

**DICTIONARY
OF
ECONOMICS
AND BUSINESS**

Second Edition

Edited by S E Stiegeler BSc

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Gower

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Preface to the Second Edition

This dictionary was first published in 1976 as the *Pan Dictionary of Economics and Commerce*. Its success over the last decade has provided the stimulus to update it for a new edition.

In this edition we have added some new pages containing up-to-date information relevant to the economist and the businessman. The legal and taxation entries, particularly, have needed to be updated throughout, as have the various organizations with which businessmen have to deal. In order to accommodate the wealth of new information within a reasonably expanded book, we have had to omit the biographical entries that appeared in the first edition.

The publishers and editors hope that this new edition will meet the needs of its users as satisfactorily as the first edition evidently did.

Preface to the First Edition

Theoretical economics and practical commerce now overlap to such an extent that it is not easy to be a practitioner or student of either without some understanding of the other. The businessman and the economist must understand each other's languages if they are to communicate – and the layman, the tax-paying citizen who is neither businessman nor economist, must have some grasp of the jargon of both if he is to be aware of what is going on around him.

The vocabularies of economics and commerce have different origins. The language of commerce has evolved slowly: conceived in the primitive market place, it blossomed in the age of the merchant adventurer, and reached maturity in the post-war era of the multinationals. What is slow to evolve is slow to change – in the City of London, cargo ships are still called *steamers* to distinguish them from *sailers*. Economics, on the other hand is a relatively new discipline with its own rapidly expanding terminology, only part of which derives from the language of commerce. Part of it derives from the hard sciences, part from sociology, and part is self-generated.

In this dictionary, we have attempted to provide an alphabetical list of all the useful words that are used in both economics and commerce. Each word is given a brief formal definition followed by a more discursive explanation of the concepts underlying it. If the term has a quantifiable aspect, the mathematics of the quantification is sketched. We have attempted to cover as completely as possible the fields of both microeconomics and macroeconomics, paying special attention to the newer, rapidly expanding subjects of cost-benefit analysis and welfare economics. In the field of commerce, we have included the principal words from the vocabularies of banking,

accounting, insurance, the stock exchange, commodity dealing, shipping and transport, as well as commercial law. A selection of the terms used in the related fields of statistics, computing, government, and industrial relations will also be found in the alphabetic list. The dictionary includes biographical notes on the most prominent economists as well as the main organizations connected with economics and commerce.

Abbreviations are listed as they occur alphabetically, full stops being used between letters when they are spelled out in speech (e.g. U.S.A., E.E.C.) but not between letters that form acronyms (e.g. EFTA, GATT). Cross-references in the text are denoted by asterisks. Words are not given an asterisk simply because they occur as separate entries in the dictionary – the asterisk is used to direct the reader to a source of further useful information. Words in *italic type* in a definition text are not defined separately but cross-reference has been made to them from elsewhere in the dictionary.

It is hoped that this dictionary will prove useful not only to students of economics and commerce (both at school and university and in business-study courses) but also to businessmen and their professional advisers, to civil servants, and to secretaries. The layman, too, will find much of this dictionary will be helpful to him – both in understanding what he reads in the papers and hears on TV and in coping with the problems of house buying, domestic budgeting, taxation, and a host of the other inescapable economic and commercial aspects of our complex daily lives.

A

abandonment. The act of relinquishing ownership of property. Property that has been insured may be abandoned in certain cases if its loss cannot be avoided or if the cost of repairs would exceed its value. In marine insurance, a ship may be abandoned as dangerous or unseaworthy in certain circumstances. For example, if a ship is stranded on rocks and cannot be salvaged she cannot become an *actual total loss until she breaks up. However, the right of abandonment enables the insured to make a claim immediately if he declares the vessel a *constructive total loss, by giving the insurer notice of abandonment. The vessel then becomes the property of the insurer.

The right of abandonment is not legally restricted to marine insurance. In non-marine insurance, however, a policy condition often specifically prohibits the insured from abandoning the property to the insurer and claiming as for a total loss.

ABC Code. See commercial codes.

ability-to-pay taxation. A method of taxation in which the amount of tax payable is assessed according to some criterion of the taxpayer's means to pay. The most frequent criteria are income and wealth. A value judgment is made that those with more should be expected to pay more, either because as income rises luxuries rather than necessities tend to be bought, or because the *marginal utility of money is thought to decrease as income, or wealth, rises. This form of taxation, together with *transfer payments, is the primary means towards *income redistribution. See also benefit taxation, progressive tax.

above par. Denoting a share that has a market value above its *par value.

above-the-line advertising. See advertising.

absenteeism. Nonattendance at work for no valid reason, e.g. not as a result of a public holiday, sickness, an industrial dispute, etc. In the U.K. more days are lost through absenteeism than through strikes. One of the most compelling reasons for the creation of a public holiday on New Year's Day was the high degree of absenteeism.

absolute advantage. A doctrine of international trade propounded by Adam Smith (1723-90). It is a limited version of the *comparative cost principle. If country I is more efficient at producing good A and country II more efficient at producing good B, then they will both profit if each produces what it is most efficient in producing and then exchanging. This was an extension of the idea of division of labour to international trade. Later under the doctrine of comparative cost a case was made for international trade even when one country had an absolute advantage over the other in the production of all goods.

absolute bill of sale. A *bill of sale in which title to the goods referred to passes absolutely. It has to be witnessed by a solicitor.

ACAS (Advisory Conciliation and Arbitration Service). See Employment Protection Acts.

accelerated depreciation. The writing off of *depreciation at a faster rate than is justified by the life of the as-

set concerned. In the U.K. the Inland Revenue has a system of *capital allowances, which are given in lieu of depreciation.

accelerator principle. The hypothesis that there is a direct relationship between the level of investment and the growth rate of output. It is supposed that a change in the rate of change in output (an acceleration in the rate of change in output) produces a proportionally much larger change in the output of investment goods. This dependency of the level of investment on the growth rate of output occurs because in equilibrium the rate of change in output is sustained by the same rate of change in the capital stock. A rise in the rate of change in output requires an equal rise in the rate of change in the capital stock to maintain the new growth rate. This implies that net investment will rise by a proportionally larger amount to accommodate the larger output. If a firm cannot meet an increase in demand from spare capacity it may invest in more machinery. Thus in addition to replacing worn-out (depreciated) machinery it will increase its net investment by buying extra new machinery.

For instance, imagine a firm with five machines of which one is replaced each year. If the firm suddenly faces an increase in demand for its products of 20% it must buy an extra machine to take advantage of this upsurge. An order for two machines represents an increase of 100% in business for the machine-makers, i.e. an acceleration of 20% in output has produced an acceleration of 100% in the output of investment goods.

The accelerator coefficient shows the amount by which investment changes in response to changes in output, and it is given by the change in the capital stock (net investment) divided by the change in output. However in any actual situation it is likely that the accelerator coefficient

will be affected by other variables, such as changes in the rate of interest, the wage rate, or changes in the technology of production. It will also depend on whether entrepreneurs expect the change in growth rate to be a permanent or a transitory phenomenon. The accelerator principle is very important in post-Keynesian theories of the trade cycle and in growth models such as the Harrod-Domar model. Combined with the *multiplier, the accelerator has been effectively used by Paul Samuelson (*b.* 1915) and Sir John Hicks (*b.* 1904) in constructing models of the trade cycle. In the upswing of the cycle the accelerator is the mechanism whereby the expansion in output feeds itself by generating proportionally larger increases in investment, and so by the multiplier increases income further. In the downswing the accelerator works in reverse: a fall in output, a negative growth rate, results in a sharp decline in investment and so through the multiplier results in a decline in the level of output.

acceptance. 1. The writing on a bill of exchange by which the person on whom it is drawn agrees (i.e. accepts) the order of the drawer, thereby becoming the acceptor. It is sufficient for the drawee merely to write his name across the bill, but the commonest form of general acceptance is: "Accepted, payable at (name and address of bank): A.N. Smith".

2. A bill of exchange that has been accepted by the drawee.

3. Notice given by an insurance company agreeing to provide a specified insurance cover.

acceptance credit. A means of financing a transaction involving the sale of goods, most frequently found in international trade. A bank in the exporting country, usually a *merchant bank (see also accepting house), will open an acceptance credit on behalf of a foreign importer that it considers

to be creditworthy. The exporter's goods will then be paid for by a bill of exchange drawn on the merchant bank (or accepting house). The bill can then be run to maturity or discounted in the money market.

acceptance supra protest (acceptance for honour). The acceptance or payment of a bill of exchange, after it has been protested for dishonour by nonacceptance or nonpayment, by any person to save the honour of the drawer or of an endorser of the bill.

accepting house. An institution, usually a "merchant bank, that specializes in accepting bills of exchange drawn on it by approved customers, who pay a service fee, thus facilitating negotiation of the bills by reason of its good name. With the decline of the bill of exchange as a means of payment other banking activities have been developed by these houses.

Accepting Houses Committee. A committee representing a number of the bigger "merchant banks. The main qualifications for membership are that a substantial part of the bank's business shall be the accepting of bills of exchange to finance trade, that such acceptances are freely taken by the Bank of England, and that they command the finest rates in the discount market. There were 16 member banks in 1982.

access time. The time required to obtain a particular piece of information from a computer "storage device.

accident insurance. A category of insurance that embraces a collection of loosely related classes of business. It includes "fidelity guarantee insurance, "personal accident and sickness insurance, "employers' liability insurance, "public liability insurance, "motor insurance, "livestock and bloodstock insurance, burglary, and miscellaneous

business (e.g. rainfall, credit, and licence insurance).

accommodation bill. A bill of exchange to which a person (known as an *accommodation party*) puts his name as a guarantor. He does not expect to be called upon to pay the bill when it is due, but is liable to a "holder for the value. Such bills are known as *windbills*, *windmills*, or *kites*.

accord and satisfaction. An agreement by one party to a contract to release the other from his obligations under the contract. It was decided as early as 1602 in "Pinnel's Case" that such an agreement was not binding unless it was made under seal, or unless the party being released had, instead of performing his obligations under the contract, performed some equivalent act of benefit to the releasing party. In Pinnel's Case, Pinnel sued Cole for a debt of £8 10s, which was due on 11 November 1600. Cole's defence was that on 1 October 1600 he had paid Pinnel £5 2s 6d, which Pinnel had accepted as fully discharging the original debt. The court decided that, had Cole paid Pinnel the £5 2s 6d on 11 November, Cole could not have been validly discharged from the debt as although there would have been "accord" (agreement) there would have been no "satisfaction" (discharge of the whole debt). However, the payment by Cole of the money six weeks earlier than it was due was of considerable benefit to Pinnel, and was sufficient "satisfaction" to allow Cole to be validly released from the debt. This doctrine has been applied in English cases ever since.

account. 1. A period during which dealings on the London Stock Exchange are made without immediate cash settlement. The calendar year is divided into 24 accounts, most of which are of a fortnight's duration, the remainder being of three weeks' duration to cover statutory holidays.

*Settlement is made for transactions completed during an account on *account day. Thus the account period provides an efficient mechanism for dealing on the Stock Exchange in advance of payment (or receipt) of monies due. It is of particular importance for speculation (since it is possible to buy and sell the same shares within an account without paying for them).

2. See bank account.

accountant. A qualified person who specializes in book-keeping and the preparation and auditing of annual accounts. Accountants also advise on tax law and the financial organization of businesses. In the U.K. there are four main types of professional accountant: chartered, certified, cost and management, and public finance. *Chartered accountants* have qualified as associates (A.C.A.) or fellows (F.C.A.) of the Institute of Chartered Accountants in England and Wales or the Institute of Chartered Accountants in Ireland. In Scotland, chartered accountants use the initials C.A. and are members of the Institute of Chartered Accountants in Scotland. *Certified accountants* are professional accountants who have passed the exams of the Association of Certified Accountants and are either fellows (F.C.C.A.) or associates (A.C.A.A.) of that Association. They have the same duties and functions as chartered accountants, but their study course does not include a training contract with a firm of accountants. In addition certain accountancy bodies offer qualifications at technician level.

Specialist accountancy firms act as auditors and tax consultants for other firms, but many large companies employ their own qualified accountants. See also cost accountant, financial accountant, management accountant, public finance accountant.

account day. The day on which *settlement is completed by the transfer of monies due for all London Stock

Exchange dealings that took place during the previous *account. Account day occurs on the Monday 10 days after the end of the account to which it relates; it is sometimes called *settlement day* or, more loosely, *pay day*.

accounting concepts. The fundamental assumptions that should underlie the makeup of all sets of accounts. Four of the more basic concepts have been singled out for special mention by the Institute of Chartered Accountants in England and Wales in its Statement of Standard Accounting Practice on "Disclosure of Accounting Policies". These are described as the *going concern concept, the *accruals concept, the *consistency concept, and the *prudence concept. These are generally accepted and it is normally assumed that accounts embody these concepts unless specifically stated.

accounting cost. See economic cost.

accounting period. The period for which a company, partnership, or sole trader makes up its accounts. Normally this period will be for a calendar year, beginning and ending at any time as chosen by the concern. Obviously at the commencement and termination of a business the accounting period will not necessarily be of this length. It is on the profits of the accounting period that tax becomes payable, although with the rules of timing tax payments the time lag between the end of this accounting period and the payment of the tax liability will vary.

account payee. Words added to the crossing on a cheque (see crossed cheque) with the intention of ensuring that the cheque is paid into the bank account of the payee only. They do not affect the negotiability of the cheque, but do warn the collecting banker that he will be open to a claim for damages for *conversion by

the payee if he collects it for anyone other than the payee.

accounts. 1. A statement of a company's financial affairs, normally produced at the end of the accounting period to which they refer. The accounts are split into two parts, the *balance sheet and the *profit and loss account, and together these list the value of the various assets and liabilities, the amount owned by the shareholders, and the profit or loss that the company has made during that accounting period. The accounts of a limited company are required by law to disclose a certain minimum of information and have to be certified by a qualified person, such as a chartered or certified accountant, as giving a *true and fair view of the company's affairs.

2. Records of financial transactions kept by any organization, either profit- or non-profit-making, including sole traders, partnerships, charities, and local authorities, which are used to prepare an income statement and balance sheet for submission to the tax authorities. *See also* books of account, published accounts.

accounts receivable. Accounts on which money is owing. They can be sold to a *factor or can be used as collateral in raising a loan.

accruals concept. A fundamental *accounting concept in which revenue and costs are accrued, i.e. taken account of when they occur, matched up where possible (receipts and the costs incurred in producing these receipts should be accounted for at the same time), and considered to be part of the profit and loss account of the period to which they relate. The only time the accruals concept should not be applied is when it comes into conflict with the *prudence concept, and in this case the latter should prevail. The need for the accruals concept stems from the fact that time lags ex-

ist between the earning of receipts and the occurrence of liabilities and the actual receipt or payment of money. *Materiality may also affect the application of this concept.

accrued charges. Known charges for goods and services received in the current accounting period which, at the end of that period, have still not been paid for, e.g. accountancy fees or vehicle repairs owing.

accumulative society. *See* friendly society.

acid-test ratio. *See* liquid ratio.

Acme Commodity and Phrase Code. *See* commercial code.

A.C.T. *See* advance corporation tax.

Act for International Development (1961). A U.S. act that set out the way in which overseas economic aid and development should be administered. It set up the *Agency for International Development (AID)*, bringing together the work of the Development Loan Fund and the International Cooperation Administration.

active market. A market for a particular share or sector of shares (e.g. gold-mining shares) in which there are regular and frequent transactions.

active partner. *See* partner.

active stocks. A table compiled both daily and weekly in the Financial Times from the dealings recorded in the London Stock Exchange Official List. It shows those shares in which there have been the most active markets.

act of God. An occurrence in the course of nature that is beyond human foresight and against which human prudence cannot be expected to provide. It is so unexpected that

the damage caused must be regarded as too remote to form a basis for legal liability. An example is the damage caused by a motor car that crashes after a driver suffers a sudden heart attack. This has been held to be damage caused by an act of God for which the driver was not to blame.

act of war. Any act by the citizens or agents of one nation that damages the persons or property of another nation with whom they are at war. War risks for ocean voyages are covered by the Institute War Clauses (see cargo insurance). War risk insurance covers goods until they have been discharged at the port of destination but does not apply to transport by river craft or on land. Insurance covers risks caused by mines and derelict torpedoes even in peacetime.

actuals. Actual physical commodities (see also spot goods) that can be purchased for prompt delivery on commodity exchanges, as opposed to futures (see futures market).

actual total loss (in marine insurance). A total loss of a ship (as by sinking, fire, etc.) or a loss of a cargo that is either totally destroyed or so damaged that it is useless for the purpose for which it was purchased. In the case of an actual total loss no notice of abandonment is required. Compare constructive total loss.

actuary. A person who is trained to assess insurance risks and premiums, using statistical probability techniques. Most actuaries are employed by insurance companies to draw up mortality and morbidity tables, assess the probability of risks to property, lay down underwriting procedures, calculate premiums, advise on the benefits likely to be claimed during the year, etc. Some actuaries are employed by government (see government actuary) or industrial firms to advise on insurance matters or pen-

sion funds. In the U.K. an actuary has to pass the examinations of the Institute of Actuaries in order to qualify.

Actuaries of insurance companies are required by the Department of Trade to certify reports of the liabilities of the company and submit these reports at regular intervals to the Department. Since the Insurance Company Amendment Act (1973), the Department of Trade has the right to inquire into the reasons for a company changing its actuary, which strengthens the actuary's position with respect to his employer.

Ada. A programming language named after Ada, Countess of Lovelace (daughter of Lord Byron), who was involved with the developing of the analytical engine, the forerunner of modern computers. It is used by the U.S. Department of Defense.

adaptive expectations. A behavioural assumption concerning the method by which economic agents review past expectations of the future in the light of present experience, to derive an estimate of future uncertain events. Future expectations depend upon the perceived error in past expectations relative to actual events. The usual model is of the form:

$$E_K = E_{K-1} + \lambda(A_{K-1} - E_{K-1}),$$

where E_K is the expected event in the K^{th} time period, A_{K-1} is what actually occurred, E_{K-1} is what was expected to occur; and λ is a positive constant interpreted as the speed of adjustment. The particular form of the model simply states that new expectations are generated from old expectations by revising the old estimate by a given fraction, λ , of the previous period's error in estimation.

additive utility function. A function based on the assumption that the utility provided by goods and services can be added to each other. Supposing x_1, x_2, \dots, x_n are the goods be-

ing consumed, the utility function may be written as the sum of the various utilities, i.e. $u(x_1, x_2, \dots, x_n) = u_1(x_1) + u_2(x_2) + \dots + u_n(x_n)$, so that goods consumed separately yield the same satisfaction as goods consumed together. This is clearly an untenable assumption and consequently it has been dispensed with in modern economic analysis. See separable utility function.

address. An identification number given to some part of the data in a computer memory.

adjuster. See loss adjuster.

administered price. A price set without close regard to costs. Obviously it must be above the break-even price. It generally occurs in oligopoly models and it tends to remain steady across variations in input prices.

administrator. See letters of administration.

ad valorem. (Latin for: according to value.) An ad valorem tax, duty, commission, charge, etc. is calculated as a percentage of the total value of the goods involved, rather than according to their quantity.

advance corporation tax (A.C.T.). A tax payable to the Inland Revenue in the U.K. under the *imputation system of taxation, when a company makes a distribution of dividends. This tax can, within limits, be offset against the corporation tax liability payable on profits arising in the same *accounting period as that in which the distribution was made. The amount of A.C.T. payable is a proportion of the dividend paid by the company equal to the basic rate of income tax on the net income receivable. Thus if the basic rate of income tax is 30% (as in 1984), the A.C.T. payable would be 30/70 of the dividend paid.

adverse balance. A deficit in the *balance of payments or in any of its constituent accounts, such as the current account, capital visibles, or invisibles. An adverse balance in the capital account must be offset by surplus from the current account if the balance of payments as a whole is to be in equilibrium.

advertising. The practice of informing the public or a section of the public of the benefits of a particular product, service, or activity in order to stimulate sales. *Consumer advertising* attempts to publicize the qualities, price, or other aspects of a product or service in order to increase sales. In a competitive market in which an increase in one company's sales is at the expense of another company, advertising usually attempts to persuade potential consumers to purchase a product that is identified by a *brand name. To this end, special qualities are emphasized when they exist. In some cases, such as common table salt, there are no distinguishing qualities and the advertising is then aimed at keeping the manufacturer's name before the public. However, not all products or services are identified in advertisements by a brand name; sometimes advertising is devoted to a type or category of product, such as milk or wool. *Trade advertising* is not directed at the public in general but to a specific section of it. For example, drug companies restrict to doctors their advertising of products that can only be purchased on prescription. Similarly, laboratory equipment would only be advertised in a medium likely to be seen by experimental scientists.

A distinction can be made between *informative advertising*, which assists consumers to choose between alternatives on offer and thus reduces market imperfections (as well as informing the public of the existence of a product), and *persuasive advertising*, which emphasizes and sometimes

exaggerates the distinctive characteristics of a product — perhaps to the extent of increasing market imperfections by introducing monopolistic competition. Informative advertising is largely restricted to technical magazines.

Above-the-line advertising uses the traditional media of press, television, radio, the cinema, outdoor posters, etc. *Below-the-line* refers to all other kinds of advertising, e.g. direct mail, merchandising, etc. *Aerial advertising* has been tried in many different forms, e.g. smoke-writing in the sky, the trailing of banners from small aircraft, writing on airships, hot-air balloons, etc. In the U.K. aerial advertising is restricted by legislation to particular displays.

Although considerable sums are spent on advertising (about 2% of the GNP in the U.K. and 3% in the U.S.), there are strong arguments both for and against it. Apart from providing useful information about a product, it is claimed that advertising can lower production costs and therefore price by helping to stimulate a continuous demand. It can also assist in maintaining the quality of a product, since advertised products must meet the advertised specifications. Nevertheless, advertising often does not specify the composition of a product and it may emphasize false differentials or appeal to emotion rather than reason (sexual stimuli are extensively used in an attempt to sell a wide range of products, from toothpaste to cars). All too often advertising makes spurious appeals to the aspirations and fantasies of the consumer rather than restricting itself to the real benefits that a purchaser might expect to derive from a product. However, studies so far made have failed to confirm the belief that advertising can persuade people to buy things they do not want.

It is also argued that advertising cannot increase the total sales of an industry, although it can increase the

share of the market of a particular firm, especially if its competitors do not advertise. If this hypothesis is true, advertising represents a waste of resources as all producers are forced to advertise in order to maintain their market shares, whereas if they all reduced their expenditure on advertising none would be worse off.

advice note. A document sent by a vendor to a customer advising him that an order has been fulfilled by the dispatch of goods. It will usually inform him of the quantity, marks and numbers (if applicable), quality, date of dispatch, and method of delivery. It may precede the goods themselves or accompany them. *Compare* delivery note.

advise fate. When a collecting banker wishes to know as soon as possible whether a cheque will be paid on its receipt by the paying banker he may send it direct, and not through the *Bankers' Clearing House, asking that its fate should be advised to him either on an enclosed stamped telegram form or by telephone. The paying banker cannot give a positive answer until he actually receives the cheque as the balance on his customer's account can alter or the customer may stop payment.

Advisory Conciliation and Arbitration Service (ACAS). *See* Employment Protection Acts.

affidavit. A sworn statement or declaration in writing that is made voluntarily and witnessed by a person who is acceptable to a court of law, such as a notary. Affidavits are usually made for use in legal proceedings.

affiliated society. *See* friendly society.

after date. The form of words used in a bill of exchange to indicate that the specified period for which the bill is drawn is to be calculated from the

date inserted on the bill; for example, "30 days after date, we promise to pay...". *Compare* after sight.

after-hours dealings (early bargains). Dealings made between the offices of Stock Exchange members (i.e. stock-brokers and stockjobbers) after the official close of business at 1530 hours. These are regarded as the first deals of the following trading day.

after-sales service. The service sometimes available to a customer after he has purchased a product. This may include an adequate supply of replacement parts and an adequate number of servicing and maintenance organizations. It may also include free replacement of faulty products or parts under guarantee, the availability of advice on the best use of the product, and a facility for maintenance and servicing contracts. Good after-sales service is an essential component of modern marketing methods.

after sight. The form of words used in a bill of exchange to indicate that the period for which the bill is drawn is to be calculated from the date on which the drawee is presented with it for acceptance. He usually inserts the date on which he accepts the drawer's order, but should he omit to do so the holder may insert the date he considers the bill to have been sighted by the drawee. *Compare* after date, at sight.

Agency for International Development (AID). See Act for International Development (1961).

agenda. A list of the items that are to be discussed at a meeting. It will usually be circulated to those who are to attend well in advance. Typically it will allot time for the reading of the minutes of the previous meeting, for any matters arising from this, for the discussion of items included on the agenda, and for the discussion of any

other business (matters not specifically itemized on the agenda).

agent. A person who is given authority by another person (the *principal*) to act on that person's behalf. The extent of an agent's powers to bind his principal is limited to the terms of such authority. In order to avoid any personal liability when signing documents an agent must indicate that he signs on behalf of his principal. Bankers require to be supplied with an authority in precise terms before allowing an agent to sign cheques, etc., on his principal's account, and in the case of a limited company the authority must state which officials are authorized to act on behalf of the company.

aggregate demand. The total demand for goods and services in an economy at any one time, consisting of the total demand of households for consumption (*C*), demand for investment goods (*I*) both of firms and government, government demand for goods and services (*G*), and export demand less imports (*X-M*), given as

$$Y = C + I + G + (X - M),$$

where *Y* = national income. Aggregate demand determines the level of production and employment. See also income-expenditure model.

aggregated rebate scheme. A method of marketing in which a proportionately higher discount is offered as purchases increase. The size of the rebate that any buyer is entitled to is calculated from his total volume of purchases in a given period. A sliding scale of rebates that rises with the amount purchased is usual, with the highest rebate that the purchaser achieves applicable to all his purchases. These schemes have been condemned by the Monopolies and Mergers Commission on the grounds that they "impede competition from independent producers, because of their strong economic incentive to

buyers to confine their purchases to members of the group (who operate the aggregated rebate scheme)". A purchaser might continue to buy some of his goods from the firm using the scheme rather than from an independent producer, because he might lose more in loss of rebate than he would gain in lower prices, so effectively tying himself to the larger firm. Aggregated rebate schemes must be registered with the Restrictive Practices Court, which has the power to ban them if it considers them to be against the public interest.

aggregate supply. The total supply of goods and services in an economy at any one time, consisting of total domestic output plus imports. When aggregate supply equals *aggregate demand, an equilibrium level of national income is reached.

aggregative model. An econometric model characterized by aggregated variables, i.e. variables that are constructed by aggregating groups of individual variables. The most frequently encountered aggregated variables are index numbers.

A.G.M. See annual general meeting.

agricultural bank (land bank). A credit bank specially established to assist agricultural development by granting loans for a longer period than is usual with mercantile banks. The system has not been successful in the U.K., but in many parts of the world such banks are strongly established, especially in West Germany.

Agricultural Credit Corporation Ltd. A corporation established in 1964 to provide medium-term loans to farmers for working capital for buildings, machinery, livestock, etc. The A.C.C. acts as guarantor for the loans to the farmer's bank.

Agricultural Mortgage Corporation Ltd. A corporation established under the Agricultural Credits Act (1928) to grant loans to the agricultural industry for periods of up to thirty years, mainly for the purchase of land. Government grants have been made to the Corporation and its share capital is provided by the Bank of England, the joint stock banks, and by the issue of marketable debentures. Applications for loans must be made through the commercial banks acting as agents of the Corporation, or directly to the Corporation, and are secured by mortgages or rent charges.

AID. Agency for International Development. See Act for International Development (1961).

aids to trade. The formal study of commerce usually recognizes four aids to trade: banking, insurance, transport, and advertising.

air consignment note. See air waybill.

air freight. ② The transportation of goods by air. This method of transport is used if it is cheaper than other forms, which occurs if the value of the goods is high compared to their weight, or if an extra cost is justified for speed of delivery. In the latter case it is important not to overlook transit time to and from airports or the time that goods may lie in airport freight sheds awaiting customs clearance.

2. The cost of transporting goods by air. Air freight is usually based on a price per kilogram or per 7000 cubic centimetres (427 cu.in.), whichever is the greater. If the volume exceeds the weight, each unit of 7000 cubic cm is charged as 1 kilogram, so ultimately air freight, unlike marine freight, is based on weight.

air waybill. A numbered document (sometimes called an *air consignment note*) made out by, or on behalf of,

the consignor of goods to be transported by *air freight. It shows the names of consignor and consignee; the airports of loading and destination; the nature, weight, and value of the goods; the marks, numbers, and dimensions of the packages; the route; and the freight charge. It is usually prepared at the same time as the *bill of lading.

ALGOL. A high-level *programming language used mainly for scientific and mathematical applications. The most widely used version is *Algol-60*. The name comes from *algorithmic language*.

allonge. An attachment to a bill of exchange to provide space for further endorsements when the back of the bill itself has been completely covered. It was sometimes necessary when bills of exchange passed freely from person to person by endorsement, but is now rarely needed.

allotment. See application and allotment.

allowances. See personal allowances.

all risks policies. A type of insurance relating to personal possessions and (for U.K. policies) usually covering the insured property anywhere in the British Isles, possibly Europe, and sometimes the rest of the world. This type of cover is particularly applicable to the insurance of jewellery, furs, photographic equipment, and other small valuable articles.

amalgamation. Unification of two or more organizations. See merger.

American account. One of the three groups of countries in which sterling was freely convertible when convertibility of sterling was being restored after being suspended in 1947. The other groups were the *sterling area and the *transferable account.

The members of the American account were the U.S., Canada, and certain Central American countries.

American National Standards Institute Inc. The U.S. organization concerned with establishing standards for industry, commerce, and science. It was founded in 1918 and is situated in New York. It represents the U.S. in the *International Standards Organization.

American Plan (White Plan). A plan to aid the development of international trade by creating stable fixed exchange rates and freely convertible currencies. It was proposed by the U.S. Treasury at the Bretton Woods Conference (1944) and was accepted in preference to the *Keynes Plan after some modification. It is also known as the Bretton Woods Agreement.

amortization. 1. See depreciation.

2. The payment of a debt in instalments, usually by means of a *sinking fund.

amounts differ. The form of words stamped or written on a cheque or bill of exchange by a banker returning it unpaid because the amount in words differs from that in figures. The Bills of Exchange Act (1882) states that the sum denoted by the words shall be the amount payable where there is a discrepancy between words and figures, but in practice a banker rarely pays the amount in words if it is the larger amount unless authorized to do so by his customer.

analog computer. A device for performing calculations and solving problems by use of electrical or mechanical analogy. For example, an electrical circuit can be constructed in which the output voltage bears some predecided relationship to the input voltage. Thus mathematical operations, such as multiplication, division,