MACRO KEY TERM GLOSSARY	
AAA credit rating	The best credit rating that can be given to a corporation's bonds, effectively indicating that the risk of default is negligible
Accelerator effect	Where planned capital investment is linked positively to the past and expected growth of consumer demand
Accommodatory policy	A neutral macroeconomic policy stance in the face of an economic shock. For fiscal policy, generally means keeping tax and government expenditure rates unchanged. For monetary policy, generally means keeping (real) interest rates unchanged.
Aggregate supply shock	Either an inflation shock or a shock to potential national output; adverse aggregate supply shocks of both types reduce output and increase inflation
Animal spirits	The state of confidence or pessimism held by consumers and businesses
Automatic stabilizers	Automatic fiscal changes arising automatically as the economy moves through different stages of the business cycle - for example a fall tax that the government takes out of the circular flow in a recession
Bank run	When a substantial number of depositors suspect that a bank may go bankrupt and withdraw their deposits. Bank runs are rare but one happened with the Northern Rock in the autumn of 2007
Beggar my Neighbor	This is an economic policy that seeks to promote a country's economy at the expense of another country. An obvious example is the use of tariff barriers. A country may place tariff on imports to help promote local domestic industry. This may help local unemployment, but, be at the expense of the other country's export sector
Behavioral economics	Branch of economic research that adds elements of psychology to traditional models in an attempt to better understand decision-making by investors, consumers and other economic participants
Bond	Both companies and governments can issue bonds when they need to borrow money. The issue of new government debt is done by the central bank and involves selling debt to capital markets
Brain drain	The movement of highly skilled or professional people from their own country to another country where they can earn more money
BRIC economies	The BRIC grouping – Brazil, Russia, India and China – has become short hand for the rise of emerging markets in the global economy. The BRICs already have a bigger share of world trade than the USA.
Bubble	When the prices of securities or other assets rise so sharply and at such a sustained rate that they exceed valuations justified by fundamentals, making a sudden collapse likely (at which point the bubble "bursts").
Budget deficit	Occurs when government spending is greater than tax revenues.
Business confidence	Expectations about the future of the economy – vital in business decisions about how much to spend on new capital goods
Capacity	The amount that can be produced by a plant, company, or economy (industrial capacity) over a certain period, if current resources (including capital, workers, etc.) are used to their fullest extent
Capacity utilization	Measures how much of the productive potential of the economy is being used. Utilization falls during a recession
Capital flight	The rapid movement of large sums of money out of a country. There could be several possible reasons - lack of confidence in a country's economy and/or its

	currency and political turmoil
Capital flows	Movements of capital between countries. Outward capital flows are movements of domestically-owned capital abroad; inward capital flows are movement of foreign-owned capital to the domestic economy
Capital stock	The value of the total stock of capital inputs in the economy – affected by the rate of net investment spending
Capital-labor substitution	Replacing workers with machines in a bid to increase productivity and reduce unit costs. This can lead to structural unemployment
Carry trade	A strategy in which an investor borrows money at a low interest rate in order to invest in an asset that is likely to provide a higher return.
Catch-up effect	This occurs when countries that start off poor tend to grow more rapidly than countries that start off rich. The result is some convergence in the standard of living as measured by per capita GDP
Claimant Count	The number of people claiming unemployment-related benefits.
Classical LRAS	The classical LRAS curve is drawn as vertical because classical economists argue that a country's productive capacity is determined by factors other than price and demand such as investment and innovation
Classical unemployment	Classical unemployment is the result of real wages being above their market clearing level leading to an excess supply of labor
Clean float	A currency exchange rate that varies (or floats) according to market forces, free from government intervention
Comparative advantage	Comparative advantage refers to the relative advantage that one country or producer has over another. Countries can benefit from specializing in and exporting the product(s) for which it has the lowest opportunity cost of supply
Competitive devaluation	When a country tries to devalue its currency to increase its international competitiveness. However, this often encourages other countries to also devalue leading to only temporary increases in the competitiveness of exports.
Consumer confidence	Expectations about the future including interest rates, incomes and jobs
Counter-cyclical	Not following the normal pattern of business activity, for example increasing when other activities are decreasing
Countervailing tariffs	Tariffs (duties) that are imposed by a country to counteract subsidies provided to a foreign producer
Credit crunch	When creditors become reluctant to lend money to businesses or individuals because of the increased risk of default due to adverse economic or political conditions
Creeping inflation	Small rises in the general level of prices over a long period of inflation.
Creeping protectionism	A period of time where import tariff rates rise and where countries introduce quotas and barriers to the mobility of labor and capital
Currency union	A group of countries (or regions) using a common currency – for example the 16 countries that have entered the single European currency
Current account deficit	The amount by which money relating to trade, investment etc going out of a country is more than the amount coming in
Cyclically adjusted	Adjusting the value of an economic variable e.g. the budget deficit for the effects of the business cycle
Debt burden	The amount of debt that a business or country has normally expressed as a share of GDP

Debt deflation	High levels of debt leading to falling asset prices
Debt forgiveness	The canceling by a creditor of a debt to a country or a company
De-industrialization	A decline in the share of national income from manufacturing industries
Deflation	A persistent fall in the general price level of goods and services
Depression	Used to describe a severe recession which may become a prolonged downturn in the economy and where GDP falls by at least 10 per cent
Discouraged workers	People often out of work for a long time who give up on job search
Discretionary fiscal policy	Deliberate attempts to affect aggregate demand using changes in government spending, direct and indirect taxation and borrowing.
Discretionary income	Disposable income adjusted for spending on essential bills such as fuel
Disequilibrium unemployment	Disequilibrium unemployment comes about when the aggregate demand for labor is less than the aggregate supply of labor at the current real wage rate and market forces are failing to correct the problem
Double dip recession	When an economy goes into recession twice without having undergone a full recovery in between
Dumping	When a producer in one country exports a product to another country at a price which is either below the price it charges in its home market or is below its costs of production
Economic nationalism	The idea that a country's economy will perform best if its industries are protected from competition, for example by taxes on imported goods
Economic shocks	Unpredictable events such as volatile prices for oil, gas and foodstuffs.
Economic stability	When the main indicators such as growth, prices and unemployment do not change much from one year to another.
Emerging markets	The financial markets of developing countries
Expansionary monetary policy	A policy by monetary authorities to expand money supply and boost economic activity, mainly by keeping interest rates low to encourage borrowing by companies, individuals and banks
Expectations	How we expect the future to unfold – this can have powerful effects on the spending decisions of households, businesses and the government
Fine-tuning	Changes in monetary policy or fiscal policy designed to gradually manage the level of aggregate demand and prices
Fiscal drag	The tendency of income from taxation to rise when an economy is growing. This helps to slow consumer spending and corporate activity, and thus acts as a counterbalance to unrestrained growth
Fiscal stimulus	Government measures, normally involving increased public spending and lower taxation, aimed at giving a positive jolt to economic activity
Fixed exchange rate	An exchange rate that is fixed against other major currencies through action by governments or central banks, usually within small margins of fluctuation around the central rate. Likely to involve periodic intervention in the foreign exchange market by one or more central banks to buy or sell the currency in question if it moves below or above its margins.
Foreign direct investment	FDI is the acquisition of a controlling interest in productive operations abroad by companies resident in the home economy. May involve the creation of new productive capacity such as a new factory
Foreign exchange reserves	The reserves of gold or foreign currencies (e.g. US dollars or Euros) typically

	held by central banks on behalf of their national government
Free trade	When trade between nations is allowed to occur without any form of import restriction
Full capacity output	A level of national output where all available factor inputs are fully employed – this is a factor influencing the underlying growth rate
Full employment	When there enough job vacancies for all the unemployed to take work
Gini Coefficient	The Gini coefficient is a measure of the overall extent to which groups of households, from the bottom of the income distribution upwards, receive less than an equal share of income.
Gilts	Government bonds paying a fixed amount of money ('coupon') as interest annually and redeemable at face value on maturity
Globalization	The deepening of relationships between countries of the world reflected in an increasing level of overseas trade and investment.
Golden Rule	A rule introduced by the Labor government which says that borrowing on state provided goods and services should be zero over the course of one economic cycle. Borrowing is used to finance capital investment.
Hard landing	A full-scale recession shown by a decline in real national output
Hidden unemployment	Unemployment which is known to exist but is not included in the official government figures
Hot Money	Money that flows freely and quickly around the world economy looking to earn the best available rate of return. It might be invested in any asset whose value is expected to rise (e.g. property or shares) or simply be placed in an account offering the best real rate of interest.
Infant industry	New industry that requires government protection from overseas competition (for instance through the setting of import tariffs) in order to develop
Inflation target	The Government sets the Banks a CPI inflation target.
Infrastructure	The transport links, communications networks, sewage systems, energy plants and other facilities essential for the efficient functioning of a country and its economy
Innovation	Changes to products or production processes – innovation is important in delivering improvements in dynamic efficiency
Interest elasticity of demand	The responsiveness of demand to a change in interest rates. This is relevant in discussing the effects of changes in monetary policy.
International Monetary Fund (IMF)	The IMF is an organization of 186 countries, promoting global monetary cooperation, financial stability, international trade, employment and sustainable economic growth. It has provided help for several nations in the wake of the 2007-09 financial crises.
Investment income	Interest, profits and dividends from assets owned and located overseas.
J Curve Effect	The effect of currency depreciation on the trade deficit depends on price elasticity of demand for exports and imports. In the short term, demand is often inelastic and the J Curve effect says a trade deficit can actually worsen after depreciation, but get better in the medium term.
Job search	The process by which workers find appropriate jobs given their tastes and skills
Keynesian economics	The economics of John Maynard Keynes. The belief that the state can directly stimulate demand in a stagnating economy. For instance, by borrowing money to spend on public works projects like roads, schools and hospitals.
Labor shedding	Cut backs in employment often seen in a slowdown or a recession

Labor shortages	When businesses find it difficult to recruit the workers they need
Labor supply	The number of people able, available and willing to work at prevailing wage rates
Lagging indicators	Indicators which tend to follow economic cycles e.g. unemployment
Leading indicators	Indicators which predict future economic trends e.g. consumer confidence
Leveraging	The use of borrowed funds to increase your capacity to spend or invest
LIBOR	London Interbank Offered Rate and - used by banks world-wide to determine the rate at which they lend to each other - whether receiving or giving loans. Libor rates are set daily and released at the same time everyday - 11am London time
Life-cycle model	A theory that says that savings rates depend on how old someone is
Liquidity	Liquidity refers to the ease with which something can be converted to cash with little or no loss of value
Macroeconomic performance	The overall performance of an economy in terms of output, prices, jobs, global trade and living standards.
Macro stabilization policies	A coordinated set or group of mostly restrictive fiscal and monetary policies aimed at reducing inflation, cutting budget deficits, and improving the balance of payments
Managed floating currency	An exchange rate that is basically floating but subject to intervention from time to time by the monetary authorities, in order to resist fluctuations that they consider to be undesirable
Marginal propensity to consume	The proportion of any change in income that is spent rather than saved
Marginal propensity to save	The change in total saving as a result of a change in income
Marginal rate of tax	The rate of tax on the next unit ($) of income earned
Mercantilism	The notion that the wealth of a nation was based on how much it could export in excess of its imports, and thereby accumulate precious metals. Applied in the modern context to countries accumulating huge trade surpluses in goods or services and focusing on export-led growth
Monetarism	School of economic thought that considers money supply as the main factor influencing the economy, and monetary policy as the key instrument of government decision-making. Controlling money supply should ensure steady economic growth and a healthy price environment. Opposed by the Keynesian school, which considers fiscal policy as the key macroeconomic tool
Money illusion	Money illusion occurs when people confuse nominal and real values when making economic decisions. Money illusion is most likely to occur when inflation is unanticipated, so that people’s expectations of inflation turn out to be some distance from the correct level.
Money supply	The entire quantity of a country's commercial bills, coins, loans, credit, and other liquid instruments in the economy.
Moral hazard	When an insured party decides to take higher risks because they perceive their losses will be covered – often linked to the excessive risk-taking by banks knowing that central banks might rescue them
Multiplier effect	If there is an initial injection (e.g. a rise in exports) into the economy then the final increase in AD and Real GDP will be greater.
NAFTA	North American Free Trade Agreement - a free trade area agreement signed by the US, Canada and Mexico

NAIRU	Non-accelerating inflation rate of unemployment: the number of people without work that some economists say is necessary at a particular time in order to prevent prices rising too fast.
National debt	The total amount of debt that the government owes the private sector
Negative equity	Negative equity occurs when the value of an asset falls below the outstanding debt left to pay on that asset. Term is most commonly used in connection with property prices and describes a situation where the market value of a house is less than the existing mortgage debt.
Negative interest rate	An interest rate that is below zero. For real interest rates, this can occur when the inflation rate is higher than nominal interest rates.
Net investment	Gross investment minus an estimate for capital depreciation
Net inward migration	When the number of migrants coming into a country is greater than those leaving in a given time period
Neutral interest rate	A neutral interest rate is a rate of interest that neither deliberately seeks to stimulate aggregate demand and growth, nor deliberately seeks to weaken growth from its current level. In other words, a neutral rate of interest would be that which is set at a level which encourages a rate of growth of demand close to the estimated trend rate of growth of real GDP.
Non-inflationary growth	Sustained growth of real national output whilst maintaining price stability
Open market operations	Central bank intervention in money markets where it buys and sells securities to control the money supply and the level of interest rates
Output gap	The difference between actual and potential national output. A negative output gap after a recession implies that an economy has a large margin of spare productive capacity.
Overseas assets	Assets such as businesses, shares, property which are owned in overseas countries and which might generate a flow of investment income which is a credit item on the current account of the balance of payments.
Paradox of thrift	The basic concept is that if people save more in a recession, it will reduce consumption and thus aggregate demand will fall, impeding economic growth and, in fact, lowering the general level of savings
Phillips Curve	A statistical relationship between unemployment and inflation
Policy asymmetry	When a given change in interest rates affects different groups or different countries to a lesser or greater degree
Potential output	The economy's maximum productive capacity in a physical sense. The largest output that could be produced, given the prevailing state of technology, with all available labor, capital and land fully utilized.
Precautionary saving	Saving because of fears of a loss of real income or employment
Price stability	Price stability occurs when there is low inflation and the price changes that do occur have little impact on day-to-day decisions of people.
Productivity	A measure of efficiency e.g. measured by output per person employed or output per person-hour
Protectionism	The use of tariff and non-tariff restrictions on imports to protect domestic producers from foreign competition
Purchasing power parity	Method of currency valuation based on the premise that two identical goods in different countries should eventually cost the same. This is illustrated by the Big Mac index.
Rational expectations	Where decisions are based on current information and anticipated future events

Reserve currency	A foreign currency that is held in countries' official reserves because of its global importance as a medium of exchange and its inherent stability
Ricardian equivalence	The argument attributed to David Ricardo that government budget deficits have no lasting effects on economic activity. Rational taxpayers are supposed to anticipate that tax cuts today will mean tax increases in future, and so save more when the government saves less.
Quantitative easing	Central banks flood the economy with money by printing new notes, to increase the supply of money. The idea is to add more money into the system to avert deflation and encourage banks/people to borrow and spend.
Quota	A quota imposes a physical limit on the quantity of a good that can be imported into a country in a given period of time.
Real disposable income	Income after taxes and benefits, adjusted for the effects of inflation
Real interest rate	The nominal rate of interest adjusted for inflation
Real wage	The nominal wage adjusted for the effects of inflation
Relative deflation	The term “relative deflation” is generally used to describe an economy with an inflation rate, which has not necessarily descended into negative territory, but is markedly lower than comparable economies
Remittances	Sending of money to people in another country for example migrant workers sending some of their wages to their home country.
Retail Price Index (RPI)	The RPI is broadly similar to the CPI but includes mortgage repayments and some taxes, and excludes the top 4 per cent of earners. It is used to calculate increases in wages, state benefits and pensions.
Risk averse	Exhibiting a dislike of uncertainty, often seen in a recession
Saving ratio	The percentage of disposable income that is saved rather than spent
Soft landing	A slowdown in activity but which does not result in a recession
Sovereign wealth fund (SWF)	A government or state run fund usually created by profits from natural resources such as oil, gas or minerals. Highly secretive, their assets grew dramatically when oil prices rose to record levels. Some of the largest SWFs are in the oil-rich Middle East
Spare capacity	When a business is not making full use of its available capacity - there are spare factors of production including land, labor and capital. When an economy has plenty of spare capacity, short run aggregate supply tends to be elastic.
Special drawing rights	A unit of money created by the IMF. Each member country can borrow SDRs at favorable interest rates from the IMF's reserves when they are needed for reasons related to a country's balance of payments
Stability and growth pact	EU's fiscal rule intended to maintain discipline in the public finances of Euro Area member-states. The pact sets a limit for government budget deficits of 3 per cent of gross domestic product in normal times.
Stagflation	A combination of slow economic growth and rising inflation, can lead to stagflation. The most notable recent period of stagflation occurred during the 1970s, when world oil prices rose dramatically, and UK inflation rose at one point to nearly 30 per cent.
Sustainable growth	Growth which meets the needs of the present without compromising the ability of future generations to meet their own needs
Tariff	A tax on imported products which may be ad valorem (%) or a specific tax (a set amount per unit imported).
Tight labor market	When demand for labor is high and there are shortages of labor. Businesses may

	have to offer higher wages to attract more workers
Time lags	The time it takes for one change e.g. a change in interest rates to affect other variables e.g. consumer confidence and spending
Toxic debt	Loans that may not be repaid.
Trade-off	Choices have to be made between different objectives of policy
Transmission mechanism	How a change in interest rates affects sectors of the economy
Trend growth	The long run average growth rate – mainly determined by changes in the stock of available factor inputs and also improvements in productivity
Under-employment	When people want to work full time but find that they can only get part-time work – the result is a loss of hours that the economy can use
Unemployment trap	When the prospect of the loss of unemployment benefits dissuades those without work from taking a new job – creates a disincentives problem
Unorthodox monetary policy	Any policy undertaken, usually by central banks, that operates outside the usual parameters for influencing either the price or the quantity of money in an economy. – this includes quantitative easing
Unit wage costs	Labor costs per unit of output
Unsecured credit	Credit not secured by another asset – i.e. money borrowed on credit cards
Velocity of circulation	The average number of times a unit of money changes hands in an economy during a given period - normally measured by dividing the total amount spent (GDP) by the amount of money available (money supply)
Wage price spiral	A situation where workers bid for higher wages because they have seen their real income eroded by rising prices. This can lead to a further burst of cost-push inflation in an economy.
Wealth effect	The supposed link between changes in wealth and household spending
World Bank	Owned by 186 member countries, the World Bank is a source of financial and technical assistance to developing countries. It normally targets public works and other essential capital or social projects.
World Trade Organization	The WTO oversees trade agreements, negotiations and disputes between member countries