to the index of the average price of imports.

devaluation A decrease in the value of a country's currency in a fixed exchange rate system.

development indicators Statistics that may be used to assess the level of development of an economy. These may be single indicators, e.g. infant mortality rate, or composite indicators, e.g. Human Development Index)

direct taxation Taxation imposed on people's income or wealth, and on firms' profits.

diseconomies of scale An increase in average costs in the long run.

disinflation A fall in the rate of inflation.

diversification A strategy to reduce reliance on the export of a narrow range of exports by re-allocating resources to a wider range of industries.

dumping The selling of a good in another country at a price below its unit cost of production.

economic costs The total opportunity costs of production to a firm, including the opportunity cost of entrepreneurship.

economic development A multidimensional concept involving improvement in standards of living, reduction in poverty, improved health and education along with increased freedom and economic choice.

economic growth An increase in the actual level of output of goods and services produced by an economy, i.e. an increase in real GDP over time.

economic profit (abnormal or supernormal profit) Economic profit (abnormal or supernormal profit) is earned when a firm's revenues are greater than its total opportunity costs (its economic costs).

economies of scale A fall in average costs in the long run.

excess demand Occurs where the price of a good is lower than the equilibrium price, such that the quantity demanded is greater than the quantity supplied.

excess supply Occurs where the price of a good is higher than the equilibrium price, such that the quantity supplied is greater than the quantity demanded.

exchange rate The value of one currency expressed in terms of another currency.

expenditure-reducing policies Policies implemented by the government that attempt to reduce overall expenditure in the economy, in order to reduce expenditure on imports.

expenditure-switching policies Policies implemented by the government that attempt to switch the expenditure of domestic consumers away from imports towards domestically produced goods and services.

export promotion Strategies to encourage economic growth through increased international trade and the promotion of export industries.

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factor endowment The factors of production that a country has available to produce goods and services.

factors of production The land, labour, capital and management (entrepreneurship) that are used in production.

financial account (of the balance of payments) A measure of the net change in foreign ownership of domestic financial assets, including foreign direct investment, portfolio investment and changes in foreign reserves, formerly called the capital account.

fiscal policy The set of government polices concerning its taxation and expenditure. Fiscal policy may be used to manage the level of aggregate demand (AD) and may be expansionary (to raise AD) or contractionary (to lower AD).

fixed costs Costs that do not vary with the level of output.

fixed exchange rate An exchange rate regime where the value of a currency is fixed, or pegged, to the value of another currency, (or to the average value of a selection of currencies, or to the value of some other commodity, e.g. gold).

floating exchange rate An exchange rate regime where the value of a currency is allowed to be determined solely by the demand for, and supply of, the currency on the foreign exchange market.

foreign debt The total debt owed by the government of one country to foreign lenders.

foreign direct investment Long-term investment by a multinational company in a foreign country.

free trade area An agreement made between countries, where the countries agree to work towards free trade among themselves, but are able to trade with countries outside the free trade area in whatever way they wish.

frictional unemployment Unemployment that occurs when people are entering the workforce after leaving education, or people who have left one job and are searching for a new job.

full employment level of output The level of output that is produced by the economy when there is only natural unemployment.

game theory A method of analysing the way that the 'players' in an interdependent relationship (such as oligopoly) make strategic decisions.

GDP per capita The total money value of all final goods and services produced in an economy in one year per head of the population.

GDP The total money value of all final goods and services produced in an economy in a given time period, usually a year.

Gini coefficient A coefficient (or index) that is derived from the Lorenz curve and is a numerical indicator of income equality. It is calculated by dividing the distance between the Lorenz curve and the line of absolute equality by the total area under the line of absolute equality (multiplied by 100 for the index). The higher the figure, the more unequal the income distribution.

GNP/GNI The total money value of all final goods and services produced in an economy in one year, plus net property income from abroad (interest, rent, dividends and profit).

government spending Spending by governments on goods and services.

green GDP A measure of the total output of an economy having taken into account the environmental consequences (externalities) involved in the production of that output.

homogeneous products Completely identical products, as produced in perfect competition.

import substitution Strategies to encourage the domestic production of goods in order to reduce imports and stimulate local producers. Such policies rely on the use of protectionism.

improvement in the terms of trade Where the index of the average price of exports rises relative to the index of the average price of imports.

incentive function of price Prices give producers the incentive either to increase or decrease the quantity they supply. A rising price gives producers the incentive to increase the quantity supplied, as the higher price may allow them to earn higher revenues.

incidence of tax The amount of an indirect tax paid by consumers of a good or producers of a good.

income elasticity of demand A measure of the responsiveness of demand for a good to a change in consumers' income. YED = %D in D/%D in Y

indirect taxes Taxes placed upon the expenditure on a good or service, e.g. value added tax, or goods and services tax.

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infant industry argument The argument that new industries should be protected from foreign competition until they are large enough to achieve economies of scale that will allow them to be competitive.

inferior good A good whose demand falls as income rises. An inferior good has negative income elasticity.

inflation A persistent increase in the average level of prices.

inflationary gap The gap that occurs when macroeconomic equilibrium occurs at a level that is above the full employment level of output.

infrastructure The large-scale capital usually provided by government that is necessary for economic activity to take place.

injections The investment, government spending and export revenues that add spending to the circular flow of income.

inreasing returns to scale A given percentage increase in the quantity of all factors of production results in a greater percentage increase in output and thus a fall in long-run average costs (economies of scale).

interest rate The price of credit or borrowed money.

International Monetary Fund (IMF) An organization working to foster global monetary cooperation, secure financial stability, facilitate international trade and reduce poverty.

international reserves Foreign currencies held by governments (central banks) as a result of international trade. Reserves may be held so that the government may maintain a desired exchange rate for the country's currencies.

investment Spending by firms on capital goods; the addition of capital stock to an economy.

J-curve Suggests that in the short term, a fall in the value of the currency will lead to a worsening of the current account deficit, before things improve in the long term.

joint supply Goods which are produced together, or where the production of one good involves the production of another product, e.g. meat and leather (a by-product).

Keynesian AS model A model showing the interpretation of the Keynesian view of aggregate suppy in the economy. In this model, with three distinct phases of aggregate supply, macroeconomic equilibrium may occur at a level of output that is less than full employment, and suggests that the economy may remain at this level of output in the absence of active intervention on the demand side by the government.

labour The work done by humans that is used in the production of goods and services.

labour union or trade union An organization of workers whose goals include the improvement of working conditions and payments to workers. Unions work on behalf of workers through negotiations with management.

land All raw materials that are used in the prodcuction of goods and services

law of demand As the price of a product increases, the quantity demanded decreases, ceteris paribus.

law of diminishing marginal returns In the short run, as increasing units of a variable factor are added to a fixed factor, the addition to total output (MP) will eventually fall.

law of supply As the price of a product increases, the quantity supplied increases, ceteris paribus.

leakages The savings, taxes and import spending that remove spending from the circular flow of income.

linear demand function An equation in the form Qd = a – bP which shows the relationship between the price and the quantity of a product demanded.

linear supply function An equation in the form Qs 5 c 1 dP which shows the relationship between the price and the quantity of a product supplied.

long run In terms of the theory of the firm, the period of time in which all factors are variable.

long-run average cost curve (LRAC) A graphical representation of long -run average costs. The LRAC is u-shaped due to economies and diseconomies of scale.

Lorenz curve A curve showing what percentage of the population earns what percentage of the total income in the economy. It is calculated in cumulative terms. The further the curve is from the line of absolute equality (45 degree line), the more unequal is the distribution of income.

macroeconomics The study of how the economy as a whole works.

management or entrepreneurship The factor of production that brings together the other three factors of production with the aim of making profit. Entrepreneurship tends to involve risk taking.

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manufactured goods Goods that have been processed by workers.

marginal private benefit The extra benefit or utility to the consumer of consuming an additional unit of output.

marginal private cost The extra (private) cost to the producer of producing an additional unit of output.

marginal social benefit The extra benefit or utility to society of consuming an additional unit of output, including both the private benefit and the external benefits.

marginal social cost The extra cost to society of producing an additional unit of output, including both the private cost and the external costs.

market A place where buyers and sellers of a product come together to make an exchange, or a trade. A market does not need to be a physical place, e.g. a stock market or foreign exchange market, where the product is traded via computers.

market equilibrium The point where the quantity of a product demanded is equal to the quantity of a product supplied. This creates the market clearing price and quantity where there is no excess demand or excess supply.

market failure Occurs when the production of a good does not take place at the socially efficient level of output (allocative efficiency where MSC = MSB).

Marshall-Lerner condition States that a depreciation, or devaluation, of a currency will only lead to an improvement in the current account balance if the elasticity of demand for exports plus the elasticity of demand for imports is greater than one.

merit good Products that are considered to be beneficial for people that would be under-provided or under-consumed in a purely free market economy. Merit goods are generally considered to be products whose consumption create positive externalities of consumption.

micro-credit Loans of small amounts that given to people who use the loans to start up small-scale businesses. People who obtain micro-credit would have difficulty getting loans from the formal banking sector due to a lack of income and collateral.

microeconomics The study of the behaviour (supply and demand) of individual markets.

Millenium Development Goals Eight goals adopted by international leaders in 2000, to be achieved by 2015, including goals and targets on income poverty, hunger, maternal and child mortality, disease, inadequate shelter, gender inequality, environmental degradation and the Global Partnership for Development.

monetary policy The set of official policies concerning an economy's official interest rate and money supply. Monetary policy may be used to manage the level of aggregate demand (AD) and may be expansionary (to raise AD) or contractionary (to lower AD).

monetary union Where two or more countries share the same currency and have a common central bank.

monopolistic competition A market structure charaterized by a large number of small firms, producing differentiated products, with no barriers to entry or exit.

monopoly A market structure where there is only one firm, or a dominant firm, in the industry. There are high barriers to entry.

multinational corporations Companies based in one country that set up production units, e.g. factories, farms, mines or retail outlets, in other countries.

multiplier The amount by which an injection is multiplied in order to calculate the final addition to national income as a result of the injection.

natural monopoly A situation where there are only enough economies of scale available in a market to support one firm, such that it is natural that the industry be dominated by one firm only.

natural rate of unemployment* The rate of unemployment that is consistent with a stable rate of inflation. It is the rate of unemployment that exists when the economy is at the full employment level of output. It is the rate where the long run Phillips curve touches the x-axis.

negative externality of consumption The external costs to a third party that occur when a product is consumed.

negative externality of production The external costs to third party that occur when a product is produced.

net exports Export revenues minus import expenditure.

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non-collusive oligopoly Where firms in an oligopoly do not resort to agreements to fix prices or output. Competition tends to be non-price. Prices tend to be stable.

non-government organizations (NGOs) Organizations that are not associated with a government that exist to promote economic development and/or humanitarian ideals and/or sustainable development

normal good A good whose demand rises as income rises. A normal good has positive income elasticity.

official development assistance (ODA) Aid that is provided to a country by another government or an official government agency. It may be multilateral or bilateral in nature.

oligopoly A market structure characterized by a small number of large firms dominating the industry due to high barriers to entry. There are many different theories of oligopoly.

overvalued currency When the value of a currency is believed to be higher than what is perceived to be its market equilibrium value, based on its balance of payments position or its international purchasing power.

perfect competition A market structure characterized by a large number of firms, producing homogeneous products, each of which is too small to influence the market. The firms are price takers because of this. There are no barriers to entry or exit and all the firms have perfect knowledge of the market.

Phillips curve in the short run* A curve that illustrates the view that there is a short-run inverse relationship between the inflation rate and the unemployment rate.

Phillips curve* in the long run* A vertical line at the natural rate of unemployment that illustrates the view that there is no trade-off between the inflation rate and the unemployment rate.

portfolio investment The purchase of financial investments such as shares and bonds in order to gain a financial return in the form of interest or dividends.

positive externality of consumption The external benefits to a third party that occur when a product is consumed.

positive externality of production The external benefits to a third party that occur when a product is produced.

poverty trap or poverty cycle Any circular chain starting and ending in poverty, meaning that poverty perpetuates itself.

Preferential trade agreement Where a country agrees to give preferential access, e.g. reduced tariffs, to certain products from one or more trading partners.

price ceiling (maximum price) A maximum price set by the government or other authority above which the product may not be sold in order to support the consumers of the product. Examples of maximum prices include those set on essential food products or rent.

price discrimination The act of charging different consumers of an identical product different prices, e.g. based on time of purchase, age of consumer, quantity of purchase or time of consumption.

price elasticity of demand A measure of the responsiveness of the quantity of a good demanded to a change in its price. PED = %Din Qd/%Din price. PED = P_1DQ/Q_1DP

price elasticity of supply A measure of the responsiveness of the quantity of a good supplied to a change in its price. PES = %Din Qs/%Din price. PES = P_1DQ/Q_1DP

price floor (minimum prices) A minimum price set by the government or other authority below which the product may not be sold in order to support the producers of a product. Examples of minimum prices include those set on agricultutral products and wages in a labour market.

price taker In perfect competition, each firm is a price taker, taking the equilibrium price set in the market.

primary commodities Raw materials.

privatization A type of supply-side policy where the government sells public assets to the private sector.

producer surplus The additional benefit received by producers by receiving a price that is higher than the price they were willing to receive.

product differentiation A strategy employed by producers where they attempt to make their products different from those of their competitors, e.g. differences in quality, performance, design, styling or packaging. It is a form of non-price competition.

profit maximization Often assumed to be the primary goal of firms. This is where the difference between total revenue and total revenue is at the maximum or where marginal cost is equal to marginal revenue (MC = MR).

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progressive taxation A system of direct taxation where tax is levied at an increasing rate for successive bands of income. The marginal tax rate is higher than the average tax rate.

proportional taxation A system of taxation in which tax is levied at a constant rate as income rises, for example 10% of each increment of income as income rises.

public good A product which is non-rivalrous and non-excludable and so would not be provided at all in a purely free market economy.

quota Import barriers that set limits on the quantity or value of imports that may be imported into a country.

regressive taxation A system of taxation in which tax is levied at a decreasing average rate as income rises. This form of taxation takes a greater proportion of tax from the low-income taxpayer than from the high-income taxpayer.

resource allocation A primary focus of the study of economics is to examine the way that scarce factors of production (land, labour and capital) are used (allocated) to meet unlimited demand.

retaliatory tariff Where a country responds to the imposition of a tariff by a trading partner by imposing a tariff on that country's products.

revaluation An increase in the value of a country's currency in a fixed exchange rate system.

revenue maximization An alternative goal of firms (as opposed to profit maximization). This occurs when marginal revenue is equal to zero (MR = 0).

revenue The income received by a firm from selling its product.

satisficing An alternative goal of firms (as opposed to profit maximization) . This occurs when enterpreneurs endeavour to cover their opportunity costs, but do not push themselves significantly further, even though they might be able to earn higher profits. It is essentially a mix of the words 'satisfy' and 'suffice'.

seasonal unemployment Unemployment that exists when people are out of work because their usual job is out of season, e.g. a ski instructor in the summer.

short run In terms of the theory of the firm, the period of time in which at least one factor of production (usually capital) is fixed.

short-run average cost curve (SRAC) A graphical representation of short-run average costs. The SRAC is u-shaped due to the law of diminishing marginal returns.

shut-down price The price where average revenue is equal to average variable cost. Below this price, the firm will shut down in the short run.

signalling function of price Prices give signal to both producers and consumers. A rising price gives a signal to producers that they should increase their quantity supplied and signals to consumers that they should decrease the quantity demanded, and vice versa.

specific taxes An indirect tax where a fixed amount is added to the price of a good or service.

speculation (in the context of exchange rates) Where foreign currency traders make a decision to buy or sell a currency based on their expectations of future exchange rate movements.

stagflation The situation where an economy is facing stagnant growth, with high rates of unemployment and high rates of inflation.

structural unemployment Unemployment that exists when in the long term the pattern of demand and production methods change and there is a permanent fall in the demand for a particular type of labour. There is a mismatch between skills and the jobs available.

subsidy (in the context of international trade) An amount of money paid by the government to a firm, per unit of output, to encourage output and to give the firm an advantage over foreign competition.

subsidy The amount of money given to producers of a product by the government. A subsidy increases the supply of the good by effectively lowering the firms' costs of production.

substitute good Goods which can be used in place of each other, e.g. Adidas running shoes and Nike running shoes. Substitute goods have positive cross-price elasticity.

supply curve A curve or line showing the relationship between the price of a product and the quantity supplied over a range of prices.

supply The amount of a good or service that producers are willing and able to supply at a given price in a given time period.

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supply-side policies Policies designed to shift the long-run aggregate supply (LRAS) curve to the right, thus increasing potential output in the economy.

sustainability In economic terms, sustainability is linked to the concept of sustainable development, which is development that meets the needs of present generations without compromising the ability of future generations to meet their needs. Sustainability implies an ability to sustain the world's resources over time.

tariff A duty (tax) that is placed upon imports to protect domestic industries from foreign competition.

tax allowances or tax credits A type of supply-side policy where the government allows households or firms to reduce the amount of direct tax paid to the government.

terms of trade An index that shows the value of a country's average export prices relative to their average import prices.

tied aid Grants or loans that are given to a country, but only on the condition that the funds are used to buy goods and services from the donor country.

total, average and marginal cost Total costs include the complete cost of producing a level of output. Average costs are costs per unit of output (AC = TP/Q). Marginal cost is the addition to total cost of producing one extra unit of output (MC = DTC/DQ)

total, average and marginal product Total product is the total output of a firm at a given level of input. Average product is the output that is produced, on average, by each unit of the variable factor. (AP = TP/V). Marginal product is the extra output that is produced by using an extra unit of a variable factor. (MP = DTP/DV)

total, average and marginal revenue Total revenue is the price of a product multiplied by the quantity sold (TR = PxQ). Average revenue is the revenue that a firm receives per unit sold (AR = TR/Q). Marginal revenue is the extra revenue that a firm gains when it sells one more unit of a product (MR = DTR/DQ).

trade bloc Any association of one or more countries where an agreement is made to reduce trade barriers.

trade creation Occurs when the entry of a country into a customs union leads to the production of a good moving from a high-cost producer to a low-cost producer.

trade diversion Occurs when the entry of a country into a customs union leads to the production of a good moving from a low-cost producer out-side the union to a high-cost producer inside the union.

trade International trade involves the exchange of goods or services between two countries.

transfer payments A payment from the government that is received when there is no good or service exchanged, e.g. a student grant or a pension. Transfer payments are a means of redistributing income in an economy.

underemployment Exists when workers are carrying out jobs for which they are over-qualified or when workers are employed part-time, even though they are available for full-time employment.

undervalued currency When the value of a currency is believed to be lower than what is perceived to be its market equilibrium value, based on its balance of payments position or its international purchasing power.

unemployment rate The number of unemployed workers expressed as a percentage of the total workforce.

unemployment The state of being without work, but willing and able to work, and actively looking for a job.

variable costs Costs that vary directly with the level of output.

weighted price index An approach to calculating the change in the price level by giving a weight to each item according to its importance in consumers' budgets.

World Bank An organization whose main aims are to provide aid and advice to developing countries, as well as reducing poverty levels and encouraging and safeguarding international investment.

World Trade Organization (WTO) An international body that sets the rules for global trading and resolves disputes between its member countries. It also hosts negotiations concerning the reduction of trade barriers between its member nations.

zero economic profit (normal profit) Normal profit is earned when revenue is equal to the total opportunity costs to the firm. A firm earning normal profit (or zero economic profit) has no incentive to leave the industry.

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