DICTIONARY OF BUSINESS AND ECONOMICS

Revised and Expanded Edition

Christine Ammer
Dean S. Ammer

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Preface

The entries in this dictionary cover an extraordinarily broad range, from economic theory of the past and present to its numerous applications in the world of business firms and consumers, from price and income theory to real estate, insurance, business law, and accounting, from public finance and labor economics to the world of the small investor. Biographies of the most important economists are included, but emphasis is on their ideas rather than their lives. Charts are used to cover material on relevant legislation—antitrust laws, labor laws, consumer-protection laws—as well as historical material, such as American tariff policies and strikes. Graphs and tables illustrate the basic statistical concepts used not only by academicians but by modern business managers. The appendix presents the major sources of economic and financial data. Selected works in business and economics are listed in the bibliography.

Despite the breadth of coverage, every effort has been made to present material simply and clearly enough for the general reader as well as for the student of business management and/or economics. For this reason, comparatively difficult concepts, such as the theories of John Maynard Keynes, have been given more space than equally important but simpler ideas; the space allotted reflects only the practical considerations of adequate explanation.

The terms in the dictionary, whether they consist of one word or of several words, are listed in strict alphabetical order, letter by letter, up to the comma in case of inversion. When a numeral is part of a term, as in "M-1" or "W-2 form," the term is alphabetized as though the numeral were spelled out (M-one, W-two). Identical terms with different meanings are defined under a single heading in a series of numbered definitions. Terms mentioned in one entry but further explained in another, where the reader is advised to seek them out, are printed in large and small capital letters, as, for example, INDUSTRIAL REVOLUTION or INTEREST RATE.

We are deeply grateful to the many experts and friends who have answered questions and made invaluable suggestions, criticisms, and corrections. Among those who merit special thanks are John M. Ammer, Computer Services Staff, Yale School of Organization and Management; Samuel Berman, Vice-President, Berman's Motor Express, Inc.; Dean W. Egly, Vice-President, Morgan Guaranty Trust Company; Michael G. Gero, Technical Director, BOSCOM; Earl W. Johnson, Bureau of Consumer Protection, Federal Trade Commission; Barry E. Loughrane, Managing Director, Gardner Advertising Company; Alan S. Oser, Real Estate Editor, The New York Times; Lamont L. Reese, U.S. Commodities Futures Trading Commission; S. James Rosenfeld, U.S. Securities and Exchange Commission; Dr. Paul N. Van de Water; Professor Charles Dufton; Professor Carlo Gubellini; and Professor Edward R. Willett. This book has been vastly improved through their assistance; its errors and shortcomings are wholly our own responsibility.

A

abandonment

1. In law, the relinquishment of property (personal or real) that one no longer wants, thereby waiving all rights to it. Since abandoned property is owned by no one, the first person to take possession of it acquires title to it. However, the party who claims such title must prove that the former owner intentionally relinquished his or her rights on a permanent basis. For a tenant's abandonment, see under LEASE.

2. In insurance, the practice of turning damaged property over to the insurer and claiming its full value. The property is then said to be "abandoned" to the insurer. Originating in marine insurance, where a ship piled up on shoals was sometimes abandoned to the marine underwriters, this practice is sometimes referred to in present-day property insurance policies (fire, automobile, etc.), which usually specify that the property in question may *not* be abandoned to the insurer.

3. In transportation, the refusal of a shipment by a consignee (the person authorized to accept a shipment) because of damage. Responsibility for the value of the goods then rests with the carrier.

ABC control Also, *selective inventory control.* A system of inventory control in which every item carried in stock is assigned a rating of A, B, or C, according to its costliness, with the twofold aim of reducing capital investment in inventories and lessening the likelihood of running out of low-cost but did not pay for a TV set she purchased, the defendant might file a counterclaim that the plaintiff's truck damaged her driveway while delivering the their cost for a given period (for example, the number of items used during one week multiplied by their unit cost). The most expensive items, constituting perhaps 10 per cent of the period's outlay, are classed A; the next most expensive, comprising an additional 20 per cent of the period's expenditures, are classed B; all others are classed C. Since they represent a high investment, inventories of A items are kept as low as possible; inventories of B items are also kept low, but with a slightly greater safety margin against depletion; and inventories of C items are much larger and less closely controlled. In addition to reducing capital investment in stocks, the ABC system saves clerical costs (stock checking is reduced, since only A and B items require close control) and enables a company to take advantage of discounts for large-volume purchases of inexpensive supplies. However, large stocks of bulky C items (shipping containers, for example) can offset this gain somewhat by increasing storage costs.

ability-to-pay principle The principle that tax assessments should be based on the taxpayer's ability to pay taxes, so that the rich pay more than the poor. This principle encompasses the idea of *horizontal equity*—that those with equal ability should be taxed equally—as well as that of *vertical equity*—different tax burdens for people with different abilities. Any PROGRESSIVE TAX, such as the U.S. Federal income tax and many state income and inheritance taxes, is based on ability to pay, being so designed that the wealthy pay higher taxes. Although in theory this principle is fairer than the imposition of a uniform tax rate on all income groups, in practice its fairness depends on how ability to pay is determined. One approach makes individual *income* the sole criterion, and some of its proponents also hold that since all taxes ultimately fall on the individual, individual income tax should be the only tax levied. Another approach considers *wealth* the measure of ability to pay. Still another approach makes consumption, or expenditure, the criterion, making a *consumption tax* the only tariff and not taxing that portion of income that is saved. See also BENEFITS-RECEIVED PRINCIPLE.

absenteeism The absence of employees from work with more than normal frequency. On a large scale, it usually represents an expression of worker dissatisfaction and can be costly in terms of lowered output.

absentee ownership The ownership of capital, such as land or factories, by one or more persons living away from their property and employing others to manage and work it for them. Traditionally the absentee owner was a landlord who profited from the income of an estate or plantation. This practice, dating at least as far back as the Middle Ages, was still common in 19th-century Great Britain (notably in Ireland, where much land was owned by the English) and Russia, where many landowners preferred city life to their remote country estates. Since the absentee owner's interests generally differ from those of the local community, they often clash, at times violently. Whereas the owner seeks the largest possible profit from his holdings, the community tends to maintain that the revenues belong to those who live and work on the land. In Latin America, Africa, and other places with a long history of colonialism—itself a form of absentee ownership—such clashes still occur, though increasingly they are resolved through a peaceful government takeover of the property in question.

The role of the large-scale investor in an industrial enterprise resembles that of the absentee landlord's, and a similar conflict of interest may exist. Although here bloodshed or revolution are rare, the owner's remoteness may result in employee apathy, and his emphasis on pure profit may stifle growth and defer improvements and innovations. See also TECHNOSTRUCTURE.

absolute advantage See under ADVANTAGE.

absorption See FREIGHT ABSORPTION.

absorption costing In accounting, assigning all the fixed and variable costs of a business to the goods or services produced, without distinguishing between them. It is the opposite of *direct costing*, where direct, variable costs are distinguished from fixed costs and general expenses on the assumption that the former are a more valid basis for valuing output.

abstinence theory of interest Also, *agio theory of interest*. The idea that interest on savings is a reward for abstinence (that is, not spending). For example, the interest on a savings account is considered a reward for banking money instead of spending it on goods such as a new automobile. This theory, developed by BÖHM-BAWERK, SENIOR, and other 19th-century economists, assumes that people prefer to buy goods or services as soon as they can afford them and must therefore be induced to put off spending. Accordingly, it follows that the INTEREST RATE rather than the individual's income will determine how much he will save and how much he will spend. Though this idea may have some validity, in practice most decisions concerning spending or saving depend on a variety of factors, of which the interest rate is but one.

abstract of title A written document used to determine the ownership of a particular parcel of land. It summarizes the material portions of every DEED and other transaction that affect the title of that land, thus representing a history of its ownership. In the United States all abstracts of title are taken from the public records. An abstract is usually prepared by an attorney, a public official, or a firm specializing in this work.

accelerated depreciation Any method of calculating depreciation of a fixed asset whereby more depreciation is charged to the early years of its service life than to the later years. Most commonly used are the SUM-OF-DIGITS METHOD and the DECLINING BALANCE METHOD. The chief advantage of accelerated depreciation lies in its ability to help a company recoup far more of its investment at an early stage, both because of smaller taxable income (since depreciation is tax-deductible) and through the availability of interest-free funds that would otherwise be used for tax payments. The total amount of taxes and of depreciation remains the same; only the time of payment changes.

accelerating premium See under WAGE INCENTIVE.

acceleration principle Also, *accelerator effect*. The idea that an increase in demand for consumer goods (food, clothing, furniture, etc.) produces a far greater increase in the demand for and production of capital goods (food-processing equipment, looms, lathes, etc.). For example, a 10 per cent increase in demand for television sets may result in a 100 per cent increase in equipment needed to manufacture the sets. Suppose that the standard demand for TV sets from a given factory has been 1,000 sets per year, and it has been filled by 500 "units" of capital equipment (factory space, machinery, etc.). Of the 500 units, 50 have had to be replaced every year (worn-out machine parts, depleted supplies, etc.). If demand for the sets now rises by 10 per cent to 1,100 per year, an additional 50 units of capital equipment will be needed to meet that demand (if 500 units produce 1,000 sets, 50 more units will produce an additional 100 sets). Thus, in addition to the 50 units already being replaced, another 50 will have to be acquired. In this way, a 10 per cent rise in demand for a consumer product has created a 100 per cent rise in demand for capital goods. Naturally, the accelerator effect operates only when the facility involved is already working at full capacity (that is, the most the factory can produce with present equipment is 1,000 sets per year), and when it uses capital goods that require regular replacement. If it is not working at full capacity, the factory obviously can produce more sets without additional equipment; if it need not replace some goods and equipment each year, the new demand may be absorbed during a year when little or nothing needs replacement.

Formulated by J.M. CLARK in 1917, the acceleration principle accounts for the frequent booms and recessions in the capital-goods industries. Only when consumer demand continues to rise at an ever faster rate does the demand for capital goods continue to increase. If, in the year after the initial rise in demand for TV sets, demand again rises by another 100 sets, to 1,200, only 5 additional units of capital will be required to meet demand (55 units to replace, plus 50 additional units needed). If demand remains constant (1,100 sets), the demand for capital goods will drop sharply, since only 55 units would be needed (to replace 55 worn out or used up), as opposed to the 100 needed the previous year.

Acceptable Quality Level Also, *AQL*. In QUALITY CONTROL, the degree of deviation from a given standard that will be permitted. For example, an Acceptable Quality Level of .98 indicates that a buyer will accept a shipment of merchandise in which 2 per cent of the items do not meet the specifications set down in the purchase contract.

acceptance

1. Another name for BILL OF EXCHANGE.

2. *bankers' acceptance.* A common way of financing foreign trade when buyer and seller are unknown to each other, in which a bank accepts the obligation to pay the seller if the buyer defaults. For example, an American importer who wants to buy from a German exporter may take out a negotiable bank note from a U.S. bank that has well-established branches in Europe to cover the cost of the goods, usually for 90 days. The BILL OF EXCHANGE is presented to the bank, which stamps "accepted" on it (hence the name). The exporter presents the acceptance to its German bank and receives immediate payment, minus a discount for handling the paper. The German bank sends the acceptance, with shipping documents attached, to its correspondent bank in the United States, instructing it to take one of three actions: (1) hold the acceptance as an investment; (2) sell it to a third party through a dealer; (3) sell it back to the American bank that originally issued it. If the acceptance is resold to the issuing bank, that bank can either hold it until it comes due or sell it in the secondary market to a dealer or another bank. Bankers' acceptances are highly negotiable instruments freely traded in the MONEY MARKET. Moreover, many investors consider them to be as safe as deposits in the most reputable bank, and as a result their yield is close to the interest rate offered on large certificates of deposit by major American banks. Also, *banker's acceptance, bank acceptance.*

3. *trade acceptance.* See under BILL OF EXCHANGE.

4. In business law, the assent to the terms of an offer, required before a CONTRACT can be valid. It must be absolute and unconditional (otherwise, it is not an acceptance but a *counteroffer*), may be tendered only by the person to whom the offer is directed, and must conform to any conditions concerning it that are set forth in the offer.

acceptance bank Also, Brit., *accepting house.* An organization that specializes in accepting or guaranteeing domestic and foreign bills of exchange, more common in Europe than in the United States. Most modern acceptance banks have branched out into other activities as well and thus resemble a MERCHANT BANK.

acceptance sampling In quality control, a process of sampling that forms the basis for accepting or rejecting a product. For example, an inspector might inspect 10 items from every lot of 200. From the number of defects found, the number of defects in the entire shipment can, by statistical inference, be estimated. See also ACCEPTABLE QUALITY LEVEL.

accession rate Also, *hiring rate*. The number of employees added to the payroll during a given period, an important LEADING INDICATOR of future business conditions. A decrease in hiring may indicate a coming recession; an increase usually heralds the end of a recession. As business improves, companies initially tend to postpone hiring, in order to avoid future layoffs, but eventually they do begin to add personnel. Statistics on the accession rate of manufacturing establishments, expressed as a percentage of total employment, are compiled monthly by the U.S. Department of Labor.

access time See under STORAGE, def. 1.

accident insurance See HEALTH INSURANCE; LIABILITY INSURANCE; WORKMEN'S COMPENSATION.

accommodation endorsement The endorsement of a note, bill, or other instrument of credit by one person to another, who is then able to obtain the loan. In effect, the endorser is accommodating the other person by lending his or her credit, and thus becomes a *guarantor* of the loan, agreeing to take on all or part of the responsibility for its repayment.

account

1. In accounting, a formal record of business transactions, expressed in terms of money and entered in a book called a *ledger*. It is nearly always arranged in terms of debits, entered on the left side, and credits, entered on the right, in order to provide a quick summary of the net result of all transactions. Obtaining this result simply involves adding up all the debits and all the credits, and subtracting one from the other to "secure the *balance*." The simplest kind of account is sometimes called a *T-account*, since its format resembles the letter T.

In recording the transactions of a business, a separate account is used for each ASSET (cash, notes receivable, inventory, etc.), each LIABILITY (notes payable, accounts payable, etc.), and each proprietorship or capital item (capital invested, money drawn for owner's wages, etc.) for which a separate record is required. Each account is given its own page or group of pages in the company ledger. Whether a transaction represents a credit or debit depends on the account it is entered in. For example, suppose Mary Smith invests $100,000 in her new drugstore. For the cash account of this business, the $100,000 represents a debit; for the Smith capital account, it represents a credit. (See also DOUBLE ENTRY.) The various accounts of assets and liabilities that are summarized to make up a firm's periodic BALANCE SHEET or financial STATEMENT are called *real accounts* (or *balance-sheet accounts*), whereas those in the names of particular customers or suppliers and used to make up the firm's INCOME STATEMENT are called *nominal accounts*. The former are carried forward from one fiscal period to another, whereas the latter represent completed transactions for a particular period (usually an entire fiscal year). See also CONTRA ACCOUNT; OPEN ACCOUNT; SUSPENSE ACCOUNT.

2. *bank account*. Credit established under a particular name, usually by deposit, against which withdrawals may be made and which may or may not earn interest. The most common types of bank account are the CHECKING ACCOUNT, from which withdrawals may be made at any time, and the *time account*, on which due notice must be given before making a withdrawal. A *joint account* is opened in the names of two or more persons jointly; in some instances, withdrawals must be signed by all the joint depositors, but more commonly withdrawals can be made by a single depositor alone. A *number account* is identified solely by a number instead of a name. Frequently held in Swiss banks, number accounts are used to conceal bank deposits, for tax evasion or other reasons.

3. *brokerage account*. A regular business relationship with a securities broker, which entitles the customer to certain services in exchange for commissions on transactions and other fees. Also, the proceeds of sales and investments made through a broker, which may, if the customer so desires, be held, reinvested, or otherwise handled by the broker. Since the mid-1970s the services offered by brokerage houses have been greatly expanded to include, among other things, the furnishing of credit cards, opportunities to invest in special money-market mutual funds, special checking accounts, and tax-record services. Many of these services overlap with those traditionally offered by banks, and indeed, critics contend that the larger brokerage houses have come to compete with banks. Since the late 1970s some brokers have offered complete "cash management services," whereby, in exchange for a minimum investment and an annual fee, any money received from dividends or a sale is automatically invested in a money market fund, tax-exempt fund, or government securities fund, so that no interest is lost while the investor decides on future purchases or other uses for the money. The minimum investment also serves as a source of credit, against which money may be borrowed to buy more stocks or anything else (it operates like a margin account; see MARGIN, BUYING ON). The assets in the account may be tapped by writing checks, and the investor is also given a debit card with which to make purchases or obtain a cash advance. Generally these services are linked by a computer program in a predetermined sequence that governs how deposits and dividends are credited and how withdrawals and loans are debited.

4. In general business terminology, a particular client or customer. Thus, a given individual or firm is said to represent a bank account (business with a bank), advertising account, etc.

accountant A person trained in ACCOUNTING (def. 1), who may either be employed by a firm or work independently. See also CERTIFIED PUBLIC ACCOUNTANT; PUBLIC ACCOUNTANT.

account balance See *balance* under ACCOUNT, def. 1.

account executive In advertising, public relations, brokerage, investment counseling, and similar service industries, the person in direct contact with one or more of the firm's clients. The account executive passes on the client's ideas to others in the firm and presents the results of the firm's work to the client. See also REGISTERED REPRESENTATIVE.

accounting

1. The recording and summarizing of business transactions, and the interpretation of their effects on a business enterprise or other economic unit. Accounting embraces BOOKKEEPING, which involves primarily the recording of transactions, as well as auditing (see AUDIT), the design and installation of an accounting system, tax services, COST ACCOUNTING, and budgeting (the advance planning of business transactions).

2. A formal report of an economic unit's transactions during a given period, presented by an individual or firm charged with responsibility for the assets of that unit. Such accountings are generally required of agents who manage property for others, as well as executors of wills, trustees of property, guardians, etc.

accounting period A specific period of time for which an operating statement is normally prepared. The most common such period is one month, but companies also may use 4 weeks, yearly quarters, 26 weeks, 48 weeks, 52 weeks, or any other time period of their choice. See also FISCAL YEAR.

accounts payable The amount owed by a business to its suppliers and other regular trading partners, who generally give customers anywhere from 10 to 90 days to pay for merchandise already shipped. Normally the classification of accounts payable is confined to the amounts owing for goods and services bought in everyday transactions and does not include long-term obligations. On the balance sheet, accounts payable are classed as current liabilities. See also ACCOUNTS RECEIVABLE; NOTES PAYABLE.

accounts receivable The amount owed to a business by its customers, who are customarily granted anywhere from 10 to 90 days to pay for merchandise already shipped. Normally the classification of accounts receivable is confined to debts incurred in everyday transactions and does not include accruals, deposits, or other long-term credit. On the balance sheet, accounts receivable are classed as current assets. However, they are not always automatically converted into cash since not every debtor pays his bills. Therefore, almost all companies deduct an allowance for bad debts from their receivables. See also ACCOUNTS PAYABLE; NOTES RECEIVABLE.

accounts receivable financing The use of money owed to a firm (see ACCOUNTS RECEIVABLE) to obtain funds for current operating expenses or other purposes. The accounts receivable either are used as collateral for a loan or are sold outright; the latter method is called *factoring*. Though accounts receivable financing may involve a relatively high rate of interest, it can be a convenience to small firms that have difficulty getting cheaper kinds of loan, as well as to any firms whose sales volume fluctuates considerably—seasonally or otherwise—since it enables them to increase or decrease borrowing accordingly.

accrual basis In accounting, a system of charging income and expenses to the period in which they are earned or incurred rather than to the period in which they are actually received or paid. Corporations almost always keep their books on an accrual basis to avoid a misleading INCOME STATEMENT. Individuals or very small firms, on the other hand, usually keep their books (and tax returns) on a cash basis because it greatly simplifies bookkeeping (see CASH BASIS).

accrued Describing earnings, sales, expenses, or other items of income or outlay that have been made or incurred but not yet received or paid. An *accrued dividend* is that part of a dividend earned since the last regular dividend payment but not yet paid out; similarly, *accrued interest* is the interest earned on a bond since the last regular payment (see also FLAT, def. 1). *Accrued income* is income earned during a particular accounting period but not actually received during that period (sales commissions, interest, rent, etc.); an *accrued liability* is one that has been incurred but not yet paid (wages, taxes, interest, etc.; see also LIABILITY, def. 1).

acid test See QUICK RATIO.

acquisition

1. See under MERGER.

2. *cost of acquisition*. A business's total cost of buying materials. It includes salaries and overhead in the purchasing department; expediting, receiving, and paying for the material; transportation between plants and within a plant; packaging; and miscellaneous associated expenses. The cost of acquisition must always be taken into account in determining an ECONOMIC ORDER QUANTITY.

acquittance A written acknowledgment that a debt or other financial obligation has been discharged, or paid in full.

acreage allotment See under AGRICULTURE, AID TO.

action In law, any proceeding instituted by one party against another. A *civil action* is one brought by a plaintiff against a defendant from whom he or she seeks redress; a *criminal action* is one brought by a government to punish or prevent an offense against public law or order. An action may begin with the plaintiff filing an order with a court to issue a *writ of summons* to the sheriff, who in turn would inform the defendant to appear in court at a particular time. An action may also begin when the plaintiff files with a court a *complaint* stating the facts of the issue at hand; a copy of the complaint is then served on the defendant. Whatever the method, the defendant must be notified that an action is pending against him or her; this is called "serving with process," the "process" being the writ, summons, or notice. If the defendant does not respond to the process, the plaintiff usually wins the case by default. Most often, however, the defendant contests the suit, so the issue between the two parties must be formulated by the pleadings. The plaintiff must then file a written complaint (if this has not yet been done), to which the defendant must file an *answer*, either admitting or denying the facts of the complaint as stated by the plaintiff. In some instances the defendant may assert a *counterclaim* or *cross complaint* against the plaintiff. For example, if the plaintiff charges that the defendant did not pay for a TV set she purchased, the defendant might file a counterclaim that the plaintiff's truck damaged her driveway while delivering the set. If the questions raised by the pleadings are solely questions of law, the court will decide the case on the pleadings alone. For example, if the question hinges on whether or not a particular letter, admittedly written by the defendant, constituted an acceptance of the plaintiff's offer, the court may decide whether or not this letter did amount to a legal contract. On the other hand, if the defendant denies having written a letter that clearly would be a legal acceptance, the question is one not of law but of fact, and there must be a trial to determine the actual facts.

active market See HEAVY MARKET.

actuary

1. A mathematician employed by an insurance company to calculate the premiums for different kinds of insurance on the basis of statistics and probability theory—that is, the calculated probable duration of a client's life, or the calculated probability of an accident, robbery, flood, or other relevant event. Actuaries are highly skilled mathematicians, with advanced training in logical analysis and problem-solving techniques. In the United States the Society of Actuaries has established standards of excellence through a series of examinations; it awards the degrees of associate and fellow to successful examinees.

2. A mathematician employed by a business firm to determine the probable life of its plant, machinery, and other assets, using methods similar to those of the insurance actuary (see def. 1).

add-on contract See INSTALLMENT BUYING.

adjustable-rate bond, mortgage, preferred stock See under BOND; MORTGAGE; PREFERRED STOCK.

adjuster In insurance, a representative of the insurance company who determines the cause and amount of a loss and the company's liability. Adjusters may be salaried employees of the company or they may work independently, adjusting losses for whatever firm hires them. They also may work for an *adjustment bureau*, an organization owned and operated by an association of insurance firms who thereby pool their claim-adjustment work. In contrast to this kind of adjuster who represents the insurer, a *public adjuster* does the same work but on behalf of the claimant.

adjusting entry In accounting, an entry made to correct or offset an error, accrual, writeoff, deferment, etc.

administered price Also, *managed price*. A price set by the seller but not totally under the seller's control. It is based on the seller's judgment both of demand for a product at various prices and of competitors' probable prices for the same or similar products, taking into account cost of production and the greatest possible profit. A seller may restrict its own output to keep prices high, yet it cannot charge too much lest customers turn to competitors. An administered price, which lies midway between a monopoly price and a free-market price, exists in a market characterized by IMPERFECT COMPETITION. In general, administered prices yield a profit higher than would accrue under pure competition but lower than with a monopoly. In practice, the range of administered prices is fairly broad. At one extreme, where suppliers are numerous, prices come close to those under pure competition; at the other extreme, where producers are few, prices are virtually the same as with a monopoly (see OLIGOPOLY). The principal means of increasing profits (moving from the low end of the range to the high) involves reducing competition through advertising and product differentiation. The producer of a breakfast cereal, for example, must take into account the prices set by other cereal manufacturers, and if there are many of them, profits may remain quite modest. On the other hand, if a firm can convince the public through advertising that its product has special properties making it superior to any other, its profits may increase; further, if it can change its product to make it in fact unique, it may achieve a monopoly and set its price accordingly.

administrator

1. In business, a person who directs, coordinates, or controls the activities of subordinates.

2. In law, a person appointed by a court to settle the estate of someone who died without writing a will or without designating an executor.

admission temporaire See under FREE PORT.

ADR

1. Abbreviation for AMERICAN DEPOSITARY RECEIPT.

2. Abbreviation for *automatic dividend reinvestment*. See under DIVIDEND, def. 1.

ad valorem A customs duty or TARIFF that is based on the value of the goods involved. It generally consists of a fixed percentage of, for example, the wholesale price of the item, instead of a fixed amount per unit, ounce, or some other measure. For example, suppose the ad valorem tax on men's woolen trousers is set at 25 per cent; then if an importer pays $10 for a pair of trousers made in Italy, it must pay a duty of $2.50 per pair, making the total cost $12.50. The opposite of an ad valorem tariff is a *specific tariff*, such as $1 per bottle for champagne, or 10 cents per yard for woolen yard goods. Occasionally both a specific and an ad valorem tariff, a so-called *compound tariff*, are levied on a single item.

The terms *ad valorem* and *specific* also are used for other kinds of tax; among examples of the former are real estate and excise taxes, based on a fixed percentage of the property value or selling price.

advance

1. Any payment made before it falls due, thus representing a loan. For example, authors frequently receive advance payments against future royalties to help them meet expenses while finishing a manuscript.

2. In British terminology, any loan, such as a bank loan.

3. One method whereby a member bank may borrow from its Federal Reserve Bank, that is, by giving its own promissory note, secured by government securities or other satisfactory collateral.

4. In finance, a general rise in market prices.

advance bill An INVOICE submitted before the goods or services itemized therein have actually been delivered or performed. It is usually requested by buyers for tax purposes or some similar reason.

advance refunding An opportunity for holders of bonds due to expire soon to exchange them for new bonds on particularly favorable terms. Used principally by the U.S. Treasury to keep its longtime bondholders from switching to other securities, advance refunding helps lengthen the average maturity of the PUBLIC DEBT without disturbing the general market for capital.

advantage The ability of one nation, region, or supplier to produce a good or service at a lower cost (with less labor, or less land, or less machinery) than others. A producer who makes a single item more cheaply than practically any other is said to have an *absolute advantage*. For example, the Swiss long enjoyed an absolute advantage in the manufacture of fine watches. Despite high wages, they perfected production to such an extent that most other nations found it more advantageous to buy Swiss watches than make their own. With most goods, however, the possible advantage is less clear-cut; the Swiss also made fine cotton handkerchiefs but never had the same advantage as in watch manufacture. The ability to produce a particular good or service more cheaply than some other good or service is called *comparative advantage* (or the principle of *comparative costs*). The so-called *paradox* of comparative advantage was first stated by the 19th-century British economist David RICARDO. In Ricardo's classic example, both England and Portugal could produce wine and textiles. However, it cost England 120 hours of labor per unit of wine and 100 hours of labor per unit of cloth, whereas Portugal spent only 80 hours of labor per unit of wine and 90 hours per unit of cloth. Ricardo concluded that Portugal should concentrate entirely on wine making, in which it had an advantage of 80 vs. 120 over England, and import cloth from England, since its advantage there was only 90 vs. 100. Without such trading between the two nations, a Portuguese wine producer could obtain only 8/9 unit of Portuguese cloth for 1 unit of wine; with trade, it could obtain 1.2 units of English textiles for 1 unit of wine. Though traditionally associated with international trade, the principle of comparative advantage applies equally to the MAKE OR BUY decisions faced by many business firms, which involve the same kinds of cost comparison.

advertised bidding The practice of publicly obtaining bids for contracts for goods or services, in the United States widely followed in local, state, and Federal government procurement but rarely by private business. Advertised bidding requires highly detailed SPECIFICATIONS, which cannot be restrictive (as for a brand name or patented item) and which must be published. Invitations are sent to all qualified bidders known to the buyer, and also are posted in public places and advertised in newspapers and other media. A specific place, date, and hour are set for opening the bids. The bids are recorded on an *abstract of bids* that is later made available for public inspection. Normally no bidder may withdraw a bid once it is made, nor may the lowest bidder later refuse to honor it. Indeed, the lowest bidder, to whom the contract is invariably awarded provided it is a regular dealer or producer of the item in question, is legally bound to fulfill the precise conditions of the contract. Though advertised bidding is the fairest available procedure, particularly to bidders, it is both expensive and slow. Instead of soliciting bids from a few competing suppliers, one must evaluate the bids of perhaps several hundred. The specifications must be so detailed as to leave no margin for error. Further, apart from price, the lowest bidder may not be the ideal supplier in terms of reliability, quality, or other criteria.

advertising Placing paid public presentations or announcements about products, services, or activities, with the objective of persuading the public to buy particular goods or services or to accept a given point of view or concept. The person or institution paying for such announcements is called the *advertiser* or *sponsor*, and the means of presenting it are collectively known as the *media*. The principal advertising media are newspapers (both national and local, and including CLASSIFIED ADVERTISING), radio and television (network and local), magazines, trade publications (particularly those directed to business, industry, and farmers), outdoor advertising (billboards, signs, posters, etc., in prominent locations on highways, buildings, etc.), and DIRECT-MAIL ADVERTISING. An individual announcement is called an *advertisement*, or *ad*; if presented on radio or television it is also called a *commercial*. Though some advertising is placed by nonprofit organizations, including branches of the government (recruiting for the armed forces, for example), by far the major portion of advertising in the United States is sponsored by private business and industry. Such advertising takes two forms: *product advertising*, aimed at selling a product, and *institutional advertising*, aimed at enhancing the name and reputation of a company (and by extension, its products or services). Either kind of advertising may be local or national or both, depending on the market sought. *Local advertising* is addressed to a neighborhood, town, or other locality, through local newspapers, local radio and television stations or programs, billboards and posters, and direct-mail announcements. It may be sponsored by a local retailer or distributor, or by a large manufacturer on behalf of a local dealer. *National advertising* is addressed to the entire country, through publications circulated nationally and via network and cable radio and television.

Some businesses handle their own advertising entirely through an *advertising* (or *promotion*) *department*. Others use an *advertising agency*, a firm that specializes in creating and placing ads for others, as well as performing a variety of services: planning a coordinated advertising program, or *campaign*; conducting MARKET RESEARCH; recommending packaging, sales promotion, and styling; preparing all kinds of ad, from printed announcements or posters to entire radio or television programs; and selecting the media. (See also MODULAR ADVERTISING.) Agencies usually are paid on a percentage basis, generally 15 per cent of the cost of time and space purchased in the media, but sometimes they work for a fixed fee. (See also ADVERTISING RATES.) In the early 1980s there were 4,800 advertising agencies in the United States, located mostly in Chicago and New York City. In addition to their employees, thousands of others were employed in the advertising departments of retailers, wholesalers, and manufacturers, as well as in selling advertising time and space for the various media (the job of the *space salesperson*).

Newspaper advertising in the United States began practically with the publication of the first newspaper, but initially it was strictly informational (telling what one could buy where, without even mentioning price). After the Civil War, growing competition led to more aggressive tactics, mostly by manufacturers rather than local merchants. National advertising developed, at first for patent medicines (among the earliest were Sarsaparilla, Castoria, and Lydia Pinkham's Compound), and later for soaps, bicycles, breakfast cereals, cameras and film, razor blades, and chewing gum. Another spurt of growth came after 1914. The radio commercial dates from 1922, and not long afterward soap companies began to sponsor a new "art form," the radio serial, or *soap opera*; television advertising dates from about 1947. Today the average American industry spends only about 1.5 per cent of its sales dollar on advertising, but some industries (notably drugs, and soap and detergents) spend substantially—up to ten times—more. This is particularly true when the products of different manufacturers tend to be essentially identical; large amounts are spent to convince the public that a particular brand is "different" from and "superior" to others, a function of advertising called *product differentiation*. Though some portion of the total is spent on advertising to industrial users, wholesalers, and retailers (chiefly through trade publications), most advertising is directed to the ultimate user, the consumer. Thus it is consumers who pay much (and in some cases, all) of the cost of advertising.

Most consumer advocates, along with some economists, maintain that advertising is basically misleading and wasteful, that it tends to create demand for essentially useless and overpriced goods (particularly in such areas as patent medicines and cosmetics), and that it uses resources that could be more productively employed. Deceptive advertising practices are to some extent restricted by the U.S. Federal Trade Commission and other agencies, but in practice regulatory agencies have often been slow to take action. (See also CONSUMER PROTECTION LAWS.) In defense of advertising, spokesmen for business and industry hold that it is essential to economic growth and stability, that it plays a major role in stimulating consumption (and hence product development and production), and that it fills the need for information. Certainly advertising today supports the bulk of newspapers and magazines published in the United States, as well as the major broadcasting networks—in fact, the entire mass communications industry. See also CIRCULATION; CLASSIFIED ADVERTISING; PUBLICITY; PUBLIC RELATIONS.

advertising agency See under ADVERTISING.

advertising allowance A deduction permitted by a producer or distributor to a wholesaler or retailer in exchange for advertising a product or service locally. The practice whereby recipients are asked to share the cost of local advertising is called *cooperative advertising*. The Robinson-Patman Act of 1936 prohibits American manufacturers and distributors from discriminating among wholesalers and retailers in offering advertising allowances. Further, unless proof exists that a retailer is actually using the allowance for specific ads, it may be a form of disguised price discrimination, which is also illegal.

advertising rates The rates charged by various media for disseminating advertisements. Newspapers and radio and television stations, which carry considerable local as well as national advertising, usually charge a higher *national rate*, for ads placed by a national or regional advertiser, and a lower *local rate*, for ads placed by local sources, such as retail merchants. Thus national distributors and manufacturers have a real incentive to use advertising agencies to place their ads, since the agencies earn their discount (normally 15 per cent of the media price, paid by the media) only at the national rate, and it costs the advertiser less to use an agency than to employ its own advertising staff. Retailers, on the other hand, who are entitled to the lower local rate, often do not use agencies since they would have to pay them separately for their services.

affidavit A statement of facts, given voluntarily and sworn and signed before a court officer or other authority.

affirmative action A program made into law by the Equal Economic Opportunity Act of 1972, whereby American employers, labor unions, employment agencies, and labor-management apprenticeship programs must actively seek to eliminate discrimination against and increase employment of women and members of minority groups. Although Title VII of the Civil Rights Act of 1964 had outlawed future discrimination in employment practices, it had done nothing to redress already existing imbalances. The 1972 law, later strengthened by executive orders, required employers to draw up a detailed written plan for equalizing economic opportunity with respect to hiring, promotion, transfers, wages and salaries, training programs, fringe benefits, and other conditions of employment, which included definite numerical goals and timetables for achieving such changes. Affirmative-action programs were administered by three agencies: the Equal Employment Opportunity Commission, for private employers who have no government contracts or grants; the Department of Labor Office of Federal COntract Compliance, for government contractors and holders of grants; and the Civil Service Commission Office of Federal Equal Employment Opportunity, for all Federal employers. See also LABOR LAWS.

AFL-CIO Abbreviation for *American Federation of Labor-Congress of Industrial Organizations.* The most powerful federation of labor unions in the United States, including about 80 per cent of the nation's union members. Formed in 1955, after two decades of bitter rivalry, the AFL-CIO is not itself a union engaging in collective bargaining, but rather works to promote cooperation among its 110 or so member unions and to advance the interests of labor politically and legislatively. It receives its income from its affiliate unions through a per capita tax (so much per union member).

The AFL was founded in 1886 by Samuel Gompers (1850–1924) of the International Cigarmakers Union, who aimed at a federation of *craft unions* to oppose the KNIGHTS OF LABOR, the major *industrial union* (see LABOR UNION for explanation of these terms). Gompers's basic principles were *business unionism*, which strove for better wages and working conditions rather than for political or social reform, and *federalism*, which granted each member union autonomy and *exclusive jurisdiction* over its own craft. Later the AFL also supported curbs on immigration, relief from technological unemployment, and the enactment of various labor laws. Under Gompers the AFL soon became the dominant force in the American labor movement, with some 5 million members by 1920. In the 1920s, however, it began to decline. Gompers died, big business prospered, and mass production, which uses more unskilled and semiskilled workers than highly skilled ones, became a growing force. Industrial unions (which embrace all the workers in a given industry) were better suited for mass-production industries, and they were advocated by John L. Lewis (1880–1969), head of the United Mine Workers, and Sidney Hillman (1887–1946) of the Amalgamated Clothing Workers. The AFL, however, continued its traditional policies under Gompers's successor, William Green (1873–1952). As a result, Lewis, Hillman, and others, increasingly dissatisfied, in 1935 formed their own Committee for Industrial Organization to unionize the mass-production industries. Eventually they were expelled from the AFL for running counter to its exclusive jurisdiction policies, and in 1938 their committee became the Congress of Industrial Organizations, with Lewis as president (in 1940 he was succeeded by Philip Murray, 1886–1952). Helped by new LABOR LAWS, especially the National Labor Relations (Wagner) Act of 1935, the CIO soon succeeded in its aims, and by the beginning of World War II it had organized the steel, rubber, automobile, and electrical industries. By the end of the war the AFL also had begun to organize on an industrywide basis, but the craft unions remained its ruling force. The AFL and the CIO continued to bicker, occasionally wooing members away from one another (thus the International Ladies Garment Workers Union, headed by David Dubinsky, left the CIO and returned to the AFL). Lewis and the Mine Workers eventually left, too, but remained independent. After the CIO's Murray and the AFL's Green both died in 1952, their successors, Walter Reuther and George Meany respectively, set out to mend the rift. The new AFL-CIO of 1955 was headed by Meany, but the CIO had adequate representation. The giant federation aroused some fears of union monopoly and increased corruption, but among its first steps was an internal cleanup. In 1957 three member unions, among them the powerful International Brotherhood of Teamsters, led by David Beck, were expelled for unethical practices. Of other unions with more than a million members,