

ECONOMICS DICTIONARY

SECOND EDITION

DONALD W. MOFFAT

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Second Edition

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ELSEVIER

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PREFACE

This *Economics Dictionary* is intended as a companion for all who listen to the news, read newspapers or trade journals, or study economics or related business subjects. With increasing frequency economics is in the news, television specials are devoted to economics, and well-known economists appear as guests on programs ranging from news reviews to midnight talk shows. As a result, special attention was given in this dictionary to including words and expressions (even colloquialisms) that are seen and heard in everyday life.

Extensive cross-referencing (by capital letters) is used because it was impossible to predict whether you, the reader, would think first *Finance*, *functional* or *Functional finance*. No fixed rule was used, because your time is more important than a rule. Instead, each such entry was considered carefully. Sometimes a full definition is included with the form of entry under which it was felt most readers will look; the other form is included with a cross-reference. In many cases the full definition is included with both (or several) forms of entry.

It is well known that efficiency involves a trade-off. To maximize "economy" (minimize the price of the book), we could have repeated nothing, and used a maximum amount of cross-references. To minimize the reader's time, we could have repeated full definitions with every form an entry could take. Since neither extreme seemed right for all entries, my general guideline was to repeat short definitions whenever it seemed that readers might look up one version of a term as often as another.

A dictionary limits itself to short definitions; an encyclopedia gives thorough explanations. Although this is a dictionary, it was clear that a firm policy dictating how terse all entries should be would not best serve you, the reader. This time I turned to my students for advice, students who ranged from freshmen to those for whom I was thesis adviser, from economics majors to those fulfilling a general education requirement. Surprisingly, almost all of them wanted the same depth of explanation:

For expressions found in the popular and trade press but not in textbooks, the students asked for a full explanation in tutorial language.

For expressions involved in controversy, they wanted a summary of the pros and cons.

They believed that ordinary economics expressions, even though found in textbooks, should be included, but with only a brief explanation.

They wanted a list of abbreviations.

Few people seemed inclined to compromise on mathematics; those who did not want rigorous mathematics wanted none at all. I decided to include a minimum of formulas with the entries and to present a sampling of the next level of mathematics in the appendix.

These suggestions were greatly appreciated. Combined with comments on the first edition, they formed guidelines for determining the depth of explanation of each entry.

The most important decision, repeated thousands of times while writing this book, was whether or not to include an item. In most cases, the choice was not difficult, because nearly every entry in this dictionary results from a question raised in some of the correspondence I enjoy or from a question asked by one of my students. During classes I made notes of their questions, some of which were prompted by reading assignments in the text, some by outside reading assignments, some by outside reading not assigned.

Appreciation must be expressed for the large number of Federal Reserve System publications made available and for the cooperation received when questions were directed to various Federal Reserve districts. Special thanks are also due to Ameritrust for the detailed chart that is used in the entry ECONOMIC FLUCTUATIONS. Many thanks also to the AFL-CIO for their prompt response to my request for information and for the glossary they allowed me to use.

ABBREVIATIONS

AAA	Agricultural Adjustment Act (see FARM RELIEF AND INFLATION ACT)
ACH	AUTOMATED CLEARINGHOUSE
ACRS	ACCELERATED COST RECOVERY SYSTEM
AFC	AVERAGE FIXED COSTS
AFDC	AID TO FAMILIES WITH DEPENDENT CHILDREN
AFL	AMERICAN FEDERATION OF LABOR
AFL-CIO	AMERICAN FEDERATION OF LABOR-CONGRESS OF INDUSTRIAL ORGANIZATIONS
AID	AGENCY FOR INTERNATIONAL DEVELOPMENT
AMEX	AMERICAN STOCK EXCHANGE
ANOVA	ANALYSIS OF VARIATION
APC	AVERAGE PROPENSITY TO CONSUME
APR	ANNUAL PERCENTAGE RATE
APS	AVERAGE PROPENSITY TO SAVE
ARM	ADJUSTABLE RATE MORTGAGE
ASE	AMERICAN STOCK EXCHANGE
ATC	AVERAGE TOTAL COST
ATM	AUTOMATED TELLER MACHINE
ATS	AUTOMATIC TRANSFER SERVICE
AVC	AVERAGE VARIABLE COSTS
BEQB	<i>Bank of England Quarterly Bulletin</i>
BIP	BALANCE OF INTERNATIONAL PAYMENTS
BIS	BANK FOR INTERNATIONAL SETTLEMENTS
BL, B/L	BILL OF LADING
BLS	Bureau of Labor Statistics
CBD	CASH BEFORE DELIVERY
CBI	CONFEDERATION OF BRITISH INDUSTRY

CBO	CONGRESSIONAL BUDGET OFFICE
CCA	CAPITAL CONSUMPTION ALLOWANCES
CD	CERTIFICATE OF DEPOSIT
CEA	COMMODITY EXCHANGE AUTHORITY
CEA	COUNCIL OF ECONOMIC ADVISORS
CIA	CASH IN ADVANCE
CIO	CONGRESS OF INDUSTRIAL ORGANIZATIONS
CIPC	CASH ITEMS IN PROCESS OF COLLECTION
CL	CARLOAD
COD	CASH ON DELIVERY
C OF C	CHAMBER OF COMMERCE
COLA	Cost of Living Allowance (see ESCALATOR CLAUSE)
COPE	Currency Overprinting and Processing Equipment (see CURRENCY MANUFACTURE)
CPFF	Cost Plus Fixed Fee (see COST-PLUS PRICING)
CPI	CONSUMER PRICE INDEX
CPIF	Cost Plus Incentive Fee (see COST-PLUS PRICING)
CPS	CURRENT POPULATION SURVEY
CWO	CASH WITH ORDER
DC	DIRECT COSTS
DD	Day of Deposit (see INTEREST DATES)
DI	DISPOSABLE INCOME
DIME	DENVER INCOME MAINTENANCE EXPERIMENT
ED	Census Enumeration District (see CURRENT POPULATION SURVEY)
EDP	ELECTRONIC DATA PROCESSING
EFT	ELECTRONIC FUNDS TRANSFER
EMA	EUROPEAN MONETARY AGREEMENT
EMF	EUROPEAN MONETARY FUND
EOM	END OF MONTH
EPU	EUROPEAN PAYMENTS UNION
ERP	EUROPEAN RECOVERY PROGRAM
EURO CD	EURODOLLAR CERTIFICATE OF DEPOSIT
FC	FIXED COSTS
FCA	FARM CREDIT ADMINISTRATION
FCIC	FEDERAL CROP INSURANCE CORPORATION
FDIC	FEDERAL DEPOSIT INSURANCE CORPORATION
FEUR	FULL EMPLOYMENT UNEMPLOYMENT RATE
FHLBB	FEDERAL HOME LOAN BANK BOARD
FIFO	FIRST IN, FIRST OUT
FIRST AAA	FIRST AGRICULTURAL ADJUSTMENT ACT
FMCS	FEDERAL MEDIATION AND CONCILIATION SERVICE

FNMA	FEDERAL NATIONAL MORTGAGE ASSOCIATION
FOMC	FEDERAL OPEN MARKET COMMITTEE
FRB	Federal Reserve Board (see BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM)
FRCS	FEDERAL RESERVE COMMUNICATIONS SYSTEM
FSLIC	FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
FTC	FEDERAL TRADE COMMISSION
FUTA	FEDERAL UNEMPLOYMENT TAX ACT
FY	FISCAL YEAR
GATT	GENERAL AGREEMENT ON TARIFFS AND TRADE
GAW	GUARANTEED ANNUAL WAGE
GNMA	GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
GNP	GROSS NATIONAL PRODUCT
GNPIPD	GNP IMPLICIT PRICE DEFLATOR
HMO	HEALTH MAINTENANCE ORGANIZATION
HQW	HIGHEST QUARTERLY WAGE
HUD	HOUSING AND URBAN DEVELOPMENT
IBRD	INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
IMF	INTERNATIONAL MONETARY FUND
IRA	INDIVIDUAL RETIREMENT ACCOUNT
IRS	INTERNAL REVENUE SERVICE
LCL	LESS THAN CARLOAD
LDC	LESS DEVELOPED COUNTRY
LFPR	LABOR FORCE PARTICIPATION RATE
LRA	LAGGED RESERVE ACCOUNTING
LTL	LESS THAN TRUCKLOAD
MC	MARGINAL COST
MCD	MONTHS FOR CYCLICAL DOMINANCE
MDTA	MANPOWER DEVELOPMENT AND TRAINING ACT
MEC	MARGINAL EFFICIENCY OF CAPITAL
MEW	MEASURE OF ECONOMIC WELFARE
MFN	Most Favored Nation (see GENERAL AGREEMENT ON TARIFFS AND TRADE)
MICR	MAGNETIC INK CHARACTER RECOGNITION
MP	MARGINAL PRODUCT
MPC	MARGINAL PROPENSITY TO CONSUME
MPP	MARGINAL PHYSICAL PRODUCT
MPS	MARGINAL PROPENSITY TO SAVE
MR	MARGINAL REVENUE
MRA	MARGINAL RESERVE ACCOUNTING
MRP	MARGINAL REVENUE PRODUCT

MRS	MARGINAL RATE OF SUBSTITUTION
MRT	MARGINAL RATE OF TRANSFORMATION
MRTS	MARGINAL RATE OF TECHNICAL SUBSTITUTION
NAAQS	NATIONAL AMBIENT AIR QUALITY STANDARDS
NASD	NATIONAL ASSOCIATION OF SECURITIES DEALERS
NCUA	NATIONAL CREDIT UNION ADMINISTRATION
NEP	NEW ECONOMIC POLICY
NGPA	NATURAL GAS POLICY ACT
NHS	NATIONAL HEALTH SERVICE
NI	NATIONAL INCOME
NIA	NATIONAL INCOME AND PRODUCT ACCOUNTS
NIRA	NATIONAL INDUSTRIAL RECOVERY ACT
NLRB	National Labor Relations Board (see NATIONAL LABOR RELATIONS ACT)
NNP	Net National Product (see GROSS NATIONAL PRODUCT)
NOW	NEGOTIABLE ORDER OF WITHDRAWAL
NRA	NATIONAL RECOVERY ADMINISTRATION
NRR	NET REPRODUCTION RATE
NSA	Not Seasonally Adjusted (see SEASONALLY ADJUSTED)
NYSE	NEW YORK STOCK EXCHANGE
OBL	ORDER BILL OF LADING
OECD	ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT
OEEC	ORGANIZATION FOR EUROPEAN ECONOMIC COOPERATION
OEO	OFFICE OF ECONOMIC OPPORTUNITY
OJT	ON THE JOB TRAINING
OMB	OFFICE OF MANAGEMENT AND BUDGET
OR	OPERATIONS RESEARCH
OSHA	OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION
OTC	OVER THE COUNTER
P&L	PROFIT AND LOSS
PC	PERSONAL CONSUMPTION EXPENDITURES
PERT	PROGRAM EVALUATION AND REVIEW TECHNIQUE (sometimes called Program Evaluation Research Task)
POE	PORT OF ENTRY
POS	POINT OF SALE
PPI	PRODUCER PRICE INDEX
PR	PUBLIC RELATIONS
PSU	Primary Sampling Unit (see CURRENT POPULATION SURVEY)
PWA	PUBLIC WORKS ADMINISTRATION
QCD	Quarters for Cyclical Dominance (see MONTHS FOR CYCLICAL DOMINANCE)

RCPC	REGIONAL CHECK PROCESSING CENTER
REA	RURAL ELECTRIFICATION ADMINISTRATION
RFC	RECONSTRUCTION FINANCE CORPORATION
RIA	REGULATORY IMPACT ANALYSIS
RP	REPURCHASE AGREEMENT
RPD	RESERVES AVAILABLE FOR PRIVATE NONBANK DEPOSITS
SA	SEASONALLY ADJUSTED
SBL	STRAIGHT BILL OF LADING
S&L	SAVINGS AND LOAN ASSOCIATION
SDRs	SPECIAL DRAWING RIGHTS
SEC	SECURITIES AND EXCHANGE COMMISSION
SIC	Standard Industry Classification
SIME	SEATTLE INCOME MAINTENANCE EXPERIMENT
SMSA	STANDARD METROPOLITAN STATISTICAL AREA
SUA	SPECIAL UNEMPLOYMENT ASSISTANCE
TAB	TAX ANTICIPATION BILL
T&E	TRAVEL AND ENTERTAINMENT CARD
T&L	THRIFT AND LOAN ASSOCIATION
TC	TOTAL COSTS
TFC	TOTAL FIXED COSTS
TUC	TRADES UNION CONGRESS
TVA	Tax on Value Added (see VALUE ADDED TAX); TENNESSEE VALLEY AUTHORITY
TVC	TOTAL VARIABLE COSTS
UCC	UNIFORM COMMERCIAL CODE
UDC	UNDERDEVELOPED COUNTRY
UI	Unemployment Insurance (see UNEMPLOYMENT COMPENSATION AMENDMENTS)
UIB	UNEMPLOYMENT INSURANCE BENEFITS
ULPA	Uniform Limited Partnership Act (see FORMS OF BUSINESS ORGANIZATION)
UPC	UNIFORM PRICING CODE
VAT	VALUE ADDED TAX
VC	VARIABLE COSTS
VFCR	VOLUNTARY FOREIGN CREDIT RESTRAINT
WBA	WEEKLY BENEFIT AMOUNT
WPA	WORKS PROJECTS ADMINISTRATION
WPI	WHOLESALE PRICE INDEX
XIMF	Expanded International Monetary Fund (see BANCOR)
ZEG	ZERO ECONOMIC GROWTH
ZPG	Zero Population Growth (see NET REPRODUCTION RATE)

A

ABILITY-TO-PAY PRINCIPLE. A doctrine which holds that the equity function of government requires that, in determining tax liability, a major criterion should be who can afford to pay, rather than who will receive the benefits. In fact, there is often an inverse relationship between who pays and who receives benefits; public parks financed by taxes from persons with higher incomes are more likely to be used by those with lower incomes, while the higher income individuals use private clubs and parks. See also **BENEFIT-RECEIVED PRINCIPLE**.

ABRASION. Wearing away of a coin during use and circulation. Abrasion is a significant factor in an economy which uses full bodied coins (see **NEUTRAL MONEY**) because coins of the same denomination can then have different values depending on the amount of abrasion each has sustained.

ABSOLUTE ADVANTAGE. See **COMPARATIVE ADVANTAGE**.

ABSOLUTE COST ADVANTAGE.

When a producer, because of efficiency, location, or other factors, is able to produce a good or service at a lower cost than other producers of the same product, that producer is said to have an absolute cost advantage.

ABSTINENCE THEORY OF INTEREST.

If the cost of borrowed money (i.e., the interest paid) were zero, the demand for money would far exceed the supply because most people would rather have their goods and services *now*. Therefore, for some to be able to borrow money, others must make money available by abstaining from current spending; the interest they earn is inducement for this abstinence. Also called *Agio theory of interest*.

ACCELERATED COST RECOVERY SYSTEM (ACRS).

A provision of the **ECONOMIC RECOVERY TAX ACT** of 1981, the ACRS shortens the period over which an asset can be fully depreciated and allows firms to claim more of the depreciation earlier in the tax life of the asset. Equipment that had previously been permitted to depreciate in 8.6 years can have an ACRS life of 5 years; the depreciation of industrial plants that previously averaged 23.8 years can be completed in 15 years. The purpose of ACRS is to encourage business investment as a step toward having the private sector lead the economic recovery.

ACCELERATED DEPRECIATION.

A tax law provision which allows business firms to write off the cost of all or certain **CAPITAL GOODS** expenditures at a rate faster than is usually allowed. The purpose is to provide incentives for increased

investment spending, with the ultimate objective of expanding the economy. The ACCELERATED COST RECOVERY SYSTEM is a specific recent example of accelerated depreciation.

ACCELERATIONIST THEORY. Holds that the PHILLIPS CURVE applies only to the short run and that in the long run FISCAL POLICY is not controlling because unemployment has a natural rate which is determined by nonfinancial factors such as IMPERFECT COMPETITION in labor and product markets.

ACCELERATION PRINCIPLE. When a change in demand for the nation's output of goods and services causes a change in INDUCED INVESTMENT, a coefficient (sometimes called the *accelerator*) can be established:

$$\begin{aligned} \text{Coefficient of Acceleration} = \\ (\text{Change in Investment}) \\ \div (\text{Change in Demand}) \end{aligned}$$

In its simplest application, this coefficient can be assumed to be a constant. However, it soon becomes apparent that without the usual qualification, OTHER THINGS BEING EQUAL, the coefficient will be a function of MANUFACTURING CAPACITY, general economic conditions, interest rates, general intensiveness (whether LABOR INTENSIVE or CAPITAL INTENSIVE), and many other factors.

The acceleration principle is often given as one of the factors which cause ECONOMIC FLUCTUATIONS. Assume that the economy is steady (either holding constant or changing at a constant rate) and that then there is an increase in total demand followed shortly by a return to the previous steady condition. That increase in demand will be followed by an increase in investment spending (CAPITAL ACCUMULATION); then, when demand returns to its long-run trend level, investment will also return to its long-run trend level. But several years later that larger stock of capital will begin wearing out and need replacement, which will then

put expansionary pressures on the economy. This principle is credited to John Maurice Clark.

ACCELERATOR. See ACCELERATION PRINCIPLE.

ACCEPTANCE BILL. A financial instrument in which a *drawer* orders a *drawee* to pay a sum of money to a *payee*. This method of making payment is standard in international commerce. Also known as a *bill of exchange*, or *draft*.

ACCEPTANCES. With regard to the CONSOLIDATED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS, acceptances are recognized in two categories: (1) Bought Outright—Prime bankers' acceptances bought outright by the Federal Reserve Bank of New York for its own account. (2) Held Under REPURCHASE AGREEMENTS—Prime banker's acceptances bought by the same Federal Reserve bank for its own account under agreements with nonbank dealers.

Bankers' acceptances are drafts or bills of exchange that banks have "accepted" as their own liabilities, in effect substituting their credit for that of their customers. Acceptances of the largest and best-known banks are considered prime-quality money-market instruments. In 1955, the FEDERAL OPEN MARKET COMMITTEE authorized the Federal Reserve Bank of New York to deal in prime bankers' acceptances for its own account.

The New York Reserve Bank conducts open market operations for the Federal Reserve System, with about 25 primary dealers in government securities and bankers' acceptances. The MANAGER OF THE SYSTEM OPEN MARKET ACCOUNT is senior vice president in charge of the New York Reserve Bank's securities department and is appointed annually by the FEDERAL OPEN MARKET COMMITTEE to carry out its policy directives.

Ownership of the System open market account portfolio is allocated among all the Reserve banks, except for acceptances

and securities held under REPURCHASE AGREEMENTS, which are carried on the books of the New York Reserve Bank. On the combined statement of condition, net purchases or sales of securities are reflected in proportional increases or reductions in the security holdings of each Reserve bank and in its holdings of gold certificates.

In a *prime banker's acceptance*, the dealer agrees to buy the acceptance back on a specified date (usually within 15 days) or earlier, at the dealer's option. The Reserve bank also has the right to require repurchase any time before maturity of the agreement, but this right is rarely exercised.

These dealers receive, in effect, short-term loans. Bank dealers are excluded from repurchase agreements with the New York Reserve Bank because they have access to direct, short-term borrowing from the Federal Reserve at the DISCOUNT RATE.

ACCESSION. In labor economics, an addition to the payroll, regardless of whether the person is being rehired or has never worked for the employer before.

ACCOMMODATION SIGNATURE. In financial economics, the signature of a party who is not the primary DEBTOR but who is, either primarily or secondarily, accepting some responsibility for repayment of the debt. This practice is usually followed when the lender does not feel that the interest rate and other conditions are consistent with the risk when only the primary debtor is involved.

ACCOUNT MANAGER. Usually refers to the MANAGER OF THE SYSTEM OPEN MARKET ACCOUNT.

ACCOUNTS PAYABLE. Liability accounts which record amounts to be paid to others, often for purchases of goods or services.

ACCOUNTS RECEIVABLE. Asset accounts which record amounts to be received from others, often from sales of goods or services.

ACCRUAL BASIS. In economics, *accrual basis* has the same meaning as in accounting; revenues and expenditures are recognized when the transaction takes place. This method contrasts with *cash basis*, in which revenues and expenditures are recognized when payment is made.

ACCRUED INTEREST. Interest which has been earned but not yet credited or paid. The expression is often used in connection with BONDS because bond holders are paid at stated times, usually twice a year. When a person sells a bond, the usual practice is for the new owner to pay to the previous owner the amount of earnings to the date of the sale (accrued interest); the new owner will receive payment for the full amount of earnings at the end of the period.

ACCUMULATED DIVIDEND. The dividend in arrears on cumulative preferred stock which must be paid before dividends can be paid to common stockholders. Also called *cumulative dividend*. See CAPITAL STOCK.

ACREAGE ALLOTMENT. Part of the continuing stream of legislation known in the U.S. as the *farm program*. It includes giving farmers an allotment or limit to the amount of their land that they may use to grow designated crops.

ACROSS-THE-BOARD INCREASE. A wage increase given to all employees at the same time, as opposed to a merit increase or other increase which is determined on an individual basis. The across-the-board (or general) increase may be a fixed amount, a fixed percentage, or some more complex arrangement, but the main point is that the formula applies to all employees and individual productivity is not recognized. The claim is often made that if an area is dominated by a large employer, then a general wage increase by that employer will be followed by general price increases in the area.

ACT FOR INTERNATIONAL DEVELOPMENT OF 1950. U.S. program for making scientific developments and in-

dustrial techniques available for the improvement of the economies and potentials of LESS DEVELOPED COUNTRIES. It is often called the *Point Four Program* because it grew out of the fourth point of President Truman's inaugural address in 1949.

ACTIVE STOCK. An issue of CAPITAL STOCK that can be expected to be bought and sold in significant quantities every business day.

ACT TO REGULATE COMMERCE. Legislation enacted February 4, 1887, for the purpose of regulating carriers, especially on waterways. Also known as the Cullom Act, it created the Interstate Commerce Commission. Since its original enactment, the act has had numerous amendments and supplements; today, the result is known collectively as the Interstate Commerce Act.

ACTUAL INVESTMENT. The sum of FIXED INVESTMENT and CHANGE IN BUSINESS INVENTORIES. The word *actual* emphasizes that the result of both PLANNED INVESTMENT and UNPLANNED INVESTMENT is being considered. Also called *realized investment*. See also GROSS PRIVATE DOMESTIC INVESTMENT.

ACTUAL RESERVES. See BANK RESERVES.

ACTUARY. A person who uses statistics to calculate insurance rates so that expenses (a large part of which are claims payments) will equal income (mainly inflow from premiums). See NORMAL PROFIT.

ADJUSTABLE RATE MORTGAGE (ARM). A mortgage that includes a provision to renegotiate the interest rate periodically. This provision is a benefit to the borrower if interest rates fall after the mortgage contract is signed, and a benefit to the lender if interest rates rise.

ADJUSTED BALANCE METHOD. A method of calculating the FINANCE CHARGE on consumer loans. With this

method, the creditor adds the finance charges after subtracting payments made during the billing period. See also PREVIOUS BALANCE METHOD and AVERAGE DAILY BALANCE METHOD.

ADJUSTER. In insurance, the person who analyzes and evaluates claims and reaches a settlement with claimants.

ADJUSTMENT BOND. An industrial BOND which is sold with the specific intention of using the proceeds to readjust the capitalization of the business. Also called a *reorganization bond*.

ADJUSTMENT CREDIT. Borrowing by member banks from a Federal Reserve bank for a short period (usually no more than a few days) for the purpose of making temporary adjustments in their reserves. See BANK RESERVES. Reasons for such borrowing generally include unexpected increases in loan demand, sudden deposit losses, or temporary and unexpected difficulties in obtaining funds through the facilities of the money market.

ADMINISTERED PRICE. A price which results from other than the interplay of forces in PURE COMPETITION; for example, when the government establishes a price. When the administered price is due to MONOPOLY or OLIGOPOLY conditions, there is seldom a sharp distinction between a competitive price and the administered price; the forces are usually so subtle that not even the parties to the transaction know exactly how the price was determined.

ADMINISTRATOR. A person authorized by a court to oversee the execution of a will in which the deceased did not name an *executor*. The collective expression for a person who is both executor and administrator is *personal representative*.

AD VALOREM DUTY. A customs duty which uses the value of entering goods, rather than size, weight, category, or other criteria, as a basis. See also CLASSIFIED TAX; CUSTOMS DUTY; SPECIFIC DUTY.

ADVANCE. Payment of all or part of a bill before payment is due. Sometimes an advance is paid for no more than the amount that has been earned at the time. For example, a contract may specify that full payment is to be made upon completion of all work, but the buyer actually pays one-fourth of the amount each time one-fourth of the work is completed.

ADVANCE BILL. A BILL OF EXCHANGE prepared prior to shipment of goods. This arrangement might be used in a situation where the buyer's credit rating is such that the seller is not willing to make shipment before being assured of payment.

ADVANCE, PRELIMINARY, AND FINAL ESTIMATE. Sequence in which the U.S. Census Bureau releases figures, as shown by the following example using monthly estimates of sales by retail stores. The first actual SEASONALLY ADJUSTED monthly estimate is the *advance estimate*, published about ten days after the close of the month. This estimate is derived from weekly figures collected from a subsample. Approximately a month later, a *preliminary estimate* is published, based on data from the Census Bureau's full reporting sample of retail stores. This estimate is then subject to further revision—usually slight—and, after additional checking and correction, a *final estimate* becomes available about two months after the release of the advance estimate.

ADVANTAGES OF SCALE. The result of ECONOMIES OF SCALE. It occurs when an increase in quantity produced allows—because of such factors as SPECIALIZATION and quantity discounts on materials used—a reduction in unit costs.

ADVERSE BALANCE. In international economics, describes a nation's balance sheet when the amount of money flowing out of the nation during a given period (usually a year) exceeded the amount flowing in. See BALANCE OF INTERNATIONAL PAYMENTS and MERCHANDISE ACCOUNT.

ADVERSE CLEARING. Describes the point of view of a bank whose reserve account is reduced during CHECK CLEARING.

ADVERSE SELECTION. This phrase is best explained by quoting an example from the 1982 ECONOMIC REPORT OF THE PRESIDENT.

Assume that some insurance company offered actuarially fair insurance against this risk [having a low income] and charged all persons the same premium. (That is, the amount of the premium equals the expected cost of having a low income.) Since most persons are averse to risk, they might buy this insurance even though the premium would be somewhat greater than the expected cost because of the expense of writing the insurance. Some persons would be better risks than average, and new insurance companies would compete with the first company for these better risks. This would leave the original company insuring only the bad risks, which the company would then find financially intolerable. Ultimately, one class of persons would be unable to obtain any insurance.

ADVISORY AGENT. A TRUST arrangement in which the trustee reviews the portfolio and gives investment advice but does not have full discretionary powers. Such advice is usually accepted by clients, and although approval in writing is proper, it is often carried out after telephoned approval, with written consent being provided later for the records.

AFL-CIO. See AMERICAN FEDERATION OF LABOR-CONGRESS OF INDUSTRIAL ORGANIZATIONS.

AGE DISTRIBUTION. A summary of the percentage or numbers of people who are in each of various age brackets. This information is important to economists because total amount and type of demand, as well as UTILITY values, are functions of age classification. It also shows the ratio of the productive segment of the population to the nonproductive segment and provides information used in making

a prediction of the same ratio at a time in the future. Age distribution is also used by school systems in making plans for student needs, teacher availability, and other variables.

AGENCY FOR INTERNATIONAL DEVELOPMENT (AID). U.S. agency created for the purpose of administering economic aid in the form of grants and loans to less developed nations.

AGENCY SHOP. In labor economics, a place of employment which has a union contract requiring all employees to pay dues to the union, although none of the employees is technically required to join the union.

AGENT. A party who is given the legal power to commit its **PRINCIPAL** to a legally binding contract. One function of the **FEDERAL RESERVE SYSTEM** is to act as agent for the U.S. government; thus a contract signed by an authority of the System is, legally, a contract signed by the U.S. government.

AGGREGATE. In economics, as a verb, *aggregate* means to collect statistics for more than one item and present the combined statistics. For example, GNP is an aggregation of figures for consumption, government, investment, and net exports. As an adjective it means total or overall, such as when aggregate figures are shown.

AGGREGATE DEMAND. Total spending for goods and services.

AGGREGATIVE ECONOMICS. See **MACROECONOMICS**.

AGIO THEORY OF INTEREST. See **ABSTINENCE THEORY OF INTEREST**.

AGRIBUSINESS. A word used to emphasize that agriculture is no longer the pastoral life which allowed farmers to avoid the pressures of urban living and industrial employment. Thus, much farming in the U.S. is done on large commercial farms, with four percent of its farms producing about 47 percent of its agricultural output.

AGRICULTURAL ADJUSTMENT ACT (AAA). During the **GREAT DEPRESSION**, two AAAs were passed to bring about price inflation by controlling and limiting farm production. The first AAA, enacted in 1933, was declared unconstitutional in 1936 because of the taxing method it used to obtain funds (see **FARM RELIEF AND INFLATION ACT**). The second AAA was passed in 1938.

AGRICULTURAL BANK (Yugo.: Jugoslovenska Poljoprivredna Banka). One of the specialized banks within the commercial banking system of Yugoslavia. As its name implies, the bank provides funds for the financing of agricultural capital expenditures. Its short-term crop loans are negligible.

AGRICULTURAL CREDIT ACT. Legislation of 1923 which created the Federal Intermediate Credit Banks. These banks sell debt instruments to the public and use the proceeds to make short-term agricultural loans.

AGRICULTURAL MORTGAGE CORPORATION (U.K.). An organization that makes loans to farmers who use their land for security. Most of the loans are provided through, or in conjunction with, commercial banks.

AGRICULTURAL PARITY. The price level of farm commodities which bears a relationship between overall price levels and specific farm prices, related to a given period. For example, if selling a certain number of bushels of corn enabled a farmer to buy a specific market basket (see **CONSUMER PRICE INDEX**) in a base year, then parity today would mean that the same number of bushels of corn would buy the same market basket.

AGRICULTURAL REVOLUTION. The transition from traditional methods to the extensive use of machinery in farming, and to human control of soil chemistry and animal breeding. It is generally considered that the agricultural revolution took place in the mid- to late 1800s, although some identify the changes of the