

Alan Gilpin

Dictionary of Economic Terms

Fourth edition

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Preface to the first edition

This book has been inspired by my professional acquaintance with applied economics in a major industry and my experience as a lecturer in economics and allied subjects over many years.

It is intended primarily for economists and students of economics, but it is hoped that it will prove of value and interest also to planners and engineers in industry who, faced with the growing impact of positive national economic planning, are having to give more constructive thought to the long-term development of their own industries and the implications of such development for the economy as a whole.

I would like to thank my wife for scrutinising and typing the manuscript and the many organisations who have assisted by supplying information on their activities. In particular, I should like to thank the Board of Trade, the Commercial Banks, the Monopolies Commission, the National Economic Development Council, the Stock Exchange and the United Nations Organisation.

The terms in this dictionary are those used largely in the United Kingdom, but a number in use in the United States of America and other countries have also been included.

A.G.

December, 1965

Preface to the fourth edition

In this Fourth Edition, the opportunity has been taken not only to revise and augment the entries relating to the United Kingdom but to increase the number of entries relating to the European Economic Community, North America and Australasia. In consequence some 300 new entries have been added bringing the total to more than 2,800 terms.

In addition, a bibliography has been added which is intended to reflect the scope of the Dictionary and suggest avenues for additional information and insight.

Again, readers may be able to suggest improvements, and I shall be glad to hear of these.

A.G.

May, 1977

A

A priori An expression commonly used in economics, it relates to speculation or reasoning which is prior to actual experience. As reasoning it proceeds deductively from cause to effect; such speculation or reasoning stands in contrast to an appeal to evidence. An example of the use of the term appears in the following extract from an O.E.C.D. Report on inflation: 'With regard to costs and prices, there are *a priori* reasons for expecting a slowdown, notably the lagged effect of lower demand pressures, and the above average productivity gains in the early phase of renewed expansion.'

'A' Shares See STOCKS AND SHARES PREFIXED OR AFFIXED 'A', 'B', ETC.

Ability-to-pay A principle most commonly associated with the theory of taxation which asserts that the burden of taxation (q.v.) should be carried by the individual in accordance with his ability-to-pay, and not in accordance with the benefits he may receive as a result of public expenditure. Adam Smith (1723-1790) enunciated the principle that citizens should contribute 'in proportion to their respective abilities: that is in proportion to the revenue which they respectively enjoy under the protection of the state'. The problem is to translate the principle of ability-to-pay into an actual pattern of tax distribution: whether the principle requires a regressive, proportional or progressive taxation in relation to income; or an equitable distribution through equal sacrifice; or an efficient distribution aiming at the least total sacrifice for the community.

'Above-the-Line' Payments and Receipts Payments and receipts contained in that part of the Government's Budget dealing with ex-

penditure to be met out of revenue raised mainly from taxation. The payments cannot be made by borrowing from some other source. Payments and receipts of this kind are:

Payments

- (a) Consolidated Fund Services (e.g. debt service, Civil List, Judges' salaries); and
- (b) Supply services, defence and civil expenditure.

Receipts

- (a) Produce of taxation; and
- (b) Miscellaneous revenue receipts.

Since 1947 it has been customary for the British Budget to contain a full statement of the estimated expenditure and revenue for the following year, some items being shown as 'above-the-line', as above, and others as 'below-the-line' (q.v.). Most current items appear above-the-line and most capital items below. The out-turn of the Budget for 1964-65 was an above-the-line surplus of £420 m. and a below-the-line deficit of £848 m., resulting in a borrowing requirement of £428 m. Since 1965 the terms 'above-the-line' and 'below-the-line' have not appeared in the financial statement (q.v.).

Abrasion Loss of weight in coins caused by wear and tear.

Absentee Landlord Landowner who resides away from his estate, drawing rents from tenants and managing his affairs through an agent.

Absenteeism Absence from work which may be involuntary due to sickness or other causes, or voluntary.

Absolute Advantage, Theory of In international trade, a statement that countries tend to specialise in the production of those goods

Absolute Monopoly

and services which they can make or provide most profitably. For example, if Country A can grow wool more cheaply than Country B, and Country B can produce electrical machinery more cheaply than Country A, each country is said to have an absolute advantage in the production of one of the commodities, and each will specialise and trade with the other. See COMPARATIVE ADVANTAGE, THEORY OF.

Absolute Monopoly The control of the entire output of a commodity or service, for which there is no substitute, by a single producer or supplier. This kind of situation rarely occurs in real life. See MONOPOLY.

Abstinence In an economic sense, the sacrifice of current consumption to enable resources to be directed to the production of capital goods. As this means that in the long run the flow of consumer goods will be increased, abstinence may be regarded as the sacrifice of some current consumption in favour of greater future consumption.

Abstinence or Agio Theory of Interest A theory that interest (q.v.) is a payment for abstaining from current consumption. This is but a partial explanation as there are other reasons for saving. See LIQUIDITY-PREFERENCE; PROPENSITIES TO CONSUME AND SAVE.

'Abstract of Regional Statistics' An annual publication of the Central Statistical Office, containing much regional information.

Abu Dhabi Fund for Arab Economic Development A fund established in July, 1971, by the Government of Abu Dhabi to help other Arab countries by offering them economic aid in the form of loans or guarantees or direct participation in projects. The original authorised capital of the fund was subscribed totally by the Government of Abu Dhabi; the first loan agreement was signed in 1974. The fund is now authorised to offer aid to African, Asian and other Islamic nations. Some 30 per cent of the gross national product of Abu Dhabi now goes in aid to other countries. See UNITED ARAB EMIRATES.

Accelerated Depreciation The depreciation (q.v.) of new plant or machinery over a shorter period than normal. Firms in development areas (q.v.) have been authorised to do this. See FREE DEPRECIATION.

Accelerator, The The process by which changes in the demand for consumer goods bring about even larger variations in the demand for the capital equipment used to make them. The accelerator is a factor which tends to accentuate booms or slumps in the economy. The demand for capital equipment

is the aggregate of two distinct demands: (a) the demand arising from the need to replace worn-out or obsolete capital equipment, and (b) the demand for the provision of additional productive capacity if there is a growing demand for goods. As an example of the effect of the accelerator, envisage a plant manufacturing 1 million units of a commodity per year. Assume that 10 per cent of the productive capacity requires replacement each year. Now if the market demand for the commodity increases from 1 million units to 1.1 million units, the productive capacity will have to be increased by 10 per cent to meet the additional demand. Thus the effect of a 10 per cent increase in consumer demand is an increase of 100 per cent in the demand for capital equipment. Conversely, if demand for the commodity fell by 10 per cent, then the producer need not carry out his normal replacement of plant at all, and the effect of this relatively small fall in demand for the commodity is to reduce the demand for capital equipment to zero. In practice, the effect may not be as sharp as this. An increase in demand, if temporary, may be met by running down stocks; there may be reserve productive capacity which can be brought into use; existing plant may be used more intensively; and the cost of durable equipment may not be great in relation to materials and labour, reducing the importance in the economy of large variations in the demand for equipment.

Acceptance The agreement of the drawee of a bill of exchange (q.v.) signified by his signing the bill, to carry out the order of the drawer. An acceptance may be general (i.e. without qualification), or qualified (i.e. conditional or partial). After acceptance the drawee is known as the acceptor.

Acceptance Credit A method of payment used in international trade. If the credit of a foreign import merchant is considered satisfactory an Accepting House (q.v.) may open an acceptance credit for him in London. A purchase from a British exporter may then be financed by means of a bill of exchange (q.v.) drawn on the Accepting House. The exporter can then obtain his money quickly as the bill can be easily discounted in the London discount market.

Accepting House A financial institution which 'accepts' bills of exchange; with such backing the bills command a higher price. Most accepting houses were originally merchant houses engaged in trade before specialising in financial operations. In addition to accept-

ing bills, accepting houses engage in ordinary banking business and function as investment advisers and issuing houses. See **ACCEPTANCE**; **ACCEPTANCE CREDIT**; **ISSUING HOUSE**.

Accepting Houses Committee A committee representing seventeen accepting houses conducting business in Britain. The principal qualifications for membership are: (a) a substantial part of the business of an applicant must consist of accepting bills of exchange to finance the trade of others; and (b) the applicant's acceptances must command the finest rates in the market and be eligible for rediscounting at the Bank of England (q.v.) See **ACCEPTANCE**; **ACCEPTING HOUSE**; **MERCHANT BANKS**.

Accommodating Movements Transfers of gold and convertible currency abroad to meet deficits in the total balance of payments (q.v.) of a country.

Accommodation Bill A bill drawn, accepted or endorsed for the sole purpose of discounting it, no goods being given or received for it, thus providing short-term cash accommodation.

Account Day The day on which all bargains (q.v.) done on the Stock Exchange (q.v.) must be settled, being usually seven days after the close of dealings at the end of the previous account period (q.v.). Also known as settlement day, and occasionally as pay day.

Account Period A period during which transactions take place on the Stock Exchange (q.v.). The year is divided into twenty-four account periods; these are normally fortnightly periods, but there are four three-week periods in each year to cover Christmas and other holidays. See **ACCOUNT DAY**.

Accounting The recording of the transactions of a business to reveal the financial position of the business, permit the computation of tax liabilities, and provide management with information essential to the efficient control of the business. See **MANAGEMENT ACCOUNTING**; **SOCIAL ACCOUNTING**.

Accounting Costs Costs considered as recorded costs only; economic costs may be larger or smaller when alternative costs or opportunity costs (q.v.) and external effects (q.v.) are taken into account.

Accounting, Management See **MANAGEMENT ACCOUNTING**.

Accumulation The action of traders who buy a commodity heavily and 'take it out of the market'.

Active Balance A favourable balance of payments (q.v.) when receipts from the export of

goods and services exceed expenditure on the import of goods and services.

Active Circulation That part of the note issue of the Bank of England (q.v.) in circulation at any given time.

Active Market A market for a particular class of stock or shares in which there are frequent and regular dealings.

Activity Rate The proportion of civilian employees (employed plus registered unemployed) in a given population age group. Low activity rates may be regarded, to some extent, as an indication of 'concealed' unemployment. See **UNEMPLOYMENT**.

Actuals Commodities on hand, ready for shipment, storage or manufacture.

Actuary A member of the insurance profession, specially skilled in the application of mathematical and statistical techniques to the problems of insurance of all types.

Administered Pricing Pricing by 'price makers', not 'price takers' as under perfect competition (q.v.); the pricing policies of monopolistic and oligopolistic sellers. Administered prices tend to be cost determined, i.e. they are arrived at by applying various percentages to direct labour and material costs to allow for overheads and profits. The adjustment of production to changes in demand tends to take place independently of price changes through stock adjustments; production is reduced in response to an accumulation of unsold goods, and raised in the face of a depletion.

Ad Valorem 'According to value'.

Ad Valorem Tax A duty imposed on commodities in proportion to their value, i.e. a duty expressed as a percentage and not a flat amount. It is commonly used in respect of import tariffs. In Britain values are assessed on the c.i.f. (q.v.) values, plus landing charges, or alternatively on the market value when landed. In Canada the value used is that which is considered to be the fair market value on such or like goods sold for home consumption. When a fair market value cannot be ascertained, production cost plus a reasonable mark-up is accepted.

Advance Factories Factories constructed in advance of requirements by Industrial Estates Corporations (q.v.) in development areas (q.v.) in order to attract industry. The construction of these factories is authorised under the Local Employment Acts 1960 to 1966 (q.v.).

Advance Refunding (U.S.) A technique of the U.S. Treasury to hold traditional bondholders; the Treasury offers holders of expiring bonds especially attractive terms to buy its

Advances

new bond issues. In this way it does not compete with private borrowers for the inflow of new savings.

Advances See BANK LEND; BANK OVERDRAFT; PERSONAL LOANS FROM BANKS; TERM LOANS.

Advertising The publicising of a good or service to create, maintain or enlarge the effective demand (q.v.) for it, presenting the qualities of the good or service in an attractive manner coupled with an invitation to buy; the form of presentation may often be skilful, appealing and informative, tending frequently to exploit weaknesses in the psychology of mankind. Advertising is usually the principal selling cost (q.v.). It has been estimated that the cost of advertising in Britain is a little over 2 per cent of the national income (q.v.) with proportions varying considerably according to the commodity and type of market. For example, advertising accounts for 45 per cent of the price of patent medicines, 35 per cent of patent foods and toilet requisites, 10 per cent of food and household goods, but is negligible in respect of fuel and light. There is much to be said for and against advertising. In its favour it may be argued that advertising disseminates useful information about what is available and that it stimulates the total demand for goods. Again advertising helps create a continuous demand for an article which assists in lowering its costs of production and its price. Advertising also helps in guaranteeing goods of standard and uniform quality. Against this it may be argued that many advertisements do not even pretend to give any details of the composition and quality of the goods concerned; the appeal is to the emotions rather than to good sense. Advertising may go even further in attempting to endow a product with a virtue that it does not possess; and it may be a product which on health grounds people should consume less of, not more. If a product establishes itself in the public mind through advertising, in preference to similar but less well known makes, it may be sold at a monopoly price.

Advice A note sent by one merchant to another advising him of the despatch of goods ordered.

Afloats Commodities loaded on vessels and already on the way to a destination or about to be despatched; the term does not apply to cargoes already at the destination.

African Development Bank Founded in 1964, a bank to promote economic development and social progress of the member states. It has 31 members. The bank has its headquarters at Abidjan, Ivory Coast.

Agency for International Development (U.S.)

An Agency within the U.S. Department of State responsible for the administration of the economic assistance programmes of the U.S. Government. Established in November, 1961, the Agency is the successor to the International Co-operation Administration (q.v.).

Aggregate Demand The total effective demand or expenditure of all purchasers of capital and consumer goods within a given market.

Aggregate Supply The total physical volume of goods and services currently coming on to a given market.

Aggregated Rebates See DEFERRED REBATES.

Aggregation The bringing together or summing of primary data. For example, the national income is an aggregate, in contrast with the income of an individual. See AGGREGATE DEMAND; AGGREGATE SUPPLY.

Aggregative Index An index number which is constructed by aggregating a number of items, e.g. Laspeyres' Index (q.v.) and Paasche's Index (q.v.). See INDEX NUMBERS.

Aggregative Model An econometric model in which the variables are themselves constructed from groups of individual variables, as when a price index number is substituted for a set of prices. See ECONOMETRIC MODELS; INDEX NUMBERS.

Agio A charge for changing one currency into another, or for changing paper money into coin; the excess value of one currency over another at the prevailing official rate of exchange. Agiotage is exchange business such as stockjobbing and speculation in stocks.

Agio Theory of Interest See ABSTINENCE OR AGIO THEORY OF INTEREST.

Agistment The feeding and taking care of cattle for reward.

Agreement, Information See INFORMATION AGREEMENT.

Agricultural Marketing Act 1931 An Act authorising the setting up of a Marketing Board in respect of any agricultural commodity where the producers of a large proportion of the total output of the commodity are in favour of such a scheme. See MARKETING BOARD.

Agricultural Mortgage Corporation A finance corporation set up under the Agricultural Credits Acts of 1928 and 1932 to provide long-term finance for the agricultural industry in England and Wales. Its equity shareholders are the Bank of England and nine joint-stock banks. Loans are advanced for periods of from twenty to sixty years for the purpose of purchasing farms or for use as general working capital. In addition to the capital provided

by the equity shareholders, additional funds for lending have been obtained by the public issue of debenture stock. A similar service has been provided in Scotland by the Scottish Agricultural Securities Corporation. *See* FINANCE CORPORATIONS.

Agricultural Subsidies Payments to the farmers by the Government for the purpose of encouraging home production of foodstuffs while maintaining reasonable retail prices to consumers. About two-thirds of United Kingdom farm subsidies are known as 'deficiency payments' and are paid in respect of produce sold on the home market at prices less than the guaranteed prices negotiated annually between the farmers and the Government. These guaranteed prices are fixed at an Annual Review. The farmer sells his produce to private buyers on the home market at prices competitive with imported supplies. The Agricultural Acts of 1947 and 1957 laid down that the object of Government intervention was to ensure the production of as much as it was desirable to produce in the national interest with 'proper remuneration' for farmers and farm workers and an adequate return on the land and capital employed. The United Kingdom level of agricultural production is very much higher than before the Second World War and self-sufficiency has been achieved, or nearly so, in liquid milk, pork, poultry, eggs, barley, potatoes and hops. Deficiency payments are being supplemented by import levies. Government policy has been modified radically as a result of entry into the European Economic Community (q.v.) with the substitution of intervention for guaranteed prices. *See* AGRICULTURE ACT 1947; COMMON AGRICULTURAL POLICY; INTERVENTION PRICE; COMMON SUPPORT PRICES.

Agricultural Wages Board A statutory body responsible for negotiating the wages of agricultural workers. *See* MINIMUM WAGE LEGISLATION.

Agriculture Act 1947 An Act laying down the foundations for British agricultural policy following the Second World War. The Act sought to promote and maintain 'a stable and efficient agricultural industry capable of producing such part of the nation's food and other agricultural produce as in the national interest it is desirable to produce in the United Kingdom, and of producing it at minimum prices consistently with the proper remuneration and living conditions for farmers and workers in agriculture and an adequate return on capital invested in the industry'.

In 1975 the British Government published an outline of its intentions for the period up to 1980, in a White Paper entitled *Food From Our Own Resources*. It considered that, given the right encouragement, United Kingdom farmers could raise output and self-sufficiency in food production, particularly in the areas of dairy and sugar beet production. *See* AGRICULTURAL SUBSIDIES; COMMON AGRICULTURAL POLICY.

Aid Tying An obligation which may be imposed by a donor government upon a recipient to use aid funds for purchasing goods and services in the contributing country.

Air Consignment Note Where goods are transported by air an air consignment note replaces a bill of lading (q.v.). This is not a document of title to the goods, but merely a copy of the consignment contract.

Aircraft and Shipbuilding Industries Act 1977 A legislative measure to nationalise the British aircraft and shipbuilding industries, receiving the Royal Assent in March, 1977. Twelve British shiprepairing firms were excluded from the Act, although it was the original intention to include them.

Aldrich Commission Arising from the Aldrich Freeland Act 1908, a commission appointed by the United States Congress to recommend the most effective monetary organisation for the nation. Early in 1912 the commission submitted its report which proposed the creation of a National Reserve Association, a voluntary affiliation of banks which would issue notes, hold deposits of member banks and make loans to them against acceptable collateral. In 1913, Congress passed the Federal Reserve Act which introduced central banking on a permanent basis, establishing the Federal Reserve System (q.v.).

Algol Abbreviation for 'algorithmic oriented language'; an international computer programming language for science and mathematics. *See* COBOL; COMPUTER; HARDWARE AND SOFTWARE.

Algorithm A mathematical term meaning an exact prescription, defining a computational process leading from the initial data to the final result.

Allonge Slip of paper attached to a bill of exchange (q.v.) to provide additional space for endorsements, should this be required.

All-or-None Order (U.S.) A market or limited price order for the purchase or sale of stocks and shares which is to be executed in its entirety or not at all. *See* FILL-OR-KILL ORDER.

Allotment Act of allotting newly issued debentures, or shares between applicants who

Allotment Letter

have responded to an offer for subscription. **Allotment Letter** Letter advising an applicant how much stock or how many shares he has been allotted and specifying the amounts due and dates of payment in respect of them.

Allowed—or Standard—Times Prescribed times for the completion of a task, based on time-study data.

Alternative-Cost See OPPORTUNITY-COST.

Amalgamation The merging or combining of two or more firms.

'American Economic Review' The quarterly journal of the American Economic Association.

American Federation of Labour and Congress of Industrial Organisations (A.F.L.-C.I.O.) An amalgamation, achieved in 1955, of two American rival federations of trade unions. The combined federation comprises over one hundred national unions and over five hundred local unions, with a total membership of over fourteen million trade unionists.

American Loan See WASHINGTON AGREEMENT.

American Stock Exchange Located in New York City, the second largest stock exchange in the United States of America. Once known as the Curb Exchange (q.v.).

Amortisation (a) The gradual repayment of a debt by means of a sinking fund (q.v.); (b) The annual writing down of the value of an asset by depreciation.

Anglo-American Council on Productivity An organisation set up shortly after the Second World War to study the experience of the United States in raising productivity, and to consider which of the methods adopted there could be applied or adopted to the needs of British industry. Some sixty-six teams, representing management, technicians and operatives, drawn either from specific industries or from experts in certain techniques of service to industry generally, went to the United States for this purpose. All these teams prepared comprehensive reports and recommendations. See BRITISH PRODUCTIVITY COUNCIL; PRODUCTIVITY.

Anglo-Irish Free Trade Agreement 1965 An Agreement, operating from 1st July, 1966, under which the United Kingdom ceased to charge protective duties on goods originating in the Irish Republic.

'Annual Abstract of Statistics' A publication of the Central Statistical Office covering the main features of the British economy.

Annual Report and Balance Sheet A statutory report made by public companies to their owners, the shareholders. It contains information required by the Companies Acts 1948

and 1967 (q.v.) and information regarding earnings and the distribution of earnings, assets and liabilities, and plans for the future.

Anthropology, Economic See ECONOMIC ANTHROPOLOGY.

Anticipatory Pricing Or hedge pricing, or inflation premium pricing, a pricing strategy by companies that allows for future anticipated cost increases both in operating and capital costs. It is an attempt in inflationary conditions to maintain profit margins. If companies believe that government policies will lead to a greater rate of inflation, then this belief will be reflected in price structures particularly in respect of goods and services to be delivered at some future time. See FULL COST PRICING; TARGET RETURN PRICING.

Anti-Inflation Board (Can.) Set up by the Canadian Government in October, 1975, a board to introduce a system of controls for wages and salaries, profits and prices. The controls are supported by a tough monetary policy with attendant high interest rates. The controls were introduced for a three-year period and would be lifted by October, 1978, or earlier if economic circumstances permitted. The board is based in Ottawa with a staff of 850.

Anti-Trust Laws (U.S.) A series of Acts introduced by the United States Federal Government to check and control the formation of trusts (q.v.). The first was the Sherman Anti-Trust Act of 1890 (q.v.). The Clayton Act 1914 (q.v.) sought to check the development of monopolies by prohibiting the amalgamation of firms producing a large proportion of the total output of a commodity.

Application Money The amount of money which must accompany an application for a new issue of stocks or shares.

Applied Economics Branch of economic science devoted to the study of practical problems, utilising the principles and tools of economic analysis provided by theoretical economics (q.v.).

Appreciation An increase in the value of an asset. For example, an increase in: (a) the value of property in relation to other assets during a period of growing demand; (b) the value of stocks held by merchants and manufacturers during a period of rising prices; (c) the value of a currency when its value increases in relation to the values of other currencies; or (d) the value of stocks and shares in general, or particular categories, on the stock exchange.

Apprenticeship The system under which young persons training in a particular occupation

Asprey Report on Taxation 1975 (Aust.)

have to 'serve their time', usually for five years, before being recognised as skilled.

Traditional training training in British industry is through apprenticeship. This principle was first embodied in law by the 1563 Statute of Artifices which specified, for example, that no one could enter weaving without serving a seven-year apprenticeship. In Britain, about 40 per cent of boys leaving school start as apprentices but only about 8 per cent of girls. In Germany about 80 per cent of school leavers start apprenticeships. British apprentices are trained on the job, receiving below normal rates until trained. Apprenticeships often last up to five years. However, the building industry has managed to reduce apprenticeships from five to three years. On the other hand, many printing apprenticeships take up to six years.

Appropriation Account A business account showing how the net profit has been apportioned between dividends, reserves, profit-sharing scheme, pension fund, and so on.

Appropriation-in-Aid An item in the estimates of a Government Department which records any revenue received from the sale of goods and services to the public; the effect of such an item is to reduce the amount of money required from the Exchequer (q.v.) during the coming financial year.

Arab Currency-Related Unit A unit devised by Hambros Bank in 1974, it focusses on Middle East oil. It began with a base-date value of one Arcru = \$US1 and is linked to the currencies of twelve Arab countries. It has proved a useful unit for transactions in a climate of floating exchange rates.

Arab Fund for Economic and Social Development An organisation set up in 1972, on the initiative of Kuwait, to promote development within the Arab states. All Arab States contribute to the Fund.

Arbitrage Dealing in commodities, currencies or securities between two or more markets to take profitable advantage of any differences in the prices quoted for such commodities, currencies or securities. Arbitrage may involve the simultaneous purchase and sale of the same quantity of the same commodity in two different markets, either in the same country or in different countries, in order to take advantage of a temporary disparity in prices.

Arbitration A method of settling industrial disputes. Both sides to a dispute agree to refer the matter to an impartial person or body for adjudication, there being a formal or informal agreement to accept the decision or recommendation.

Ariel Or automated real-time investments exchange, a computerised system owned by the Accepting Houses Committee (q.v.) in which subscribers are able to 'talk' anonymously to other subscribers over a television screen. Bargains are struck by one subscriber accepting the bid of another, by-passing the stock exchanges altogether. Subscribers pay an annual rent for the equipment, plus a transaction fee. The saving on stock exchange commissions can be considerable and the jobber's turn is eliminated. Ariel came on stream in February, 1974. See STOCK JOBBER.

Arithmetic Mean Figure computed by aggregating a series of figures and dividing by the number of items included in the series.

Arithmetic Progression A series of quantities taken in order which increase or decrease by a constant amount known as the 'common difference', e.g. 1, 3, 5, 7, 9, ... in which the common difference is 2. The n^{th} term = $a + (n-1)d$, where a is the first term and d the common difference. The sum of the terms, $S = n/2[2a + (n-1)d]$ where n is the number of terms being considered. Both the first term and the common difference may be positive or negative.

Articles of Association A document which must be submitted to the Registrar of Companies when seeking registration of a company. The articles determine the internal constitution of the company, either accepting the standard articles suggested in the Companies Act or setting out special terms of their own. Articles cover such important matters as:

- (a) Issue and transfer of shares;
- (b) Alteration of capital;
- (c) Borrowing powers;
- (d) Shareholders' meetings and voting rights;
- (e) Appointment and powers of directors;
- (f) Presentation and auditing of accounts.

See COMPANIES ACTS 1948 AND 1967; COMPANY, LEGAL FORMATION OF; MEMORANDUM OF ASSOCIATION.

Asian Development Bank Founded in 1966, a bank to further development investment in Asia, to help prepare and co-ordinate development and provide technical aid. It has twenty regional members and thirteen non-regional members. The bank has its headquarters in the Philippines.

Asprey Report on Taxation 1975 (Aust.) A report to the Australian Government, recommending the introduction of a personal income tax scale with an initial marginal rate much higher than previously applied, and with

Asset Backing

lower marginal rates at intermediate ranges of income.

Asset Backing The net assets of a company divided by the number of issued shares. For example, if the ABC Co. Ltd. has £100,000 net assets and 10,000 shares issued, the asset backing is £10 per share.

Asset Stripping The selling-off of valuable assets following a successful take-over bid for a company, profiting from an under-valuation of the assets of that company.

Assets The property of a business; they may be classified as:

- (a) Current Assets, consisting of cash, stock and book debts;
- (b) Fixed Assets, consisting of buildings, plant and machinery;
- (c) Intangible Assets, being the value of goodwill or patents.

At Best In relation to the stock market, an abbreviation for 'at the lowest possible price' in respect of a buying order, and 'at the highest possible price' in respect of a selling order. In the United States it is interpreted as an order to buy or sell at the best price obtainable at the time the order reaches the trading pit or ring.

At Discretion A term qualifying an instruction given by a client to his stockbroker (q.v.) to buy or sell stocks or shares, it gives the broker discretion as to price.

At Limit A term qualifying an instruction given by a client to his stockbroker (q.v.) to buy or sell stocks or shares, it places a specified limit on either the highest price that may be paid, or the lowest price at which a sale may be made.

At Par Stocks and shares the market price of which is the same as the nominal or face value. If new stock is issued at par, then £100 of such stock can be bought for £100.

'At the Back Door' Description of assistance to the money market by the Bank of England (q.v.), which injects cash into the market by the purchase of bills through the special buyer (q.v.), when it wishes to provide the market's requirements of cash without exerting pressure upwards or downwards on the rates of interest in the market. If the Bank does not wish to provide cash in this manner, and the discount houses can obtain the cash they require in no other way, then the discount houses may borrow direct from the Discount Office of the Bank of England. This is known as assistance to the market 'at the front door'. See LENDER OF LAST RESORT; MONEY MARKET; PENAL TERMS.

'At the Front Door' See 'AT THE BACK DOOR'.

At the Market A term qualifying an instruction given by a client to his stockbroker (q.v.) to buy or sell stocks or shares, it indicates that the broker may buy or sell at about the market price prevailing at the time the instruction is given.

Attribute A qualitative characteristic of an individual, as distinct from a variable (q.v.) or quantitative characteristic. Sex is an attribute, age is a variable.

Auction A method of determining prices employed in the sale of objects which cannot be standardised, e.g. horses, fish, cattle, vegetables, etc. Specified quantities or 'lots' are open to public bids, buyers competing to complete a purchase. The general system is for the price to start low and for bidding to raise it, although there may be a reserve price below which the seller reserves the right to withdraw the goods from sale. In a Dutch auction, however, the bids come down from a high price instead of rising from a low price. This method is used extensively in Holland for the sale of agricultural commodities.

Auctioneer An agent employed by a seller to sell his goods at an auction (q.v.).

Audit The examination of the account books of an organisation, by an accountant or other competent person, to ascertain their correctness.

Audit Office The office of the department of the Comptroller and Auditor-General. The department is responsible for the annual audit of the accounts of the Government departments.

Australian Banking System A banking system consisting of a central government bank (The Reserve Bank of Australia), the Commonwealth Banking Corporation, private trading banks (all joint stock companies) and various other commercial and savings banks.

The Reserve Bank is responsible for the issue of notes, regulation of bank lending and of bank interest rates, the movement of foreign currency and the operation of Government Securities.

There is a system of statutory deposits through which the Reserve Bank regulates the liquidity of the Trading Banks and hence their capacity to make advances. The Trading Banks have also agreed to maintain a minimum level of liquidity in their own hands.

Australia has adopted the English system of branch banking.

Australian Council of Trade Unions (ACTU) A central labour organisation forming an essential part of the consolidation of the trade union movement in Australia. Formed in 1927,

the consolidation process was not complete until the affiliation of the Australian Workers' Union in 1967. The ACTU has become a very influential body and has contributed significantly to the improvement in industrial relations in Australia.

Australian Economic Review A quarterly review of Australian economic trends and fluctuations together with a general view of future economic prospects in both the short and medium terms. It is published by the Institute of Applied Economic and Social Research, University of Melbourne.

Australian Loan Council A body composed of State and Australian Government ministers which determines the amount of public borrowing that may be undertaken during the current year, and the distribution of the amounts raised between the seven governments. The Loan Council was established in 1927, following an amendment to the Constitution which permitted the negotiation of a financial agreement between the Australian Government and the States. The financial agreement established the Loan Council and the arrangements for borrowing; one of the most important requirements in respect of borrowing being that only Australian Government securities may be issued to the market.

Australian Resources Development Bank A bank opened in March, 1968, to assist Australian enterprises in the development of natural resources, through direct loans and equity investment, or by refinancing loans made by trading banks. The bank is jointly owned by the seven Australian trading banks and the Reserve Bank.

Australian Wheat Board The marketing authority for wheat in Australia. Constituted in 1948 under complementary Australian Government and State legislation, it is grower controlled. All wheat produced and sold off-farm must be marketed through the board. The proceeds of sales of wheat made on the domestic market and overseas are pooled; each grower receives a return based on the quantity of wheat delivered and the average price realised.

Australian Wool Corporation A statutory body formed in January, 1975, to bring under single direction the functions previously performed by two separate bodies, the Australian Wool Board and the Australian Wool Commission. The functions and powers of the Australian Wool Corporation cover wool marketing, wool use promotion, wool testing,

wool research and wool stores administration. A principal marketing function is the operation of a reserve price scheme for wool offered for sale at auction.

Austrian School of Economists Name given to a group of 19th Century economists at the University of Vienna, among whom were Carl Menger (1840-1921), Friedrich von Wieser (1851-1926) and Eugen von Böhm-Bawerk (1851-1914). Their contribution rested largely in the development of the utility theory of value, refuting the cost of production theory of value of the older Classical School of Economists. See VALUE, THEORIES OF.

Autarky An ideal of self-sufficiency, a country attempting to be as independent as possible of imports from other countries. A costly policy for those who try it and an unrealistic one for most.

Authorised Clerk Stockbroker's clerk allowed to deal on the floor of the Stock Exchange (q.v.).

Automation A system of automatic machine control extending over an entire series of manufacturing operations or other productive activities; an advanced form of mechanisation achieving various levels of sophistication. The general effect is to reduce manpower requirements. In the motor industry, automation has been described as the 'automatic handling of parts between progressive production processes'. It has permitted the extension of mechanisation into areas which previously had defied such changes, e.g. banking and insurance.

Autoregression A series of observations in which the value of each observation is partly dependent upon the values of those observations immediately preceding it. Each observation stands in a regression relationship with one or more of the immediately preceding observations.

Average Cost The average cost of producing each unit of output, i.e.

Cost of producing (n) units

(n)

The greater the proportion that fixed costs (q.v.) bear to variable costs (q.v.) the more rapid the decline in average costs as the total output is increased. In economics, costs include 'normal profit' (q.v.), this being a necessary payment in respect of the special type of labour called 'enterprise'.

Averaging The practice of buying more of a security when its price has fallen in order to lower the average cost of a holding.

B

Back-Door Operations See 'AT THE BACK DOOR'.

Backwardation (a) A payment made by a bear (q.v.) to a bull (q.v.) for refraining from demanding delivery of shares sold by the former to the latter. Opposite to contango (q.v.).

(b) Fee paid by a bear (q.v.) on borrowing stock or shares to deliver against his sale.

(c) In the commodity markets, the amount by which the spot price of a commodity (plus the costs of carrying the commodity over time) exceeds the forward price. See SPOT PRICE; FUTURES MARKET.

Balance of Payments The relation between the payments of all kinds made from one country to the rest of the world and its receipts from all other countries. For the world as a whole, imports must equal exports. For Britain, while the value of visible imports normally exceeds that of visible exports, the addition of invisible earnings (q.v.) usually results in a current account (q.v.) surplus. As a consequence of the War, British overseas earnings declined considerably (mainly due to the sale of overseas assets to finance the war) and this loss of earnings had to be matched by an increase in exports. Inflationary trends and high consumer demand at home have encouraged imports of raw materials and finished goods, while the same inflationary pressure in raising the prices of British exports has tended to weaken the competitive position of British goods in the export markets.

British exports and earnings comprise two elements, the 'visible' and the 'invisible'. Visible exports are by far the most important element, consisting of tangible goods such as plant and machinery, consumer goods, aircraft

etc. Invisible earnings are receipts for services rendered. For example, British shipping earns large sums for carrying goods for other countries; banks, insurance companies, civil airlines, etc. perform useful services for foreign firms and nationals; the investment of capital overseas earns interest and dividends; tourists from abroad also add to earnings. At the same time debts are incurred by Britain not only in respect of imported goods, but in respect of interest and profits earned by foreign firms and governments. In addition, British tourists spend money abroad, and payments have to be made to foreign countries for the maintenance of the British Forces overseas.

The 'current account' is that part of the balance of payments account which shows all payments made or received in respect of goods and services, including payments of interest on past lendings or borrowings. The 'capital account' is that part of the balance of payments account showing all payments made or received by way of settling old debts or creating new debts. A deficit on current account must be matched by a surplus on capital account, and vice versa, if a balance is to be achieved.

In 1974, the United Kingdom showed by far the largest deficit ever recorded on the current account of its balance of payments, amounting to more than three times as large as the deficit in 1973. The deterioration was due to an increase of almost £3,000 million in the trade deficit, which was itself due entirely to a deterioration in the terms of trade; oil prices had nearly quadrupled and the prices of other raw materials and commodities had

Baltic Mercantile and Shipping Exchange

TABLE I
UNITED KINGDOM BALANCE OF
PAYMENTS

			(£m.)	
		1973	1974	1975
<i>Current account</i>				
Imports		14,104	21,159	21,972
Exports		11,772	15,895	18,772
Visible balance		- 2,332	- 5,264	- 3,200
Invisibles:				
Public sector		- 1,002	- 1,233	- 1,542
Private sector		+ 2,492	+ 2,886	+ 3,042
Current balance		- 842	- 3,611	- 1,700
Current balance		- 842	- 3,611	- 1,700
Capital transfers		- 59	- 75	-
Investment and other capital flows		- 92	+ 1,657	+ 708
Balancing item		+ 204	+ 357	+ 929
Balance for official financing		- 789	- 1,672	- 1,479
Official financing				
Net transactions with IMF		-	-	-
Foreign currency borrowing				
—by Government		-	+ 644	+ 423
—by public sector under exchange cover		+ 999	+ 1,107	+ 387
Drawings (+) on or additions (-) to official reserves		- 210	- 79	+ 669
Total official financing		+ 789	+ 1,672	+ 1,479

(Source: Midland Bank Review May 1976)

continued at a high level. See **BALANCING ITEM**; **CAPITAL ACCOUNT**; **INVISIBLE EARNINGS**; **MONETARY MOVEMENTS**; **UNREQUITED EXPORTS**. **'Balance of Payments'** An annual Pink Book published by the Central Statistical Office.

Balance of Revenue Term used by the Electricity Council (q.v.) for the financial surplus or profit of the electricity supply industry. It is additional revenue deliberately secured as a contribution to capital development, i.e. for investment in plant and other assets. The word 'surplus' in the industry's earlier accounts had caused unnecessary confusion since it implies quite incorrectly a sum of money over and above that required.

Balance of trade The relationship between the values of a country's imports and its exports, i.e. the 'visible' balance. These items form only part of the balance of payments (q.v.) which

is also influenced by (a) 'invisible' items and (b) movements of capital.

Balance Sheet An ordered statement of:

- (a) The economic resources or assets of a company or other business organisation, each item having a value set upon it;
- (b) The financial claims of persons or organisations upon the value of these assets.

All assets are, by definition, owned by someone; consequently, the total claims equal the value of the assets.

Balancing item An item entered in the balance of payments (q.v.) accounts to make the account balance; it is the net total of the errors and omissions in other items.

Baltic Mercantile and Shipping Exchange A London market devoted to shipping services and cargoes; it is international in scope and

Banca d'Italia

the largest market of its kind in the world. As a commodity exchange it specialises in the grain trade, with a well-established 'futures' market. In respect of shipping almost any business connected with ships and cargoes is transacted. It is also concerned with the arranging of air freight. The Exchange has over 2,000 members.

Banca d'Italia The central bank of Italy. Founded in 1893, by 1926 it had become the sole bank of issue in Italy.

Bancor See KEYNES PLAN.

Bank Bill A bill of exchange (q.v.) carrying the names of two accepting houses (one a member of the Accepting Houses Committee) eligible for discount at the Bank of England (q.v.) See ACCEPTING HOUSE.

Bankcard See CREDIT CARD.

Bank Charter Act 1844 Following a series of banking crises during the period 1825-37, an Act introduced to control the issue of bank-notes.

The chief provisions of the Act were:

- (a) The work of the Bank of England (q.v.) was to be divided into two departments:
 - (i) Issue Department, and (ii) Banking Department;
- (b) There was to be a small fiduciary issue (q.v.) of about £14 millions; all notes above this amount were to be backed by gold;
- (c) No new bank was to be allowed to issue notes and existing issues were not to be increased; note-issuing powers were withdrawn from any business as soon as the number of partners exceeded six, and from any issuing bank becoming bankrupt, ceasing to carry on the business of banking, or otherwise discontinuing note issue;
- (d) The Bank of England (q.v.) was to be allowed to increase its fiduciary issue by two-thirds of the lapsed issue of any other bank; and
- (e) The Bank of England had to publish a weekly return for both its issue and banking departments.

In 1844 there were 72 banks of issue in England, but by 1914 the number had been reduced to 13. By 1921 the Bank of England had become sole bank of issue in England; eight Scottish Banks continued to issue notes. See CURRENCY AND BANK NOTES ACTS 1928-1954.

Bank Deposit A liability of a bank to a customer; a sum of money credited to a customer who may demand payment at any

time. The money may have been deposited by the customer, or have been credited to the customer by way of an overdraft or loan or by way of payments from other sources. A current account (q.v.) or a demand deposit (q.v.) forms part of the money supply (q.v.) of a country together with coins and notes. See CHECKING DEPOSIT; CHEQUE.

Bank of International Settlements (B.I.S.) Established at Basle in 1930, as a result of a recommendation of the Young Committee, the B.I.S. undertook initially certain functions of collecting and disbursing Reparations and Allied War Debt payments; the intention was that the Bank would develop into a clearing house for central banks and eventually into a 'central bank for central banks'. These earlier hopes were not realised and since the Second World War the International Monetary Fund (q.v.) has been performing many functions which might have been performed through the B.I.S.

The B.I.S. remains in existence, and since the Second World War has been largely concerned with short-term operations between European central banks, taking short-term deposits of gold or currencies and giving short-term credits. In addition, the B.I.S. was appointed Agent for the Organisation for European Economic Co-operation (q.v.) for the operation of the European Payments Union (q.v.) (and, subsequently, the European Monetary Agreement) and carries out certain operational functions for other international institutions, including the International Monetary Fund (q.v.) and the European Coal and Steel Community (q.v.). The Bank of England, as central bank of the United Kingdom, is a member of the B.I.S. See BASLE AGREEMENT.

Bank Giro A scheme for the improvement of money transfer services offered by the British clearing banks; the improved services include direct debiting arrangements, a particularly useful service for large organisations receiving frequent payments from the holders of bank accounts. See GIRO.

Bank Interest Interest paid and charged by the commercial banks for money deposited with or borrowed from them. Deposit accounts usually earn a rate of interest some 2 per cent less than minimum lending rate (q.v.); bank overdrafts carry a rate of interest of 1 per cent above minimum lending rate. From 16th September, 1971, all banks began to observe a uniform minimum reserve assets ratio of 2½ per cent and the London and Scottish clearing banks abandoned their collective agreements

on interest rates. See **BANK LOAN**; **BANK OVERDRAFT**; **DEPOSIT ACCOUNT**.

Bank Loan A loan of a fixed amount for a specific purpose, carrying a definite date for repayment. Such a loan is usually made on approved security, the interest charge tending to be lower for larger concerns. See **BANK OVERDRAFT**.

Bank Note Paper currency issued by the Bank of England, or other bank of issue, carrying the promise of the bank 'to pay the bearer on demand' a stated sum of money. Note issue in Britain is regulated by the Currency and Bank Notes Act of 1954. At the end of 1973 the value of notes and coins in circulation in Britain was £650 million.

Bank of Canada The central bank of Canada responsible for regulating 'credit and currency in the best interests of the economic life of the nation'. The Bank implements its monetary policy primarily by varying the amount of cash reserves available to the banking system. The minimum rate at which the Bank is prepared to make advances to the chartered banks is called the Bank Rate. The Bank acts as fiscal agent for the Government of Canada and has sole right of issue of bank notes for circulation in Canada. See **CHARTERED BANK**.

Bank of England The British central bank. Its functions and duties are as follows:

- (a) It carries out the monetary policy (q.v.) of the Government;
- (b) It has the sole right in England and Wales to issue bank notes (the Scottish and Northern Ireland banks have limited rights to issue notes);
- (c) It is the bankers' bank. The commercial banks (q.v.) keep about 50 per cent of their reserves with the Bank of England;
- (d) It is the Government's bank. It receives the proceeds of taxation and makes payments on behalf of the Government. It manages the National Debt (q.v.) and floats new loans for the Government. By 'ways and means advances' (q.v.) it lends money direct to the Government;
- (e) It influenced the money market (q.v.) by changes in the Bank Rate (q.v.) and by 'open market operations' (q.v.);
- (f) It is the 'lender of last resort' (q.v.);
- (g) It carries on a little ordinary banking business;
- (h) It manages the Exchange Equalisation Account (q.v.), foreign exchange control, and conducts transactions between Britain and the rest of the world;
- (i) It manages the special deposits (q.v.) which the London clearing banks and

Scottish banks are called upon to make with the Bank.

The Bank of England was established as a joint-stock company in 1694. The Bank Charter Act of 1844 (q.v.) gave the Bank a virtual monopoly of note issues. In 1946, the Bank was nationalised, the capital being acquired by the state. The Bank is managed by a Governor, Deputy-Governor and sixteen directors (four of these are full-time). The Bank publishes a weekly statement of account known as the Bank Return.

Section 4 of the Bank of England Act 1946 formalised many informal understandings which had grown up in the past. With some qualifications, the Treasury (q.v.) is able to direct the Bank, and the Bank is able to direct any or all of the commercial banks. However, the House of Commons Select Committee on Nationalised Industries 1969-70 concluded that moral suasion (q.v.) was 'much the most important control exercised by the Bank over the monetary system...'. In 1971 the Bank brought into operation Competition and Credit Control Measures (q.v.) which introduced a uniform system of minimum ratios (q.v.).

Bank of Issue A bank, authorised by statute to issue bank notes. See **BANK CHARTER ACT 1844**; **CURRENCY AND BANK NOTES ACTS 1928-1954**.

Bank of Japan The central bank of Japan, created in 1882. Originally privately owned, it is now required by statute to be at least 55 per cent in public ownership.

Bank of North Dakota (U.S.) The only commercial bank in the United States of America owned and operated by a state. Most of its loans are to state agencies.

Bank Overdraft A loan from a bank made on current account (q.v.). Often a means of financing trading requirements on a short-term basis, an overdraft is of no definite duration and is repayable on demand. The interest charged on a bank overdraft is usually 1 per cent above minimum lending rate (q.v.); it is levied on a day-to-day basis, i.e. on the actual amount borrowed and not on the agreed maximum. In theory an overdraft is repayable on demand and hence is supposed to be totally liquid; in practice it is not and some overdrafts become virtually permanent loans. See **BANK LOAN**.

Bank Rate The minimum rate at which the Bank of England (q.v.), acting as 'lender of last resort' (q.v.) would discount first class bills or make advances to a discount house