ROUTLEDGE

Reference

DICTIONARY OF ECONOMICS

DONALD RUTHERFORD

Dictionary of Economics

Donald Rutherford

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Preface

Economics, the Queen of the Social Sciences, has now established itself as a major subject in dialogue with the physical sciences, law and the arts. There are few aspects of human behaviour that do not have an economic dimension and little of current affairs can be understood without a knowledge of economic principles. It is, therefore, not surprising that it is a major discipline in schools, colleges and universities throughout the world, studied annually by millions and the topic of conversation of millions more.

The *Dictionary of Economics* has as its concerns as many issues as the subject Economics now covers. The breadth can be appreciated by considering the subject classifications used by the Journal of Economic Literature (USA) and the Economic Journal (UK). The related specialties of economic history, commercial law, and econometric and statistical techniques are all within its ambit. However, to prevent a subject dictionary becoming encyclopedic, a lexicographer can follow the useful convention of taking from sister disciplines only what is regularly used in mainstream economic literature. For example, from law, it is customary to emphasize competition, fiscal and banking law more than constitutional or criminal law. This interpretation of economics in the broad sense makes a dictionary of this kind more of a dictionary *for* economists, rather than a dictionary *of* economics with terms peculiar to the subject.

Even if a dictionary takes a broad view of its subject matter, it is usually addressed to a particular audience, such as first-year undergraduates. This is an approach that I have wanted to avoid, as there is a substantial heterogeneity of economics courses and students often need to research some areas of the subject in more depth than others. Also, it can be patronizing to the general reader to regard all of his or her knowledge to date as rudimentary. Even the reader of daily newspapers who never looks at an economics textbook will encounter the most complex of ideas, chaos theory for example.

To produce a dictionary of this kind, I started with an assortment of basic textbooks and many current newspapers and journals. I soon discovered that about a thousand concepts are common to all the textbooks, for example notions of cost, economic systems and banking. From general textbooks I moved to a perusal of specialist books on the diverse divisions of the subject. The areas of economics encompassed obviously have to reflect current concerns; many environmental concepts are included and the 'male' character of many economics works has been partially avoided by including biographies of several leading female economists. Newspapers and journals provide a modern guide to current economic discourse. There is no foreseeable end to the creation of economic neologisms – major events such as the deregulation of financial markets and the political developments in Eastern Europe, which have changed the nature of many economies, have produced an expansion of new terms. Some terminology is ephemeral but many words that start as slang, such as 'yuppy', have a surprising longevity. I have taken the optimistic view that numerous catchwords and catchphrases will render linguistic service for many years.

The entries in this *Dictionary* are sequenced alphabetically, letter by letter: for example, *discounted share price* precedes *discount house*, which precedes *discounting*. The standard form for each item included begins with a headword and one or more three-digit codes to indicate the branch or branches of economics that most frequently use that term. As it is important to ensure that all entries are immediately comprehensible and independent of others, the text of each entry begins with a short definition before any discussion is included. Where related entries can profitably be read in conjunction, reference is made to them. Standard diagrams are included in the entries that require them. For the longer or more difficult entries, references to other works that either indicate the original use of that idea or provide a modern discussion of it are given.

A dictionary is a solace for the perplexed, a guide for the scholar and a map of a new terrain for the general reader. I hope that this *Dictionary of Economics* is all of these.

Acknowledgements

The resources of the National Library of Scotland and of Edinburgh University Library have been invaluable to me in the compilation of this *Dictionary*. I am particularly indebted to the reference librarians of the University, especially Margaret Dowling, John Green and Lorna Cheyne for their energetic eagerness to help me at all times.

Writing a dictionary oneself is a daunting and solitary task so I am deeply grateful for the encouragement received, both within the University and outside it, from Stuart Sayer, Gordon Hughes, Michael Anderson, Gavin Reid, Brian Main, Gordon Miller, William Cameron, Graham Richardson, Duncan Spiers, Owen Dudley Edwards, Richard McAllister, John Berry, Andrew Roberts, Colin Tate and, of course, my dear mother.

The publishers and I would also like to thank the editors of the *Economic Journal* and its publisher, Blackwell Publishers, for permission to use the subject classification system that has been adopted throughout the *Dictionary*.

I shall always recall with appreciation the expertise and guidance of all at Routledge who have worked on this project, especially Liz Fidlon, Wendy Morris, Emma Waghorn, Christine Sharrock and, in particular, Mark Barragry who, like a games master, always kept me running around the track.

Dictionary of Economics

Contents

A

AAA (310)
The top credit rating of the securities issued by corporations and companies, as judged by the US rating agency **Standard & Poor**. This rating is based on the view that default is likely to be minimal.

See also: **BB**; **BBB**; **C**; **D**; **DDD**; **Prime-1**.

abatement (010, 720)
See: **marginal cost of abatement**.

ability to pay (320)
1 The principle of taxation that persons with equal incomes and equal capacity to pay a tax should be taxed the same. This alternative to a **benefit tax** was suggested as early as in the **mercantilist** period because it appears to be a 'just' approach. John Stuart **Mill** argued that equality in taxation meant equality of sacrifice: this is ambiguous as the sacrifice may be in absolute, proportional or marginal terms. As sacrifice means loss of utility, the theory can only work if different persons' **utilities** can be compared.

2 An employer's stance in wage bargaining of making offers according to a firm's financial state.

abortive benefits (320, 910)
Social benefits which fail to achieve their purpose. There is no net increase in a recipient's income as the benefits are outweighed by income taxation. Proposals for a **negative income tax**, which would merge benefits and taxation into a single system, attempt to ensure that benefits raise net income.

above the line (320, 520, 540)
1 A type of expenditure or revenue of a government or a firm. In the case of British budgets from 1947 to 1963 it referred to spending and receipts relating to current tax revenue; for a firm it means expenditure on direct advertising.

2 The items in the summary British **balance of payments** which are within the current and capital balances.

See also: **below the line**.

Abramovitz, Moses, 1912- (030)
Educated at Harvard and Columbia universities. He was on the staff of the **National Bureau of Economic Research** from 1938 to 1942 and Director of Business Cycles Study from 1946 to 1948; he was principal economist of the War Production Board in 1942 before serving in the US Army and was a member of the faculty of Columbia University, 1940–2 and 1946–8, and of Stanford University, 1948–77. After early work on price theory, he turned to a study of inventories and business cycles. Later he examined explanations of long swings in growth, considering changes in the supply of factors of production and the influence of an initial level of productivity on subsequent economic progress.

Abramovitz, M. (1950) *Inventories and Business Cycles*, New York: National Bureau of Economic Research.
Abramovitz, M. (ed.) (1958) *Capital Formation and Economic Growth*, Princeton, NJ: Princeton University Press.

absenteeism (830)
A form of industrial unrest often used instead of a **strike**. Workers dissatisfied with their conditions take days off work, without pay. Some industries have been noted for this practice, e.g. the British coalmining industry. It is one of the forms of expressing a grievance available to non-unionized workers.

See also: **exit voice**.

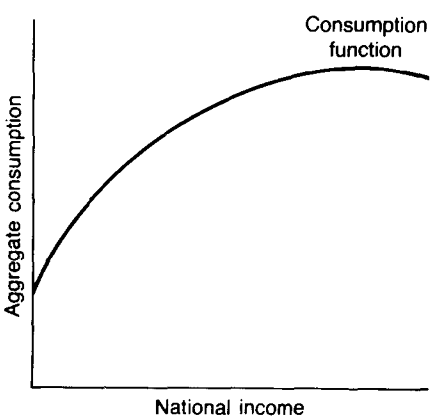
absolute advantage (410)
An early theory of trade which states that a country enters into trade with another because it has a greater productivity than the other country in certain industries, e.g. its cotton industry is more productive than the foreign cotton industry. Adam Smith

advanced this as the reason for trade, stating that a nation, like a household, should specialize.

See also: **comparative advantage.**

absolute concentration (610)
See: **aggregate concentration.**

absolute income hypothesis (020)
A theory of the **consumption function** which states that consumption is a function of current personal disposable income. This was **Keynes**'s original view, later refined by **Tobin** and Smithies. The consumption function is non-linear because the **marginal propensity to consume** declines as national income increases. Keynes asserted that 'men are disposed, as a rule and on average, to increase their consumption as their income increases, but not by as much as the increase in their income'. The early approach was superseded by the **relative income**, **permanent income** and **life-cycle hypotheses.**



absolute poor (160, 910)
Persons whose income is below what is needed to maintain a minimum standard of nutrition.

See also: **poverty**; **subsistence.**

absolute scarcity (720)
The limited non-renewable nature of some resources, notably metals and fossil fuels.

absolute surplus value (010)
See: **surplus value.**

absolute tax incidence (320)
The burden of a particular tax compared with a situation in which there are no taxes or governmental expenditures.

See also: **tax incidence.**

absorption approach (430)
A method of analysing a country's **balance of payments** by comparing its total output with its 'absorption', i.e. its domestic expenditure on goods and services. There will only be an improvement in a country's balance of payments if its total output is greater than its absorption of its own output. By the use of price elasticities and a **multiplier**, it is possible to examine the effects on output and absorption of the **devaluation** of a currency.

Kyle, J.F. (1976) *The Balance of Payments in a Monetary Economy*, Princeton, NJ: Princeton University Press.

See also: **price elasticity of demand.**

absorptive capacity (640)
The limit to the amount of investment which is physically possible because of the decline in **productivity** as the rate of investment increases; the extent to which a country can increase investment without depressing returns to its investment.

Adler, J. (1965) *Absorptive Capacity: the Concept and its Determinants*, Washington, DC: Brookings Institution.

abstinence (010)
A justification for the payment of interest, first advanced by Nassau **Senior.** An individual who abstains from current consumption is rewarded with interest for adding to the capital stock. Abstinence explains the supply of savings; that supply, together with the demand for capital, forms a theory of the interest rate.

Senior, N.W. (1836) *An Outline of the Science of Political Economy.* Reprinted New York: Augustus M. Kelly, 1965.

abstract labour (810)
Labour which is abstracted from expenditures of human labour-power. **Marx** regarded abstract labour as the creator of exchange values.

See also: **concrete labour.**

AC (110)
Advanced country.

ACAS (830)
See: **Advisory, Conciliation and Arbitration Service (UK)**.

Accelerated Cost Recovery System (320, 520)
US Federal tax allowance introduced in 1981 but modified in subsequent years. Capital goods were mostly assumed to have a life of three, five or ten years; as many were more durable, this system was a means of cutting corporate taxation. An example of **supply-side economics**.

accelerated depreciation (320, 520)
Depreciation in excess of the annual wear and tear of a fixed capital asset allowed at the beginning of its life. Thus, if an asset has an expected life of ten years, under the straight-line method of depreciation the value of the asset would be deemed to depreciate by 10 per cent per year. But if accelerated depreciation were permitted, then for example the value of the asset could be depreciated by 20 per cent in the first year. Governments have used this fiscal device to encourage private sector investment.

acceleration clause (310)
A clause in many mortgage agreements making the **principal** and interest immediately payable on the occurrence of an event, e.g. failure to make payments due or failure to keep a covenant.

accelerator principle (140, 520)
A major theory of investment which asserts that the amount of net investment in a given time period will be equal to a coefficient approximating to the amount of capital needed to produce another unit of output multiplied by the change in income. One of the earliest writers to make use of this principle was Aftalion in *Les Crises périodiques de surproduction* (1913) but it has been more powerfully applied by Lundberg, **Harrod, Samuelson, Hicks** and Goodwin in their investment equations. The basic principle, expressed in the equation

$$I = \alpha \Delta Y_t$$

where I is net investment in year t, α is the accelerator coefficient and ΔY is the annual change in income, has been modified to take into account different reaction times to a change in income and the existence of **excess capacity**:

$$I = \alpha \Delta Y_{t-1}$$

where ΔY_{t-1} is the change in income in the previous year;

$$I = \alpha \Delta Y_t - \beta K_t$$

where β is the proportion of the capital stock which is excess capacity and K is the capital stock in year t.

In combination with the **multiplier**, **ceilings** and **floors**, the accelerator plays an important role in the explanation of **business cycles**, and is prominent in **Harrod-Domar** models.

Hicks, J.R. (1950) *A Contribution to the Theory of the Trade Cycle*, Oxford: Clarendon Press (reprinted 1978).
Knox, A.D. (1952) 'The acceleration principle and the theory of investment: a survey', *Economica, New Series* 19: 269–97.
Lundberg, E. (1937) *Studies in the Theory of Economic Expansion*, Oxford: Basil Blackwell (reprinted 1955).

accepting house (310)
A British **merchant bank** which, by approving a commercial **bill of exchange**, creates a short-term marketable asset. In the past such accepting was the major activity of many of these banks but now they have diversified into other activities, including corporate finance and portfolio management. In 1981, the Bank of England ended their special status as endorsers of bills: the Bank of England now regards other **commercial paper** as eligible for purchase.

The seventeen members of the Accepting Houses Committee are Arbuthnot Latham, Baring Brothers, Brown Shipley, Charterhouse Japhet, Robert Fleming, Guinness Mahon, Hambros, Hill Samuel, Kleinwort Benson, Lazard Brothers, Samuel Montagu, Morgan Grenfell, Rea Brothers, N.M. Rothschild, J. Henry Schroeder Wagg, Singer & Friedlander and S.G. Warburg.

access differential (160)
A difference in access to goods and services

and the institutions which produce them. This is used as an alternative to income differentials in planned economies, e.g. higher ranking officials can use shops, schools and clinics not open to the rest of society.

accession tax (320)
A tax on the gifts and bequests received by heirs.

accommodating credit (310, 430)
A form of automatic credit, especially in international trade, which consists of the seller (exporter) financing the purchase by a buyer (importer).

account (310)
1 A financial statement expressed in words and sums of money.

2 A standard time period used on the **International Stock Exchange** for settling payments and delivering securities, referring to a fortnight (or three weeks if there is a public holiday). During an account, stocks and shares can be bought and sold without any cash settlement.

account days (310)
The days on which **International Stock Exchange** transactions have to be settled, usually the second Monday after the end of an account.

See also: **rolling settlement**.

accounting (540)
The recording of the economic activities of firms and national economies. As early as 1494, double-entry bookkeeping, the basis of modern accounting, was explained in Pacioli's 'The Method of Venice', although civilizations as early as the Babylonian practised intricate accounting. In the nineteenth century, the development of joint stock companies and corporations necessitated auditing greatly expanding the role of the accountant. Accounting has moved from **financial accounting** (the historical recording of past activities) to **management accounting** (the frequent presentation of information to managers to help them in current decision-making).

Bull, R.J. (1984) *Accounting in Business*, 5th edn, London: Butterworth.

Chatfield, M. (1977) *A History of Accounting Thought*, rev. edn, Huntington, NY: Robert E. Krieger.

accounting balance of payments (430)
A record of all the financial transactions between the residents of one country and the residents of foreign countries in a given time period (usually a quarter or a whole year).

accounting costs (540)
All the costs of producing a good or service recorded in the accounts of a firm. These include most economic costs but are likely to omit the cost of the owner's time and the **opportunity cost** of the financial capital used in the firm.

accounting cycle (540)
The period from the start to finish of an operational sequence. Accountants typically consider periods of a month, three months, six months or a year.

accounting identity (540)
A balance which makes each side of an equation equal to the other because of the accounting definitions used. In economics such an identity is usually contrasted with equilibrium conditions. Thus, in basic macroeconomics, the accounting equations $Y = C + I$ and $Y = C + S$ entail that $I \equiv S$ but planned saving and investment may diverge (Y is national income, C is aggregate consumption, I is net investment and S is aggregate saving).

accounting profit (010, 540)
The excess of total revenue over the costs and expenses of a productive activity in a given time period. Contrast with **economic profit**.

accrual accounting (540)
Accounts based on transactions when they occur, as opposed to when the cash is received or paid. Contrast with **cash flow accounting**.

accrual interest rate (310)
The rate at which interest accrues on a loan as distinct from the rate at which it is actually paid. This accrual rate can be the

current market rate or the rate originally set when the loan was made.

accrued expense (010, 540)
An expense incurred in a particular time period but not yet paid.

accrued income (010, 540)
Income which has been earned in a particular time period but has not yet been received in cash.

ACH (310)
See: **automated clearing house**.

acid-test ratio (520, 540)
Liquid assets divided by current liabilities: a measure of a company's ability to pay immediate liabilities.

ACM (420)
See: **Andean Common Market**; **Arab Common Market**.

ACP (130)
African, Caribbean and Pacific; the sixty-three countries that signed the **Lomé Convention** with the **European Community** in 1975.

ACRS (320, 520)
See: **Accelerated Cost Recovery System**.

ACT (320)
See: **Advance Corporation Tax**.

active fiscal policy (140, 320)
Frequently used discretionary **fiscal policy**. Instead of relying on **automatic stabilizers** alone to achieve a desired level of aggregate demand, a government makes many changes in its spending and taxation.

activist (310, 320)
An economic policy adviser who believes in the use of discretionary monetary and fiscal instruments for **fine-tuning** the economy.

activity analysis (210)
See: **linear programming**.

activity rate (810)
Official UK term for the **labour force participation rate**. If the female population is 100 million but the female labour force is only 55 million, then the female activity rate will be 55 per cent.

activity ratio (540)
An accounting measure of the amount of activity of a firm. (Standard hours for actual output/standard hours for budgeted output) x 100; net sales divided by total assets or net fixed assets; accounts receivable divided by daily credit sales.

actual budget (320)
National taxation and expenditure accounts of a government which may be in balance, in surplus or in deficit: this is contrasted with a **full-employment budget**.

actual deficit (320)
See: **primary deficit**.

Adam Smith Institute (010)
Free market economics policy research think tank based in London, UK. It was founded in 1977 by a group of like-minded graduates of St Andrews University, Scotland. It has published a series of reports on economic policies since 1979.

In Eastern Europe there are now several separate Adam Smith Institutes with a similar philosophy.

adaptive expectations (010, 210)
The expected value of an economic variable at a future date measured by the weighted average of all previous values of the variable. The concept was first applied to the study of investment behaviour and the **consumption function** and later to inflation. The narrowness of this approach to expectations (first advanced by Cagan), although easy for economic model builders, has been criticized because forecasters often take into account information other than the past behaviour of the variable being studied.

Cagan, P. (1956) 'The monetary dynamics of hyperinflation', in M. Friedman (ed.) *Studies in the Quantity Theory of Money*, Chicago, IL: University of Chicago Press.

AD-AS (020)
Aggregate demand-aggregate supply macroeconomic model.

ADB (130, 310)
See: **Asian Development Bank**.

adding-up controversy (020)
A dispute concerning the ways of solving the problem of ensuring that the amount of income going to factors of production is equal to the national income. From P.H. Wicksteed's *An Essay in the Coordination of the Laws of Distribution* (1894) onwards, many attempts to solve the problem have been limited to the special case of a long-run perfectly competitive equilibrium.

See also: **Euler's theorem**; **perfect competition**.

additional facilities (430)
Extra credit arrangements of the **International Monetary Fund** to ease the balance of payments difficulties of member countries. These include:

- 1963 Compensatory Financing Facility to provide compensation for a shortfall in export earnings
- 1969 Buffer Stock Financing Facility
- 1974–5 Oil Facility
- 1974 Extended Fund Facility
- 1974 Supplementary Financing Facility
- 1986 Structural Adjustment Facility.

additional-worker hypothesis (010)
The assertion that unemployment will encourage more labour force participation amongst **secondary workers** and thus will increase the size of the labour force. This often occurs when there is a shift from heavy to light industry. If those made redundant in the heavy industries are males but the jobs available in the light industries are predominantly suitable for females, then male unemployment will coincide with women joining the labour force.

Cann, G.G. (1967) 'Unemployment and the labor force participation of secondary workers', *Industrial and Labor Relations Review* 20: 275–97.

See also: **discouraged worker hypothesis**; **labour force participation rate**.

adjustable peg (430)
A **fixed exchange rate** which can occasionally be altered according to certain rules. The best example is the Bretton Woods system which permitted revaluations and devaluations of up to 10 per cent without the permission of the **International Monetary Fund**. An adjustable peg has the disadvantage of requiring the costly accumulation of foreign exchange reserves and can be unstable as every rumour about a currency change may provoke speculation necessitating an adjustment. A currency can be pegged to another single currency (often the US dollar) or to a basket of currencies such as a **special drawing right** or a basket chosen to reflect the trade structure of the country.

See also: **Bretton Woods Agreement**.

adjustable-rate mortgage (310)
A **mortgage** bearing an interest rate which fluctuates according to market interest rates. These are popular with savings institutions as they have less **interest risk** and with individuals and households because they offer lower initial interest rates.

adjusted claim (310)
See: **note issuance facility**.

adjustment cost (010)
The cost to an economic agent (e.g. a firm or a household) of a change in the value of a variable crucial to its decisions. If, for example, a firm were to change its capital stock by embarking on an investment programme, it incurs costs of research, planning, installation of equipment and training of workers.

adjustment gap (710)
The ratio of international to domestic food prices. The greater the amount of farm support, the greater the gap. In the 1980s, the ratio for the **European Community** was about one-third.

adjustment speed (520)
The time it takes a price to adjust to **excess demand** or **excess supply** in a particular market. It is important to consider this when studying the behaviour of money wage rates, product prices, interest rates and nominal exchange rates.

administered inflation (150)
Inflation that is brought about by firms increasing the profit mark-up on their products; a form of **cost-push inflation**.

See also: **mark-up pricing**.

administered pricing (520)
The practice of setting prices according to a formula irrespective of the short-run forces of demand and supply. The market power of monopolistic and oligopolistic firms makes it possible to adopt this approach to pricing. As it is expensive to change prices (e.g. new catalogues have to be printed) and as there is always the possibility of adverse consumer reaction, there is a tendency for prices to be more rigid when administered. As part of an anti-inflation programme, especially in wartime, governments will administer major prices, i.e. prices of goods and services which are prominent in most consumers' budgets; in these circumstances the rules for increasing prices are strictly laid down. Most administered prices are calculated by adding a profit margin to average cost.

Means, G.C. (1935), 'Industrial prices and their relative inflexibility,' *Senate Document No. 13*, Washington, DC: US Government Printing Office.

See also: **mark-up pricing**.

administration lag (310, 320)
See: **implementation lag**.

administrative cost (320, 520)
1 The personnel and equipment costs of collecting taxes (public finance).

2 Costs incurred to manage an enterprise (managerial economics).

See also: **transaction cost**.

administrative costs of regulation (610)
All the costs of employing officials and running the offices of regulatory agencies. These are to be contrasted with **compliance costs.**

ADR (310)
See: **American Depository Receipt**.

ad valorem tax (320)
An **indirect tax** which is levied as a percentage of the value of a transaction. **Sales taxes**, **excise duties** and **value-added taxes** are major examples. In calculating such taxes, either the final price of the good or service or the value added at a particular stage of production is the basis. This tax reduces the amount of revenue that a firm obtains from the sale of a good or a service.

See also: **unit tax**.

advance (310)
A bank loan or an overdraft which has a term of less than three years, usually less than one year. When a bank creates money, it does so by allowing advances to its customers, i.e. permitting them to draw on the extra bank deposits created for them. An overdraft is a permission to 'overdraw' up to a certain amount for a specified period but a loan results in an immediate crediting of the borrower's account.

Advance Corporation Tax (320)
An interim settlement of UK corporation tax. If a company makes a qualifying distribution of earnings, e.g. by distributing a dividend, during its accounting period, it pays a proportion of the amount of the dividend as an advanced payment of tax which will later be deducted from its tax liability for that period. The proportion which has been levied varies from year to year: in most years it has been about 30 per cent.

advanced organic economy (110)
An **economy** which reaches a considerable level of real income by using agricultural products, especially wood, for energy and raw materials. A pre-industrial economy.

Wrigley, E.A. (1988) *Continuity, Chance and Change*, ch. 2, Cambridge: Cambridge University Press.

adverse selection (520)
A problem of insurance which arises when the insurer does not know whether or not an insured person is at risk, with the consequence that the same premium is charged, irrespective of whether that individual is likely to claim. This can occur, for example, if an applicant for life insurance does not disclose all his health details.

See also: **asymmetric information**.

adverse supply shock (010)
A change in a factor price, e.g. the price of

energy or labour, which reduces **aggregate supply** at each price level. In the short term, the macroeconomic consequences of a shock are an increase in the price level and a fall in output.

advertising (530)
A communication activity used to influence potential buyers, voters or others who can help the advertiser to reach defined goals. The theory of **monopolistic competition** was the first major economic theory to incorporate considerations of advertising. In the case of firms, it is a selling cost incurred with the hope of increasing sales. Advertising increases the amount of information available in a market but it also helps to create monopoly situations as it can be a **barrier to entry**. By advertising, **oligopolists** can create wants and markets, escaping the strictures of **consumer sovereignty**. The annual amount of a firm's advertising expenditure is often determined by an arbitrary ratio of advertising expenditure to sales revenue and frequently has the effect, not of enlarging total expenditure on a particular good or service, but of redistributing demand among the firms of an industry and adding to their costs.

Although large advertising expenditures are associated with **market economies**, advertising has a role in **command economies**, particularly to increase consumer demand for products new to the market or in excess supply.

Reekie, W.D. (1981) *The Economics of Advertising*, London: Macmillan.
Schmalensee, R. (1972) *The Economics of Advertising*, Amsterdam: North-Holland.

Advisory, Conciliation and Arbitration Service (830)
The central UK body, set up in 1974 under the **Trade Union and Labour Relations Act**, to promote an improvement in industrial relations, to encourage an extension of collective bargaining and its reform through advice, conciliation, enquiries and arbitration, and to run the **Central Arbitration Committee**. An important aspect of its activities has been the publication of Codes of Practice in industrial relations.

AEA (010)
See: **American Economic Association**.

AFBD (310)
Association of Futures Brokers and Dealers (London): a **self-regulatory organization**.

AfDB (310)
See: **African Development Bank**.

AFDC (910)
See: **Aid to Families with Dependent Children**.

Affärsvälden General Index (310)
The price index of the leading shares traded on the Stockholm Stock Exchange.

affinity card (310)
A **credit card** linked with a charity which receives donations in proportion to the amount spent by the user of that card.

affirmative action (820)
A series of actions taken by an employer or educational authority to advance the opportunities of disadvantaged groups, especially ethnic minorities, to increase their representation particularly in employment.

See also: **reverse discrimination**.

AFL–CIO (830)
American Federation of Labor and Congress of Industrial Organizations: a merger of two rival labor federations of the USA in 1955 which brought back the breakaway industrial unions that had separated from their colleagues in craft unions. Not all US labor unions are affiliated to the AFL–CIO.

See also: **craft union**; **general union**; **industrial union**.

African Development Bank (430)
A bank which began operations in 1966: it finances investment projects in Africa and raises capital throughout the world. By 1985, it had fifty African and twenty-five non-African countries as members, including the UK, the USA, Germany and Japan.

See also: **development bank**.

after-hours dealings (310)
Dealings in stocks and shares after the

International Stock Exchange closes for the day. Such **bargains** are recorded as the next day's business. In the past these dealings were at less attractive prices to both buyer and seller because of the greater risk of trading when market opinion was unknown; now, long hours of electronic dealing have removed this price differential.

See also: **twenty-four-hour trading**.

aftermarket (310)

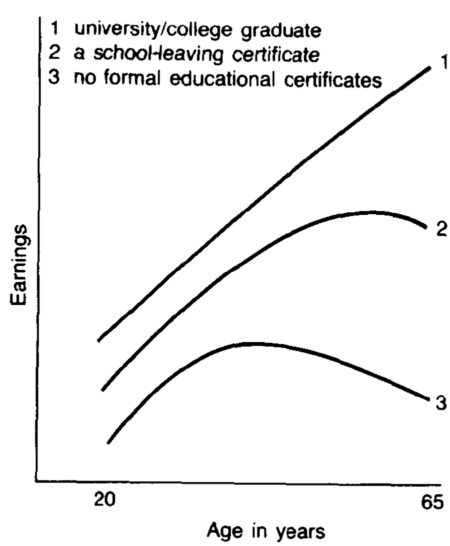
The trading in securities immediately after they have been issued.

AG (510)

Aktiengesellschaft: a public company of Germany or Switzerland.

age–earnings profile (850)

A graph plotting earnings against age. Such profiles are frequently used in **human capital** analysis to show the financially beneficial effects of education. More education usually raises the profile to a new plateau; other determinants of the profile's shape include rules for salary structures and seniority. The frequently used method of constructing a profile from cross-section data provides a poor estimate if age differentials in earnings change. **Longitudinal data** provide a more accurate picture of life-time earnings.



ageing population (840)

1 A population with an increasing proportion of its population in older age groups, often because a large group born in a period of high birth rate is maturing.

2 A population with a rising **median** age. In developed countries, a decline in the birth rate since the 1960s has added to this demographic effect. A slower growth in **gross national product** of a nation can encourage emigration of the young, with the consequence that the remaining population 'ages'. A typical pattern of consumption and saving is associated with each age group and hence, when a population 'ages', it changes its demand for particular goods and services in the private and public sectors; also, innovation may be affected and the size of the **multiplier** for the whole economy may change.

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See also: **grey society**; **life-cycle hypothesis**.

ageism (820)

Treating people who have reached a particular age, the customary age of retirement in that society or even younger, as of little value and excluding them from employment and many other activities. This form of **discrimination** is being fought by senior citizens' lobbies in the USA and elsewhere. Increasing shortages of young workers in developed countries in the late twentieth century have diminished some of this discrimination. Also, firms which have waived age rules have discovered that many older workers have lower absenteeism and higher numeracy and literacy than younger workers.

agency broker (310)

A stockbroker who buys and sells shares of companies from **market-makers**. It is argued that agency brokers have the advantage of being able to find better prices than an