

# **ECONOMIC AND SOCIAL HISTORY GLOSSARY**

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**annuity** – A constant annual payment.

**arithmetic progression** – A sequence of numbers, the difference between which is the same – viz., 2,4,6,8.

**Atlantic economy** – The economy of Europe and North America, viewed as surrounding the Atlantic and constituting by virtue of cheap transport across it one economy. In this view, which is associated especially with the work of Brinley Thomas, national boundaries in the 19thC are not necessarily important economic boundaries.

**average cost** – Total costs of production per unit of output.

**average propensity to consume** – The ratio of consumption to income.

**balance of payments** – The record of payments by (say) Britain to and from foreigners. The debits and credits are divided into two categories – current account and capital account. The current account is composed of visible trade (goods exported and imported) plus invisible items minus tourism, interest, profits dividends, shipping, government dealings. The capital account includes the net flow of money for investment together with international loans.

**balanced budget** – Refers to a situation where tax revenue and government expenditure are roughly in line. Historically the UK budget has normally been in deficit i.e. not in balance, and the deficit is usually financed by government borrowing (the PSBR public sector borrowing requirement).

**bank rate, bank lending rate, minimum lending rate** – The interest rate the Bank of England charges on loans of short duration to the public. The determination of this rate of interest: influences all other interest rates e.g. building society, commercial banks, credit card, mortgage etc.

**base-year prices** – The prices used as the point of view in looking at prices or quantities of another year. See index numbers.

**bilateralism** – Agreements between two countries extending specific privileges to one another in trade, duties etc Multilateralism means that there is no discrimination between nations. Bilateralism was common in 1930s; multilateralism before 1914 and after 1945 e.g. GATT.

**black economy, black market** – Economic activity not declared for taxation purposes and thus excluded from official statistics.

**blue chip** – First class equity share involving little risk e.g. ICI, Unilever.

**bond** – Type of fixed interest security issued by central or local government e.g.

National Savings Bonds.

**bull** – Stock exchange speculator who purchases shares in the belief that prices will rise, thus allowing a sale at a profit. Opposite – **Bear**: a person who sells shares not yet in his possession believing that he will be able to buy them later at a lower price and thus make a profit.

**Business** – see **strategy; structure; visible hand; market-cum-technological environment; competitive advantage; multi-divisional (M-form)**.

**capital** – Assets which are capable of generating income and which have themselves been produced.

**capital formation** – Investment, using up resources now to get a return in the future.

**capital gains and losses** – Changes in the value of a long-lived asset caused by a rise or fall in its price.

**capital intensive** – Using much capital relative to labour or land.

**capital-output ratio (incremental)** – The change in capital required to sustain a given small rise in production. Calculated by dividing the level of output by the stock of capital.

**capital widening** – Increasing the number of men equipped with a given amount of capital i.e. more capital without increasing other factors of production. Giving more machines to the same number (or fewer) of workers is called capital deepening i.e. more capital intensive.

**capitalism** – An economic and social system in which individuals own the means of production, and their efforts to maximise profits, determine resource allocation by means of the price mechanism.

**cartel** – A group of firms organized to control prices by restricting output and competition. Collusion amongst firms moderates competition.

**central bank** – A bankers' bank e.g. the Bank of England, Federal Reserve Bank. Has responsibilities for note issue, gold and foreign exchange matters.

**cheap money** – Deliberate monetary policy of keeping interest rates low, as from 1932. Effect is to stimulate borrowing and economic activity.

**closed economy** – A system with almost no external trade links. Opposite: Open economy.

**coefficient of variation** – A measure of the variability of a set of numbers, the most useful one in descriptive statistics. It is the standard deviation divided by the average.

**collective bargaining** – The laws, customs and civilized conventions for handling disputed between employers and unionized employees.

**common agricultural policy (CAP)** – EEC system of agricultural supported which covers about 90% farm output. Based on sustaining farm incomes by maintaining high prices to consumers.

**comparative advantage** – Greater relative efficiency than someone else.

**competitive advantage** – achievement of improved performance over rivals through access to technology, finance, human resources and general economic infrastructure.

**complementary demand** – Consumption of items which are inextricably linked e.g. beer & pint mugs, nuts & bolts.

**consols** – British government consolidated stock. Consols were promises to pay lenders to government a low rate of interest forever.

**consumer durables** – Household purchases intended to convey benefits over many years e.g. furniture, electrical appliances.

**consumer goods** – Products bought by individuals/households for final consumption e.g. beer, cheese, but also fridges.

**consumer's surplus** – The excess of what consumers are willing to pay at most for something over what they actually pay.

**consumption function** – The relation between expenditure and total income if the consumption function has a steep slope, nearly all new income is spent. If it is flat, then little is spent. The flatter the slope (called the marginal propensity to consume) the smaller therefore will be the 'multiplier' effect of a given stimulus to income.

**consumption good** – A purchase to satisfy human desire now, as distinct from an investment good purchased to make consumption goods later, and not for its direct, present satisfaction of desire.

**convertibility** – A free exchange of one currency for another, or for gold.

**correlation coefficient** – A measure of how closely one number varies with another. A coefficient of + 1.0 means perfect direct variation, one of -1.0 perfect inverse variation. When two series have no relation their correlation coefficient is near

zero. The notation for a correlation coefficient is  $R$ , whence 'R squared' or  $R^2$ ; the square of  $R$  turns out to be the proportion of the variance in one series explained by the other.

**cost-benefit analysis** – An assessment using economics of the desirability of some project, such as a railway which takes account of social costs and benefits together with economic ones.

**cost-of-living index, retail price index** – A measure of the prices of consumer goods, such as food, housing, health care, clothes etc.

**cost-push inflation** – A rise in prices costs, such as oil prices or trade union wages.

**country banks** – Banks outside London, especially in the 18th and 19thC outside the local, legal monopoly of issuing money possessed by the Bank of England.

**covariance** – A measure of how closely two things vary together.

**credit** – Delaying payment. Three types of credit may be identified (i) bank credit – loans and overdraft (ii) trade credit – materials supplied in advance of payment (iii) consumer credit – from shopkeepers, finance houses for the purchase of goods.

**creditor** – A person/firm to whom money is due. Opposite to debtor: one who owes.

**cross-section** – The general average price of flats in Britain in 1914, 1915, 1916 and so forth is a time series; the price of flats in 30 towns in 1914 is a cross-section.

**crowding-out** – The view that investment by the government would merely push aside private investment.

**currency appreciation/depreciation/devaluation** – The change in the exchange rate of one currency in terms of another. e.g. 1931 GB came of the gold standard and the £ fell (depreciated) in value from \$4.86 to \$3.97. i.e. immediately 89 cents less bought the same amount of £s (or goods).

**current account** – Foreign trade in goods and services. (Contrast the capital account, the trade in loans and the monetary account, the trade in money – see balance of payments).

**current price vs. constant prices** – 'Current price' refers to valuing, say, national product in this year's prices. 'Constant price' valued goods produced at the prices of some base year, the better to compare output or income free of the effects of more inflation.

**debenture** – Fixed interest securities. Usually issued by companies in return for

long term loans.

**debt conversion** – Issue of new stock to replace another often at a lower interest rate.

**deficit financing** – The act of financing government expenditure partially through borrowing from the public rather than taxing it.

**deflation** – (1) A condition of low aggregate demand.  
(2) A sustained fall in prices, said sometimes to result from (1).

**deflator** – The index of prices used to express incomes earned in one year in terms of the prices of another year.

**de-industrialisation** – A long term downward shift in the manufacturing element national income e.g. the contribution of manufacturing to Gross Domestic Product fell from 29% to 25% between 1975 and 1985.

**demand, aggregate** – The total demand for all goods and services in the economy; identical to national income.

**demand-curve** – The amounts of a commodity that people wish to buy at various different prices per unit of it. At a low price of labour, for example, businesses and other buyers of labour would like to buy much of it. Whether or not their wish is fulfilled depends on the supply curve.

**demand management** – The government's attempt to influence levels of expenditure in accordance with perceived policy goals.

**demand-pull inflation** – A general rise in prices in the economy due to society's desire to buy more than it has produced. A persistent excess of demand over supply.

**demographic crisis, subsistence crisis** – Overpopulation relative to the amount of land available for agriculture.

**demographic transition** – The move experienced by all European countries in the 18th through 20thC from a roughly stable population brought about by high birth rates matched with equally high death rates to a roughly stable population brought about by low birth rates matched with equally low death rates.

**dependency ratio** – The ratio of those who do not work for money to those who do.

**dependent variable** – A variable whose value is conditional on that of something else  
Opposite: independent variable.

**depreciation** – The fall in the value of an asset through wear and tear.

**devaluation** – A fall in the value of a currency relative to another.

**deviation from trend, absolute and relative** – Of a time-series, i.e. higher or lower than what might be expected from a line fitted through the points. A harvest failure in 1816, for example, would be a deviation from the trend of the wheat crop 1800 to 1820. The absolute deviation is the number of bushels below the 1800–1820 trend that the crop fell; the relative deviation is the percentage fall.

**differentials** – Usually in reference to wages, differences between wages from one job to another or from one place to another.

**diminishing returns** – The fall in the amount of additional output as additional doses of input are applied.

**direct tax** – Levied on the people on whom it is believed or intended to fall, such as the income tax.

**discounted value** – The amount by which one down-values income earned in the future relative to income earned today.

**discount rate, market rate of discount** – The percentage reduction of the price of a short-term IOU (e.g. a 90 day bill) now below its value when it falls due later.

**diseconomies** – Rises in cost as an enterprise becomes too big for the abilities of its managers to manage. Opposite: economies of scale result for production costs falling as a result of larger discounts, production runs, etc.

**disposable income** – National income minus personal taxes plus subsidies and payments of interest on the government debt. It is the income available in someone's bank account or pocket for spending or saving, the government having taken its share of the product earlier.

**dis-saving** – Expenditure in excess of income.

**distribution of income** – (1) By size: the frequency of rich and poor.  
(2) Functional: how income is allotted to labour, to land, and to capital.

**division of labour** – The organisation of labour processes such that each worker specialises in a limited range of production stages.

**dumping** – The sale of a product at below marginal cost.

**durable goods** – Long-lived goods, e.g. houses or machinery giving value or

satisfaction over more than 1 year.

**economic growth** – The increase in the per capital national income of a country.

**economic imperialism** – The exploitation of under-developed countries by advanced ones.

**economic rent** – The excess of one's income over what could be earned in alternative employment. e.g. a cabinet minister earning £40,000 might only be employable otherwise as a JCB operative earning £15,000. Thus the minister would remain in his present job even for £15001. Economic rent = £24,999.

**economies of scale** – The lowering of costs of production caused by an expansion in the scale of output.

**elasticity** – Sensitivity or expansibility. The price elasticity of demand for housing, for instance, is the sensitivity of the quantity of housing people wish to buy to the price of housing. If they change their buying of housing very little when price goes up the demand is said to have a low elasticity, or to be inelastic; if they change it a lot it is said to have a high elasticity, or to be elastic. Supply, too, has an elasticity with respect to price. Mathematically speaking, elasticity is the rate of change of, say, quantity demanded (the result) divided by the rate of change of price (the cause).

**elastic supply curves or schedules** – Schedules of amounts forthcoming at various prices that show the amount to be very expansible at little rise in the price: by a small rise in the wage offered the employers could get as many additional workers as they wanted.

**endogenous** – Caused inside the system being analyzed.

**entrepreneur** – An individual who perceives market opportunities and organises factors of production.

**equilibrium** – A much-used term in economics, meaning a condition in which the forces which determine economic behaviour are in balance.

**equity** – The residual value of a company's assets after all outside liabilities (excluding those to shareholders) have been taken into account.

**eurocurrency/eurodollar market** – Currency held by both individuals and institutions outside the country of issue. Banks outside the US took deposits in \$s, or swapped other currencies in \$s. These were then loaned to other banks, institutions.

**ex ante** – The anticipated value; from the point of view of before the event.

**ex post** – The realised value; from the point of view of after the event or attained.

**exchange control** – Government control through the central bank of dealings in foreign currencies and gold.

**exchange rate** – The price at which the currency of one country is exchanged for that of another.

**exogenous** – Caused outside the system being analyzed.

**expenditure tax, indirect tax** – Taxes imposed only on the amounts people spend, as distinct from taxes on income.

**externalities, external economies or diseconomies** – Effects you did not directly pay for, outside your own control, not directly affected by your activities.

**factor costs** – A term used to denote a valuation of output at market prices.

**factor markets** – The capital market, labour market and land market in which factors are bought and sold.

**factor of production** – One of the inputs into making things, especially the tripartite division into the inputs, land, labour and capital.

**factor endowments** – The inputs a nation has at its disposal, including labour, machinery, buildings and skills.

**factor shares** – The fractions of income going to labour land and other inputs.

**fiscal policy** – The plans made by government for taxation and public spending.

**fixed capital** – Capital that cannot be varied in amount quickly to suit circumstances, e.g. plant, installations (opposite therefore of working capital).

**fixed cost** – Costs that do not rise as one makes more.

**foreign investment** – The acquisition by governments, institutions and individuals in one country of assets in another. It is these which produce invisible income – dividends, interest etc.

**free goods** – Something which has no price because it is not a scarce item, e.g. air.

**free trade** – The absence of artificial barriers, such as tariffs and quotas, to exchange among nations.

**full employment** – The condition of the economy in which all who wish to work

can find it.

**gilt edged securities** – Fixed interest government securities ‘gilt-edged’ due to the certainty of interest and of redemption.

**gold reserve** – Assets held as part of international reserves, held by the Bank of England used to maintain the gold value of UK paper money.

**gold standard** – The system of valuing paper currencies (£,\$, francs) at fixed amounts of gold. Being fixed to gold they are fixed (within limits of transport cost called ‘gold points’) to each other. The gold standard, then, amounted to a system of fixed exchange rates. Britain was on gold from 1819–1914 and from 1925–1931. From 1872–1931 or 1933 enough countries were on gold to justify calling it a system.

**gross domestic fixed capital formation** – The expenditure to produce new machinery, buildings, and other slow-to-adjust assets located at home and including replacements of worn-out capital as well as entirely new capital.

**gross domestic product (GDP)** – The sum of the value of everything produced in Britain during a specified time (normally a year, or a quarter). GDP is valued at market prices so that different elements can be added together. GDP is also valued at factor cost, i.e. by deducting the amount of tax in the final cost of goods.

**gross national product (GNP)** – GDP plus income to UK residents which is derived from abroad minus payments to foreigners resident in the UK.

**gross reproduction rate** – A measure of how many children the typical woman will have over her life. It eliminates the effect of varying proportions of women at various ages.

**holding company** – A company that controls another company or companies. In most cases they are characterised by relatively little central control and extensive divisional autonomy.

**hot money** – Bank accounts liable to rush in and out of Britain in response to small differences in the interest that can be earned on them at home and abroad.

**hyper-inflation** – A very rapid growth in the rate of inflation (50% more per month) during which money loses its value; barter is then the preferred means of exchange.

**imperfect market** – Markets in which productive and allocative efficiency in the factors of production are undermined by collusion, barriers to trade, etc.

**incidental learning** – Learning that occurs causally and effortlessly, normally through experience.

**income elasticity of demand** – How sensitive the demand for some particular product is to changes in incomes of demanders.

**incremental learning** – Learning that occurs through a series of logically planned exposures to instructional material and/or experiences.

**index number** – A weighted average of a number of statistical observations as a percentage of a similar weighted average for an earlier or base period.

**indirect tax** – Levied on goods, import duties, excises, sales taxes.

**infant industry** – Newly established industries, often used as justification for the introduction of tariffs so that they are not extinguished by foreign competitors.

**inferior good** – Something for which demand falls as incomes rise, e.g. rye bread in 19th C.

**inflation** – A sustained rise in money prices. Effect is to devalue the worth of money.

**inflationary finance** – The support of government by the printing of money as distinct from taxing or borrowing from the public.

**inflationary gap** – An excess of desired expenditure in the nation over the capacity to produce it. In the Keynesian theory the gap is the cause of inflation.

**informal empire** – The nations tied to Britain by commerce and foreign policy, especially in Latin America, ‘the empire of free trade’, as distinct from the literal empire in Canada, India and so forth.

**infrastructure** – The capital and the institutions needed for an economy to work well; roads, courts of law.

**input driven learning** – Training that follows a pre-set syllabus using predetermined training techniques. It seeks to guarantee that learners will acquire a certain knowledge band/or abilities. This contrasts with ‘outcome-led’ learning whereby a training programme is adapted according to how well trainees are coping with the course, e.g. by devoting more time to certain topics or by lowering the standards of achievement in response to trainees’ slow progress.

**intermediate goods** – Goods used to make goods, as distinct from final’ goods.

**internal economies of scale** – A fall in cost a firm may experience when it expands, as against ‘external economies (coming from outside the firm), e.g. the spreading of the fixed costs of a large building that occurs when more activity is crammed into it is an internal economy of scale.

**inventories** – Raw materials, stocks of work in progress and of finished goods i.e. capital tied up.

**investment** – Capital formation e.g. in production of machinery, dwellings. These produce an income stream in future years. Investment involves the sacrifice of consumption in the present for a return in the future.

**invisible earnings** – A country's earnings in providing the rest of the world with 'invisible' (i.e. intangible) services, such as shipping, insurance, tourism.

**invisible exports** – Invisibles are services and therefore not themselves tangible, insurance, shipping, education sold to foreigners, for example. The service of making loans at interest to foreigners is generally out in its own category.

**'Invisible hand'** – Adam Smith and classical economists claimed that though individuals pursued their own interests, this was advantageous to society as a whole.

**iron law of wages** – The proportion, popular in economics c1830, that the wage will never rise above subsistence because workers will give birth to more workers as it does.

**joint-stock company** – A business that sells certificates of ownership in itself, the 'ownership' being a right to a share in profits.

**Keynesian** – Of the school of Keynes (1883–1946) (pronounced 'canes') the famous Cambridge economist and government adviser, whose *General Theory of Employment, Interest and Money* (1936) revolutionised economics. The revolution, under heavy counterattack in the 1980s, advocated the use of government spending and other active policies to offset the cycle of boom and bust. Central elements of Keynes' views were (i) the importance attached to aggregate demand, which influenced overall levels of economic activity; (ii) high unemployment rates could continue in the long term; (iii) government's abilities to influence unemployment levels and aggregate economic activity through fiscal measures (tax and government spending) were considerable.

**Kondratieff cycle** – A trade cycle of 50+ years duration.

**Kuznets Cycle, long swing** – Variations in the rate of growth of some 20 years duration from peak to peak, discovered by Simon Kuznets. They have been connected to periodic waves in migration, population growth, house building, technological change, and frontier settlement.

**labour-intensive** – Using much labour relative to other inputs, especially capital.

**labour-saving innovations** – improvements in knowledge of how to do things that reduce the amount of labour especially.

**laissez-faire** – Term originated by Physiocrats who maintained that only agriculture generated wealth and therefore condemned any interference by government in industry or trade as harmful and ineffectual.

**land intensive** – Using much land relative to capital or, especially, labour.

**learning** – see **incidental learning; incremental learning; input driven learning; social learning.**

**least squares regression** – A statistical technique for estimating the relationship between a dependent variable and independent variable(s). The least squares line finds that line which minimises the difference between the actual observations and the estimated ones. The slope and position of the line provide values for a (intercept) and b (gradient).

**leisure preference** – The taste for activities other than working in the market e.g. sleeping, painting for pleasure, doing housework.

**lender of last resort** – An essential function of a central bank, namely a willingness to lend to the banking system at all times, albeit on its own terms.

**limited liability** – Limitation of an investor's loss in a business to the amount of capital invested s(he) has invested in it.

**linear relationship** – A functional relationship between variables which is a straight line.

**liquidity** – The ease with which an asset can be quickly turned into money. An individual or company can be said to be 'liquid' if a high proportion of assets can be turned into cash.

**Lorenz curve** – A summary measure of equality or its lack. The degree of inequality between variables e.g. the plot of the % of all income of the nation received by the bottom % of the income recipients.

**lumpiness** – The all-or-nothing character of some projects.

**Macmillan Gap** – An assertion by the Committee on Finance and Industry, which reported in 1930–31 that the British capital market channelled funds abroad or into large businesses, leaving little businesses starved of capital.

**macroeconomics** – That part of economics concerned with aggregate economic activity. Concerned with the study of factors which determine the level and behaviour of national income e.g. employment, money, income, etc.

**Malthusian trap** – A situation in which rises in income due to (say) technical progress are offset by rises in population, leaving the income per head unaltered.

**marginal** – In most economic usage ‘of the last’. Marginal analysis is concerned with the effects of changes in variables by a small amount. Marginal tax rate is the rate of tax on an extra £ of income. Marginal Utility refers to the satisfaction gained by a consumer from a small increase in spending. Margin cost is the cost of the last unit produced. Marginal land is the last acre to be brought into production. Marginal product is the increase in output to be expected from an additional unit of input. Can refer to land, labour or capital. Marginal vs. average return: the return on the last bit of investment vs. the return over all previous investments.

**marginal propensity to consume (MPC)** – The share of spending on consumption out of each additional £ of income. The reverse is the marginal propensity to save i.e. the proportion of a small increase in income which is saved.

**market** – Exists where potential buyers and sellers are in contact. Need not be a physical location, as in market place. This, wheat was traded in a world-wide market during the 19thC, housing in a local market. The trades need not be in one place, like the central market in town on Saturday. Market equilibrium: supply equals demand.

**market-cum-technological environment** – combination of market and technical pressures experienced by a firm.

**merger** – The combining together of two or more firms. Three broad categories of merger may be identified:

horizontal – mergers between firms that are direct competitors in the same market

vertical – mergers between firms which stand in a supplier-customer relationship

conglomerate – mergers between firms operating in unrelated markets which are seeking to diversify their activities.

**microeconomics** – Economic analysis at the level of individual consumers, or firms. Analysis is at a disaggregated level. The part of economics having to do with markets, relative prices, and scarcity.

**monetarism** – The macroeconomic theory, associated especially with US economist Milton Friedman, claiming that the money supply is a prime mover of the level of prices and of income. Monetarists claim that increases in the money supply are a sufficient condition for inflation.

**monetary policy** – The plans by government for changing the amounts of money in order to affect unemployment and inflation.

**money supply** – The sum of all means of payment, such as coin, bank notes, current accounts, and easily cashable savings accounts.

**monopoly** – A type of market structure characterized by:

1. One firm and many buyers;
2. A lack of substitute products;
3. Blockaded entry.

**moving average** – An average over several years, called ‘moving’ because as years pass the earlier years are dropped from the average and the mid-year of the average moves. It is a crude way of smoothing out jumps in a series.

**multi-divisional (M-form)** – sophisticated means of controlling diversified companies by means of central direction balanced with divisional autonomy.

**multilateral settlement, payments** – Pattern of buying and selling among all countries.

**multiplier** – Ratio by which new expenditure in an under-employed economy results in a larger rise of income.

**multinationals** – Companies operating outside the country of origin.

**national debt** – The loans owed by the state.

**national income, national product** – The sum of the value of everything produced for the nation. National income is the sum of every income earned in the nation: workers, capitalists, landlords, bureaucrats.

**net investment** – All investment minus the investment in depreciation.

**net national product** – See gross national product; what the nation makes excluding that used to repair old machines and buildings.

**official reserves** – The gold or dollars held by the central bank in order to back (i.e. stabilize the value of the national currency).

**oligopoly** – Market dominated by a few producers whose products are clearly differentiated.

**opportunity cost** – The value of an alternative given up to pursue another.

**overvaluation** – A condition of a currency in which the price at which it is presently selling in terms of other currencies is for some reason too high. The pound sterling, for example, is said to have been overvalued when Britain returned to gold in 1925. The price of the pound (\$4.86) did not fall, because the Treasury would buy up pounds to keep the price up. According to the traditional story, the price level in Britain had to fall to achieve equilibrium at the too high price of pounds.

**partial equilibrium analysis** – Economic thinking that takes one small sector of the economy in isolation, on the argument that the more remote consequences of a change in question by way of other parts of the economy are unimportant.

**participation rate** – The percentage of a group who work in the market instead of at home.

**patent** – An exclusive right to use or sell one's invention.

**perfect competition** – A theoretical condition in microeconomics in which many small firms compete in the supply of a single product. It is assumed that no firms are large enough to influence the price and supply of others, and that each is attempting to maximise profits.

**permanent income** – The income one can count on having, contrasted with 'transitory' income.

**Phillips curve** – An association of high unemployment with low inflation and low unemployment with high inflation. Phillips claimed that there was close relationship between the percentage change of money wages and the level of unemployment – the lower the rate of unemployment the higher the rate of change of wages.

**piece rates** – Wages paid by what the worker produced rather than by the hour.

**planned economy** – The state rather than market forces directly determine prices, output and production according to and implemented by state economic planning and regulatory agencies.

**poverty trap** – The combined effect of losing state benefit entitlement and paying tax which ensures that poor families retain little of any extra money they earn.

**price-earnings ratio** – The quoted price of an ordinary share divided by the most recent year's earnings per share.

**primary goods, primary sector** – Those 'earliest' in the stages of production. 'Secondary' goods are manufactured commodities, such as cloth, glass, processed food. 'Tertiary' goods are not goods at all, but services.

**privatisation** – the transfer from the public to the private sector of entitlements to residual profits from operating an enterprise, coupled with any accompanying changes in regulatory policy.

**producers' surplus** – Excess of what producers are actually paid over what they would be willing to accept.

**productivity** – Output per unit of input, normally of land, labour, capital or some combination of these.

**proto-industry** – Early decentralised and unmechanized industry, as in rural Flanders or Lancs in the 18thC.

**public sector** – Central and local government plus nationalised industries.

**public-sector borrowing requirement (PSBR)** – The excess of public sector spending over receipts. Can be financed by either printing money or borrowing, which may increase interest rates.

**quantity theory of money** – The view that an increase in general prices is a result of increase in the supply of money.

**rate of return** – The interest on a loan generalised to apply to anything that involves sacrifice now for a reward later.

**rationalisation** – A catchword in the 1920s and 1930s for industrial combinations, often of a monopolistic character meant to make neat and efficient the running of British industry. According to

**real income/real vs. money wages** – Money wages are the pay packet in actual money terms; real wages express its purchasing power in constant price terms i.e. net of the effect of changing price levels. This is particularly helpful for comparative purposes. If incomes increase by 8% and prices by 6%, real incomes have only improved by 2%, or, if in the 1880s incomes were static and prices fell by 4% pa then real incomes were 4% higher.

**rediscounting, discounting** – The purchase of IOUs before they are due, giving the original holder money immediately and giving the holder in due course the interest to be earned by holding them.

**reflation** – A macroeconomic policy increasing aggregate demand so as to reduce unemployment.

**re-export** – Goods imported and then immediately exported abroad without further processing.

**regression analysis, regression equation** – Techniques for fitting straight lines through a scatter of points. In finding the straight line that would best summarise the relationship during 1921–1938 between consumption and income, for instance, one is said to regress consumption on income; i.e. fit a straight line through points on a graph of annual consumption and income for these years.

**relative income hypothesis** – Notion that one's consumption depends on one's relative economic position, not on absolute wealth.

**relative price** – The price of one good in terms of another good, rather than in terms of money.

**rent** – Income to an owner for the services of a durable good land, property, equipment.

**rentier** – Often with an unfavourable connotation, it means the receiver of income without labour, e.g. the owner of government bonds.

**retail price index, cost-of-living index** – The average of prices in shops, as distinct from prices at the warehouses or in the economy generally. Also see index numbers.

**savings ratio, savings rate** – The ratio of abstention from consumption to all income.

**secular** – long term trend i.e. to be distinguished from short term cyclical fluctuations. Secular stagnation: a view associated in particular with the American Keynesian economist Alvin Hansen in the late 1930s and early 1940s that modern capitalism had exhausted its ability to grow.

**share indices** – index numbers indicating changes in the average prices of shares on the stock market. e.g. Dow-Jones: FT/SE 100 share index.

**skewed distribution of income** – The profile of how many people earn what yearly incomes, from the poorest to the richest, is known as the income distribution of the society. A graph of such a distribution is not normally bell shaped, but squeezed over towards the low end. Such squeezing is known as skewness.

**social** – Referring to society as a whole: e.g. social capital is society's stock of productive assets; social welfare refers to the total well-being of a community.

**social learning** – a deliberate attempt to adjust the goals or techniques of policy in response to past experience and new information. Learning is indicated when policy changes as the result of such a process.

**social opportunity costs** – Value of alternatives sacrificed by a decision, viewed from

the entire society's point of view.

**social overhead capital** – Capital used by the whole society, especially in circumstances in which expenditure on it is large and the ability to charge for its use is small roads, dams, schools, the diplomatic corps.

**social rate of return** – The rate of return on a project earned by the entire society, rather than by one group of beneficiaries. The social rate of return to the building of canals, for example, is not merely the return (from fares) to the owners of the canals (596 say) but also the return to shippers and landowners not captured by the canal owners (an additional 4% say) for a social rate of return of 9% per year.

**social savings** – The benefit from a project, measured to include all benefits over the entire society.

**socialism** – A social and economic system in which the means of production are collectively owned and egalitarian measures are given priority.

**specie payments** – Giving gold or silver ('specie') in exchange for paper currency.

**standard deviation** – A measure of variability; the square root of variance.

**staple products** – (1) Basic industries or industries on which the prosperity of the nation is thought to depend, such as coal and cotton.  
(2) Raw materials.

**stockbuilding, inventory investment** – Adding to inventories.

**stop-go** – A critical description of the economic policy of British governments in the 1950s and 1960s. Policies causing a boom (go) were said to lead to large imports and to a crisis in the balance of payments, which in the opinion of successive governments called for policies to cause a recession (stop).

**strategy** – determination of long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out those goals.

**strict settlement** – In English law, a device by which the heir to a property cannot dispose of it, or is in some other way restricted in his use of it, for the advantage of future heirs. The family line was thus protected against the greed or foolishness of any one member but likewise was prevented from taking advantage of novel opportunities for enrichment.

**structure** – the design of organisation through which the enterprise is administered.

**substitution effect** – The rate at which consumers switch spending to or from a

product when its relative price changes. Utility is left unchanged.

**supply curve** – The amounts of a commodity forthcoming at various different prices for it e.g. at a low wage, the supply curve of labour will yield a small amount of labour, at a high wage a large amount.

**supply elasticity** – The sensitivity with which the amount supplied responds to changes in price. If some buyer of wheat offered a little more than the going market price, for example, sellers would rush in to supply him. He would face a very high elasticity of supply. On the other hand, if the world as a whole offered a higher price for wheat, very little more would be forthcoming: the world as a whole faces a quite inelastic supply of wheat.

**taxation** –

progressive tax: A tax which takes an increasing proportion as income rises.

regressive tax: Taxes whose burden falls on the poor, as taxes on food are said to be.

proportional taxation: A structure of taxation in which tax is levied at a constant rate as income rises.

**terms of trade** – The price of exports divided by the price of imports. More generally, it is the price of what a country buys relative to what it sells. An improvement in the 'terms of trade' would entail a rise in the price of exports relative to the price of imports.

**tertiary sector** – The service portion of the economy.

**time series** – Of facts, given in, e.g. year-to-year or month-to-month form; in contrast with cross-section, which is person-to-person or place-to-place. Income of the nation in 1860, 1861, 1862 and so forth is a time series; the incomes of 100 miners in 1860 is a cross-section.

**total vs. variable cost** – Total costs are all costs, whereas variable costs are only those costs that vary with output. Fixed costs (such as the site rent of a shop or the mortgage payment on the purchase of machinery) do not vary with output, and are the other element.

**trade cycle** – Regular fluctuations in the level of national income. In particular a series of peaks and troughs was associated with 19th C economic activity. In the light of experiences in the 1920s and 1930s, governments have attempted to manage the economy by more direct intervention, until the 1980s.

**transaction costs** – Expenses of doing business, such as the expense of finding someone to do it with, of negotiating a deal and of making sure the deal is carried

out.

**Treasury view** – The opinion on how to fight the slump of the 1930s that was associated with the British Treasury. Based on non-interventionism, limited public works and government expenditure, it was anti-Keynesian and cautious.

**trend** – Of a statistic for a series of years, the level it might be expected to be at in some year according to a line fitted through many or all the years. The expectation can be formed in various ways, e.g. by a moving average or more elaborately by a regression.

**U-form (unitary form) organization** – Term coined by Oliver Williamson, in which an organizational structure adopted by firms is managed centrally as a single unit specialised along functional lines (marketing, production, finance and personnel).

**underemployment** – Work-spreading to give each man a position but only part of a job. As distinct from simple unemployment, everyone is apparently at work, but not profitably.

**unemployment** – The condition of the economy in which many who seek work are unable to find it. Measured as the percentage of the total labour force out of work. Causes of unemployment may be:

- classical: unemployment caused by excessively high wages.
- Keynesian: caused by a deficiency in aggregate demand which is insufficient to generate enough employment to reach full employment.
- frictional: people between jobs i.e. short term, in pursuit of a related job.
- cyclical: people out of work because of a temporary downswing in economic activity.
- structural: long-term unemployment caused by the decline of certain industries and changes in production processes.
- seasonal: variations in U according to seasons – tourism, construction agriculture.
- technological: unemployment resulting from the automation of production activities.

**unit wage costs** – The amount spent on say, steelmaking labour in making steel per ton of output.

**value added** – The money amount an industry contributes directly to the making of a good. The 'direct' contribution of the steel industry is the value of the labour, capital, and land employed. The raw materials such as coal, iron ore, and electricity are purchased from other industries. These therefore are not value-added.

**variable cost** – Costs of a factory, such as leather in a shoe factory, that vary with how much the factory produces. The initial cost of the buildings and machinery, by contrast, is a 'fixed' cost.

**variance** – The variance of the incomes of people, for example, is the sum of the squares of the differences between the average income and each persons income cf. coefficient of variation, standard deviation.

**visible exports** – Visible exports are literally so, goods one can see and touch.

**‘Visible hand’** – role of big business or government usurping the role of market forces.

**wage drift** – Difference between wage rates set by national agreements and the total earnings received by workers.

**wealth** – It may be defined narrowly, to include only money, houses, bonds, jewels, or broadly to include the value of future earnings. The nations wealth does not include bonds and other IOUs of one citizen to another.

**weighted average** – The typical value of some measure, adjusted for the relative importance of various items. Thus, the unweighted average of city sizes would count Norwich and London each as cities: the weighted average would count London more than Norwich perhaps in proportion to their size.

**working capital** – The capital of a firm in the form of materials to be worked on, cash in hand, inventories of finished products, and so forth that can be readily made into cash.