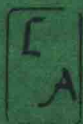


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AND  
BUSINESS

ERWIN ESSER NEMMERS

A Littlefield, Adams



Quality Paperback

# Dictionary of ECONOMICS and BUSINESS

By

ERWIN ESSER NEMMERS

*Professor of Management  
Graduate School of Management  
Northwestern University*

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## Aids in Using the Dictionary

This dictionary lists terms under their abbreviations. Thus American Federation of Labor is under AFL, since one can find the latter given the former, but not vice versa.

This dictionary is designed to include the terms commonly used in courses in the following subjects:

accounting	labor problems
administration	management science
business cycles	marketing
business law	money and banking
business and government	operation research
business organization	personnel management
econometrics	production
economics	public finance
economic theory	public utilities
finance	real estate
insurance	securities
international economics	statistics
investments	taxation
	transportation

This dictionary distinguishes between: SEE, which refers only to the alphabetical location of the term; SAME AS, which identifies two different terms as having the same meaning; CF. (COMPARE), which identifies related terms. Italicized words are defined elsewhere in the dictionary.

One violation of alphabetizing occurs when there are a number of specific types of a general term. These are listed immediately after the general term. Thus, *accounts, types of*, follows immediately after *account* rather than in the place where *accounts, types of* should alphabetically appear.

# Dictionary of ECONOMICS and BUSINESS

By ERWIN ESSER NEMMERS

## *About the Author*

Received his A.B. from Marquette University, his A.M. in economics from the University of Chicago; and his Ph.D. in economics from the University of Wisconsin. He also holds the LL.B. from the Harvard Law School, the S.J.D. from the University of Wisconsin, and the C.P.A. from the State of Wisconsin. He is a member of the Wisconsin, Illinois, Federal, and United States Supreme Court bars. He is the author of *Hobson and Underconsumption* (1956, 1972), *Managerial Economics: Text and Cases* (1962), *Cases in Finance* (1964), *Business Research: Text and Cases* [with J. H. Myers] (1966) *Basic Managerial Finance* [with A. E. Grunewald] (1970, 1975) and *Managerial Finance: Essentials* [with C. O. Kroncke and A. E. Grunewald] (1976, 1978). Many of his studies have appeared in scholarly journals. Dr. Nemmers is Professor of Management, Graduate School of Management, at Northwestern University and is associated in various capacities with several industrial companies. Dr. Nemmers was previously on the faculty of the University of Wisconsin (both Madison and Milwaukee) and at Milton College.

(see inside back cover for list of Littlefield, Adams Quality Paperbacks)

**AAA** Agricultural Adjustment Act. A 1933 federal law intended to aid farmers by raising the prices of crops and livestock through controlling their production. The law of 1933 was declared unconstitutional but a revised law of 1938 is constitutional. It provides for: (1) soil conservation, (2) research laboratories, (3) *parity prices* and marketing quotas, and (4) loans by Commodity Credit Corporation. The abbreviation also stands for Agricultural Adjustment Administration, an agency of the Department of Agriculture, administering the law.

**abandonment.** (1) The relinquishment or surrender of rights, interests, or property by one person to another either expressly or by implication. (2) Fire insurance policies now have an "abandonment clause" which forbids the owner to abandon fire-damaged property, and requires him to take good care of it until an adjustment is made with the insurer. (3) In transportation, the refusal by the consignee to receive freight so damaged as to be worthless.

**abatement.** (1) Extinguishing all or part of a claim. A tax abatement is really a cancellation of the tax claim. (2) Legal steps to terminate a nuisance.

**ability to pay tax theory.** The most common principle on which the tax burden is based. Income, property, or consumption can be used as a basis for measuring ability to pay. Theoretically ability to pay is measured by sacrifice (loss of utility). Cf. *benefit tax theory*; *diffusion tax theory*; *sacrifice tax theory*.

**ab initio.** Latin for "from the beginning." In law, used particularly with reference to the question of illegality as to whether a sale, contract, etc., is to be set aside from its inception or from the time of action by a party.

**abrasion of coin.** The loss of weight sustained by money as it passes from hand to hand while in circulation.

**abrogation.** In law, the process of nullifying or terminating a right.

**absenteeism rate.** The number of days of lost time in relation to the number of possible working days is referred to as the absenteeism rate. The most frequently used formula is  $A = L/F$ , where  $A$  = absenteeism rate,  $L$  = number of days of lost time, and  $F$  = number of possible working days.

**absentee ownership.** Separation of the place of residence of owners from the location of the property from which they derive income. E.g., residing in Paris and owning a plantation in Brazil.

**absolute advantage.** The advantage which one region or country enjoys over others when that region or country has lower costs of production of a particular commodity due to natural advantages, lower labor costs, or some other superiority. In the early development of the principle of *comparative advantage*, differences in real costs, such as labor, were used to explain the origin of advantage. Absolute advantage then became a special case of real costs of production of a commodity that were lower in one country than in another. In a modern statement of the principle in terms of differences in cost or price ratios, when price levels and exchange rates are in equilibrium absolute and comparative advantages are assimilated and appear as a lower price of a commodity in one country than in another. Cf. *comparative advantage*.

**absolute income hypothesis.** The argument that current consumption is largely a function of the current (absolute) level of income. Identified with Keynes. Cf. *past income hypothesis*, *life-cycle income hypothesis*, *permanent income hypothesis* and *relative income hypothesis*.

**absolute priority.** The right of senior creditors and stockholders to be paid in full before any junior issues receive anything. For example, if there are \$500,000 in assets, \$100,000 in bonds, \$500,000 in preferred stock, and \$500,000 in common stock, the bondholders are paid in full, the preferred stockholders get 80 cents on the dollar, and the common stockholders nothing. Cf. *relative priority*.

**absorption.** In transportation, the assumption by one carrier of switching or other special charges of another carrier of the same shipment without increasing the rate to the shipper.

**absorption costing.** A product costing method which adds fixed *manufacturing overhead* to the cost of units produced and inventoried. Cf. *direct costing*.

- abstinence theory of interest.** An explanation of interest as the price paid by the borrower to the lender for the latter's abstaining from consumption of part of current income. Cf. *agio theory of interest, liquidity preference theory of interest, loanable funds theory of interest, marginal productivity theory of interest, time preference theory of interest.*
- abstract of title.** A document containing the history of a particular piece of land, giving a summary of all transactions, including claims, suits, liens, mortgages, deeds, etc., which evidence or affect title to the land. There may also be some valid claims which are not in the abstract because they are not required to be recorded.
- accelerated depreciation.** Depreciation at a faster rate than usual. In recent years used to refer to *tax amortization certificates* which upon government consent allow writing off an asset in five years for income tax purposes regardless of its life. Also recently used to describe *sum of the years digits method of depreciation, constant percentage of declining balance method of depreciation* and *double declining balance method of depreciation.*
- acceleration.** In finance, a provision that upon default of a bond, all future payments may be declared due immediately at the option of the creditor.
- acceleration coefficient.** The amount of extra capacity needed to produce an additional unit of output. Cf. *acceleration principle.*
- acceleration premium.** The increasing *rate* of pay allowed workmen with increasing production. Ordinarily used in connection with *piecework* or *incentive pay* systems, and made possible by the decrease in overhead charges per unit of production that results from the increased production.
- acceleration principle.** In business cycle theory, the principle that changes in demand for *finished* goods and services (consumption) *tend* to give rise to much greater changes in the demand for those *producers'* goods (investment) which are used to make the consumer goods. The acceleration coefficient is the ratio of change in investment to the accompanying change in consumption. Cf. *induced investment.*
- acceptance.** (1) The formal act of the drawee of a *bill of exchange* (the one upon whom the bill is drawn) making the obligation his own by writing on the face of the bill the word "accepted"



and his signature. (2) More generally, the concurrence by one party in the offer of another.

**acceptance credit.** The credit extended by a bank or company when it endorses a *bill of exchange* with the word "accepted" for the benefit of the one drawing (the maker) the bill of exchange.

**acceptance liability.** The dollar total of all acceptances of *bills of exchange* which a bank or company has made as acceptor.

**acceptance supra protest.** The agreement of one other than the debtor named to pay a protested document. Cf. *protest*.

**accepted bill.** See *acceptance*.

**accession.** Where goods that are not *fungible* are mixed, accession may take place. Literally it means "adding to," and the legal doctrine is concerned with the rules governing the rights of a party to recover such goods that have been mixed with or added to goods of another party.

**accession rate.** In personnel management, the ratio of the number of employees added to the payroll in a month to the average working force in the month.

**accessorial services.** In transportation, the services in addition to actual transportation which a carrier furnishes as part of the applicable rate. E.g., sorting, packing, precooling, etc.

**accident frequency rate.** The number of disabling injuries suffered by employees per 1,000,000 man-hours of work on an annual basis. The proportion is:

$$\frac{\text{A.F.R.}}{1,000,000 \text{ man-hours}} = \frac{\text{Disabling injuries/year}}{\text{Man-hours/year}}$$

**accident insurance.** A contract for payment of a certain sum in the event of injury or death by accident. In the case of injury, payment of a certain sum per week for a limited number of weeks is made, usually including medical expenses. Usually classed as a special type of life insurance.

**accident severity rate.** The number of days lost from disabling injuries or death per 1,000,000 man-hours of work, with 6,000 days charged for death. The proportion is:

$$\frac{\text{A.S.R.}}{1,000,000 \text{ man-hours}} = \frac{\text{Days lost by accident/year}}{\text{Man-hours/year}}$$

**accommodation bill of lading.** A *bill of lading* issued by a common carrier before it receives goods being shipped.

**accommodation indorsement.** The placing of one's name on a negotiable instrument for the benefit of another person, with the intention of lending the credit of your name to the document so that it will circulate more freely. An accommodation indorser thus becomes for practical purposes a surety for the party at whose request he placed his name on the paper.

**accommodation line.** In insurance, policies written by an agent or broker and accepted by the insurer because of the satisfactory character of the account in general even though the individual policy would not be accepted by strict underwriting standards.

**accommodation paper.** See *accommodation indorsement*.

**accord and satisfaction.** An agreement between parties changing the terms of an original contract. Both the accord (the change) and the satisfaction (performance of the contract as changed) must take place before the old obligation is satisfied, unless the parties expressly state that the new contract is to replace the old.

**account.** (1) In accounting, a ledger sheet showing the entries of debits (left-hand side) and credits (right-hand side) of a particular type of asset, liability, ownership, income, or expense. (2) In colloquial language, a customer is referred to as an "account."

**accounts, types of.** See the following specific terms:

*balance sheet account*

*open account*

*closed account*

*profit-and-loss account*

*closing account*

*real account*

*controlling account*

*realization account*

*income statement account*

*subsidiary account*

*mixed account*

*summary account*

*nominal account*

*suspense account*

**accountant.** One responsible for maintaining and analyzing the records of a business. He may be designated a Certified Public Accountant (C.P.A.), a Chartered Account (C.A.) the English equivalent of the American C.P.A. or a Public Accountant (P.A.).

**account balance.** The difference between the footings of the debit and the credit sides of an account.

**accounting.** The principles and techniques in establishing, maintaining, and analyzing the records of the transactions of a business, government, or other unit.

- accounting method of return (in capital budgeting).** The ratio of the increase in future average annual net income from an investment to the cost of that investment. Cf. *present value method*, *yield method*.
- accounting period.** The time interval over which accounting data is collected and classified. Customary periods are the month, quarter year and year.
- accounting price.** Same as *shadow price*.
- account payable.** A debt, owed by an enterprise, which arises in the normal course of business dealings and has not been replaced by a note payable of a debtor. For example, bills for materials received but not yet paid. Cf. *account receivable*.
- account receivable.** A debt, owing to an enterprise, which arises in the normal course of business dealings and is not supported by negotiable paper. For example, the charge accounts of a department store. But income due from investments (unless investments are the business itself) is not usually shown in accounts receivable. Cf. *account payable*.
- accounts receivable financing.** The use of *accounts receivable* to obtain *working capital* either through a loan secured by such accounts or through *factoring* them.
- accounts receivable insurance.** Insurance indemnifying the insured for inability to collect accounts receivable because of damage to or destruction of records supporting the accounts receivable. Cf. *credit insurance*.
- accounts receivable turnover.** The ratio of credit sales of a period to average (daily) amounts of accounts receivable outstanding. Cf. *collection period*.
- accredited list.** In warehousing, a list of customers to whom the public warehouseman can make distribution of *spot stock* without further authority from the storer.
- accretion.** In law, the addition to lands by the natural action of waters. Thus an island formed in a nonnavigable river belongs to the owner of the shore on that side of the main channel.
- accrual basis.** In accounting, a system of allocating revenue and expense items not on the basis of when the cash is received or paid out, but on the basis of when the revenue is earned or the expense incurred. Cf. *cash basis*.
- accrued income (or expense).** Income that has been earned during a particular period (such as profit on a sale made) but not yet received in cash. Conversely for an expense.

**accrued interest.** Interest which has been earned but is not yet paid or payable.

**accruing.** In accounting, the allocation of income and/or expense, which has been earned or incurred but not yet collected or paid out, to the accounting period in which the income is earned or the expense incurred. Cf. *deferring*.

**accumulated dividend.** A dividend on *cumulative preferred stock* which has not been paid on the date due.

**accumulated earnings tax.** Same as *undistributed profits tax*.

**accumulation.** (1) The difference between the face value and the cost of a bond purchased at a discount is called the accumulation in determining *bond yield*. (2) In insurance, the percentage addition to the benefits of a policy as a result of continuous renewal of the policy.

**accumulation unit.** In *variable annuities*, the payments into the fund (the periodic purchase price) are recorded in accumulation units analogous to shares of stock and the value of these units changes as the market values of the equities owned by the fund change. Payment to the *annuitant* is then made in annuity units whose value changes with the market value of the equities.

**accuracy.** The degree of conformity of a calculation or measurement to the true value. Cf. *precision*.

**acid test ratio.** Same as *quick asset ratio*.

**acknowledgment.** (1) In law, an admission or confirmation by a person before an officer of the court or state (usually a notary public) that an act (usually a signature) is the person's own act. This is done to make certain of the identity of the party signing a document. (2) In business, the name of the document accepting an offer to contract made by another party. The other party's offer is called a purchase order.

**acquired surplus.** In general, surplus arising from changes of the capital structure of one or more businesses. More narrowly, surplus arising from the purchase of one business by another business. Recapitalization surplus arises from changing the par or stated values of various classes of stock. Reorganization surplus arises from bankruptcy proceedings and a changing of par or stated values of stock.

**acquisition.** A generic term covering all forms of acquiring another firm, such as *consolidation*, *holding company*, *merger*, purchase of assets by cash or stock.

- acquittance.** In law, a written agreement to release one from the payment of money. At common law, an acquittance did not require a *seal* but a *release* did.
- acre foot.** The volume of water required to cover one acre of land to a depth of one foot, or 325,851 gallons.
- across the board.** In collective bargaining, "across the board" increases in wages refer to a flat percentage or fixed-amount-per-hour increase for each job classification.
- action.** In law, the proceeding in a court is called an action.
- active life reserve.** In accident and sickness insurance, the type of reserve established where a level premium is charged but the claim rate increases with age.
- active trade balance.** Same as a *favorable balance of trade*.
- active trust.** A *trust* (in which title to property is held by one person for the benefit of another) where the trustee has powers of management. Cf. *dry trust* and *passive trust*.
- activity analysis.** The application of *linear programming* methods to *general equilibrium theory*.
- act of bankruptcy.** See *bankruptcy* for the six acts considered by law as the bases of bankruptcy.
- act of God.** In law, any event beyond human cause or not subject to human foresight. The doctrine is concerned with liability for loss or damage and its application varies from situation to situation.
- act of pais.** In law, an act performed outside of court and hence not a matter of the record in court.
- activity accounting.** Same as *responsibility accounting*.
- actual rate of growth.** That ratio of the increase in national income to the total national income. See explanation under *Harrod-Domar model*. Cf. *natural rate of growth* and *warranted rate of growth*.
- actuary.** A mathematician who calculates (1) insurance risks on the basis of experience tables; and (2) premiums based on such risks, with allowance for interest on reserves set aside from the premium, and other factors such as office expenses of the insurer.
- Adamson Act.** Federal law passed in 1916 granting the basic eight-hour day on the railroads and providing procedures for settling railroad labor disputes. Averted a general railroad strike. Declared constitutional in 1917.
- adaptive forecasting.** An extension of *exponential smoothing* for

forecasting seasonal behavior. The coefficients of the fitted function are revised after each observation of new data.

**ad damnum clause.** The clause in the plaintiff's complaint which sets forth the amount of damages claimed and makes demand therefor.

**ademption.** The elimination or reduction of a *legacy* in a will by the action of the *testator* in disposing before death of the specific asset bequeathed or by making advances while living to the legatee with the intention of reducing thereby the legatee's share in the estate. Distinguish *lapsed legacy*. Cf. *advancement*.

**additional extended coverage.** An indorsement on insurance policies covering dwellings, providing insurance against water damage from plumbing and heating systems, vandalism and malicious mischief, glass breakage, ice, snow and freezing, and the falling of trees.

**additional insured.** Persons covered by an insurance policy in addition to the insured person named in the policy. The most common example is the clause in an automobile liability policy extending coverage to persons driving the car with the consent of the owner.

**additive predicting equation.** A predicting equation in which the dependent variable is a function of a constant and several independent variables with a plus (or minus) sign between the terms. Thus  $Y = a + bX + cZ$ . Cf. *multiplicative predicting equation*.

**adjective law.** The rules of law pertaining to procedure, in contrast to substantive law which deals with rights and duties.

**adjustable currency.** Same as *elastic currency*.

**adjustable policy.** Same as *reporting policy*.

**adjusted gross income.** In income tax, *gross income* less certain deductions such as unreimbursed travel incident to employment.

**adjusting entry.** In accounting, an entry bringing an income or expense account "up to date" because of the accruing or deferring of an item in that account. A *closing entry* is then made to transfer the balance of the account into a summary account (profit-and-loss account). In the next accounting period a reversing entry (if needed) prevents duplication of the expense or income which was accrued or deferred by the aforementioned adjusting entry.

- adjustment bonds.** Bonds arising out of the reorganization of a corporation. Also called reorganization bonds.
- adjustment equation.** In *econometrics*, an equation that describes the process that occurs once an economic system or a particular market is in disequilibrium. Cf. *behaviorial equation*, *definitional equation*, *final equation*, *reduced form equation*, *restraint equation*, and *structural equation*.
- ad litem.** Latin, "for the litigation or lawsuit." See *guardian ad litem*.
- administered price.** A price set by a producer for his product with the intent of letting that price determine the quantity which is bought in the market rather than adjusting the price to move a given amount of output. Many *producers' goods* are marketed in this manner.
- administrative budget.** In *macroeconomics*, a governmental budget that excludes transfers into and out of trust funds and records taxes when received rather than when incurred. Cf. *national income accounts budget*.
- administrative law.** The body of legal rules governing the conduct of administrative agencies such as labor boards or public service commissions as opposed to rules applicable in a court.
- administrative protection.** The use of rules and regulations relating to customs procedure, sometimes in a harassing manner, so as to control imports. Delays in assessing customs duties, high valuation, meticulous enforcement of documentary rules, etc., may be so used. See also *protectionism*.
- administrative revenues.** Revenues obtained by the various departments and agencies of public administration in the course of performing their functions or services.
- administrator.** A person appointed by a probate court to manage the estate of a person who died without a will, or who did not name an executor in his will, or who named an executor but the executor has died, become incompetent, or declined to act as executor. The term is also used in a general sense to designate one who is appointed by the court to manage certain affairs, e.g., of a defunct corporation. Cf. *executor*.
- administrator's bond.** A bond required of court-appointed administrators of estates and other matters to protect those benefitting from the estate against failure to perform duties.
- admiralty.** That body of legal rules concerned with relations on the high seas. For example, the law governing the collision of ships at sea, loss of cargo, etc.

- admission temporaire.** The duty-free admission into a country of goods, particularly raw materials, for processing and later export.
- admitted assets.** In insurance, those *assets* of the insurer which are recognized by the regulating state as qualifying in the determination of various financial standards which the insurer must by law maintain.
- admitted company.** In insurance, an insurer incorporated under the laws of one state may be admitted to do business in other states by properly qualifying.
- ad valorem.** According to value and not according to weight or units. Cf. *ad valorem tariff*, *specific tariff*.
- ad valorem tariff.** A tariff based on value and not weight, size, or units.
- advance.** (1) A loan. (2) With reference to the Federal Reserve Banks, a *rediscount* is technically different from an advance. The advance is the transfer of funds by the Federal Reserve Bank to a member bank on the basis of a note secured by specific collateral. A *rediscount* is the sale and indorsement of eligible paper by the member bank to the Federal Reserve Bank for the funds transferred.
- advance bill.** A *bill of exchange* drawn before shipment of goods.
- advancement.** In law, a gift made during lifetime by one who dies without a will and to be taken into account as a reduction of the share of inheritance. Cf. *ademption*.
- adverse examination.** Same as *discovery*.
- adverse possession.** Open and continuous possession of another's property which after a period of time set by statute (usually twenty years) establishes ownership in the party possessing adversely.
- advertising.** Any paid form of presentation of goods, services, or ideas to a group under open sponsorship of the advertiser.
- advice.** Any document containing information about a transaction.
- affidavit.** A written statement made under oath, signed before a notary public or any other officer appointed by law to administer oaths, and then signed by that officer as witness.
- affiliated company.** A company which is related by ownership of stock to another company. Under the *Investment Company Act* ownership of 5 per cent or more of stock in another company constitutes affiliation. Cf. *holding company*.



**affreightment.** The agreement under which a transportation means is hired for carrying freight.

**AFL** American Federation of Labor. Organized in 1881 as a federation on a national basis of local unions organized originally on trade or craft lines. Today it also grants charters to industrial or vertical unions. Each local retains the right to govern its own affairs. In 1955, the AFL merged with the CIO. Cf. *CIO, Congress of Industrial Organizations*.

**AFL-CIO (American Federation of Labor-Congress of Industrial Organizations).** These two bodies merged in 1955. See the separate terms, *AFL* and *CIO*.

**after-acquired property clause.** A clause in a mortgage providing that any property acquired by the borrower after the date of the loan and mortgage will automatically become additional security for the loan.

**after market.** The term describing the market for a security after it has been initially sold by the issuer through underwriters.

**age change.** See *annuity age change* and *insurance age change*.

**agency.** A category in law concerned with the relationships of one party (the principal) in authorizing another party (the agent) to act for him in dealings with third parties. See *general agent, special agent*.

**agency coupled with an interest.** In law if an agent has an interest in the subject matter (such as a proxy given by one selling stock to the buyer) the agency is irrevocable.

**agency selling.** In securities, the sale by a broker as agent for a selling stockholder or an issuing corporation. Not a true underwriting but sometimes called a *best efforts* underwriting.

**agency shop.** The employment situation in which all employees in a bargaining unit must pay "dues" to the union even though not required to join the union membership. A variety of *closed shop*. Usually carried out by the "work permit" device: all employees must carry a permit to work issued by the union. Cf. *closed shop, open shop, preferential shop, and union shop*.

**agent.** One who acts for another. There are two primary types of agent: *special agent* and *general agent*.

**agent, types of.** See the following specific terms:

*application agent*

*del credere agent*

*exclusive agent*

*general agent*

*special agent*

*survey agent*

**agent middleman.** One who negotiates purchases or sales be-