

 Pan Reference Books

A Dictionary of Economics and Commerce

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Edited by S.E. Stiegeler B.Sc. and Glyn Thomas B.Sc. (Econ)



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Preface

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

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

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

government, and industrial relations will also be found in the alphabetic list. The dictionary includes biographical notes on the most prominent economists as well as the main organizations connected with economics and commerce.

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

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

A

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

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

ABC Code. See commercial code.

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

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

above-the-line advertising. See advertising.

abrasion of coins. The loss of weight that occurs in coins caused by their constant use. In the U.K. prior to 1915 gold coins were in issue, and unscrupulous persons would clip them or shake them together in a box or bag (known as *sweating*) in order to obtain valuable gold dust. Clipping was discouraged by milling the edges and when a coin weighed less than the official least current weight it ceased to be legal tender.

abscissa. The value of a function's independent variable at a specific point on a graph as given by the horizontal axis. Compare ordinate.

absenteeism. Nonattendance at work for no valid reason, e.g. not as a result of a public holiday, sickness, an industrial dispute, etc. In the U.K. more days are lost through absenteeism than through strikes (approximately 300 million each year). One of the most compelling reasons for the creation of a public holiday on New Year's Day was the high degree of absenteeism.

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

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

accelerated depreciation. The use by a firm of depreciation allowances against tax liabilities earlier than would otherwise be the case. The usual form that

this has taken in the U.K. is to allow firms to claim larger allowances in the year of installation than would normally be allowed. This is balanced by correspondingly smaller allowances towards the end of the asset's life, but the overall effect is to provide the equivalent of interest-free loans to businesses. See also capital allowances, deferred taxation.

accelerator principle. The hypothesis that there is a direct relationship between the level of investment and the growth rate of output. It is supposed that a change in the rate of change in output (an acceleration in the rate of change in output) produces a proportionally much larger change in the output of investment goods. This dependency of the level of investment on the growth rate of output occurs because in equilibrium the rate of change in output is sustained by the same rate of change in the capital stock. A rise in the rate of change in output requires an equal rise in the rate of change in the capital stock to maintain the new growth rate. This implies that net investment will rise by a proportionally larger amount to accommodate the larger output. If a firm cannot meet an increase in demand from spare capacity it may invest in more machinery. Thus in addition to replacing worn-out (depreciated) machinery it will increase its net investment by buying extra new machinery. For instance, imagine a firm with five machines of which one is replaced each year. If the firm suddenly faces an increase in demand for its products of 20% it must buy an extra machine to take advantage of this upsurge. An order for two machines represents an increase of 100% in business for the machine-makers, i.e. an acceleration of 20% in output has produced an acceleration of 100% in the output of investment goods.

The accelerator coefficient shows the amount by which investment changes in response to changes in output, and it is given by the change in the capital stock

(net investment) divided by the change in output. However in any actual situation it is likely that the accelerator coefficient will be affected by other variables, such as changes in the rate of interest, the wage rate, or changes in the technology of production. It will also depend on whether entrepreneurs expect the change in growth rate to be a permanent or a transitory phenomenon.

The accelerator principle is very important in post-Keynesian theories of the trade cycle and in growth models such as the Harrod-Domar model. Combined with the *multiplier, the accelerator has been effectively used by Paul Samuelson and Sir John Hicks in constructing models of the trade cycle. In the upswing of the cycle the accelerator is the mechanism whereby the expansion in output feeds itself by generating proportionally larger increases in investment, and so by the multiplier increases income further. In the downswing the accelerator works in reverse: a fall in output, a negative growth rate, results in a sharp decline in investment and so through the multiplier results in a decline in the level of output.

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

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

acceptance credit. A means of financing a transaction involving the sale of goods, most frequently found in international trade. A bank in the exporting country, usually a *merchant bank (see also accepting house), will open an acceptance credit on behalf of a foreign importer that it considers to be credit-worthy. The exporter's goods will then be paid for by a bill of exchange drawn on the merchant bank (or accepting

house). The bill can then be run to maturity or discounted in the money market.

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

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

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

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

accident insurance. A category of insurance that embraces a collection of loosely related classes of business. It includes *fidelity guarantee insurance, *personal accident and sickness insurance, *employers' liability insurance, *public liability insurance, *motor insurance, *livestock and bloodstock insurance, burglary, and miscellaneous business (e.g. rainfall, credit, and licence insurance).

accidents and all sickness. See personal accident and sickness insurance.

accidents and specified diseases. See

personal accident and sickness insurance.

accidents only. See personal accident and sickness insurance.

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

accommodation party. A person who guarantees a bill of exchange, if the acceptor fails to pay.

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

account. A period during which dealings on the London Stock Exchange are made without immediate cash settlement. The calendar year is divided into

24 accounts, most of which are of a fortnight's duration, the remainder being of three weeks' duration to cover statutory holidays. *Settlement is completed for transactions completed during an account on *account day. Thus the account period provides an efficient mechanism for dealing on the Stock Exchange in advance of payment (or receipt) of monies due. It is of particular importance for speculation (since it is possible to buy and sell the same shares within an account without paying for them).

accountant. A qualified person who specializes in book-keeping and the preparation and auditing of annual accounts. Accountants also advise on tax law and the financial organization of businesses. In the U.K., professional accountants are known as *chartered accountants* if they have qualified as associates (A.C.A.) or fellows (F.C.A.) of the Institute of Chartered Accountants in England and Wales or the Institute of Chartered Accountants in Ireland. In Scotland, chartered accountants use the initials C.A. and are members of the Institute of Chartered Accountants in Scotland. Minimum requirements for training for membership of the Institutes of Chartered Accountants are two GCE A-levels. Training consists of a nine-month study course at a technical college followed by a four-year training contract with a firm of chartered accountants. If the trainee passes the examinations set by one of the chartered bodies and is judged to have sufficient experience he becomes a full member of one of them. Graduates with degrees in relevant subjects may omit the study course and become members after taking the accountancy examinations and completing a three-year training contract. *Certified accountants* are professional accountants who have passed the exams of the Association of Certified Accountants. They have the same duties and functions as chartered accountants, but their study course does not include a

training contract with a firm of accountants. The Institute of Accounting Staff provides a means of entry into the profession for those without A-levels and offers a qualification at technician level.

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

account day. The day on which *settlement is completed by the transfer of monies due for all London Stock Exchange dealings that took place during the previous *account. Account day occurs on the Tuesday 11 days after the end of the account to which it relates; it is sometimes called *settlement day* or, more loosely, *pay day*.

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

accounting cost. See *economic cost*.

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

period and the payment of the tax liability will vary.

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

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

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

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

of receipts and the occurrence of liabilities and the actual receipt or payment of money.

accrued charges. Known charges for goods or services that do not appear in the current accounts of a firm, as they are not due until the next accounting period.

accumulative society. See friendly society.

acid-test ratio. See liquid ratio.

Acme Commodity and Phrase Code. See commercial code.

A.C.T. See advance corporation tax.

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

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

active partner. See partner.

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

act of bankruptcy. See bankruptcy.

act of God. An occurrence in the course of nature that is beyond human foresight and against which human prudence cannot be expected to provide. It is so unexpected that the damage caused must be regarded as too remote to form a basis for legal liability. An example is the damage caused by a motor car that crashes after a driver suffers a sudden heart attack. This has been held to be damage caused by an act of God for which the driver was not to blame.

act of war. Any act by the citizens or agents of one nation that damages the persons or property of another nation with whom they are at war. War risks for ocean voyages are covered by the Institute War Clauses (see cargo insurance). War risk insurance covers goods until they have been discharged at the port of destination but does not apply to transport by river craft nor on land. Insurance covers risks caused by mines and derelict torpedoes even in peacetime.

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

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

actuary. A person who is trained to assess insurance risks and premiums. Most actuaries are employed by insurance companies to draw up mortality and morbidity tables, assess the probability of risks to property, lay down underwriting procedures, calculate premiums, advise on the benefits likely to be claimed during the year, etc. Some actuaries are employed by government or industrial firms to advise on insurance matters or pension funds. In the U.K. an actuary has to pass the examinations of the Institute of Actuaries in order to qualify. Actuaries of insurance companies are required by the Department of Trade to certify reports of the liabilities of the company and submit these reports at regular intervals to the Department. Since the Insurance Company Amendment Act (1973), the Department of Trade has the right to inquire into the reasons for a company changing its

actuary, which strengthens the actuary's position with respect to his employer.

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

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

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

additive utility function. A function based on the assumption that the utility provided by goods and services can be added to each other. Supposing x_1, x_2, \dots, x_n are the goods being consumed, the utility function may be written as the sum of the various utilities, i.e. $u(x_1, x_2, \dots, x_n) = u_1(x_1) + u_2(x_2) + \dots + u_n(x_n)$, so that goods consumed separately yield the same satisfaction as goods consumed together. This is clearly an untenable assumption and consequently it has been dispensed with in modern economic analysis. See separable utility function.

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

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

administrator. See letters of administration.

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

advance corporation tax (A.C.T.). A tax payable to the Inland Revenue in the U.K. under the *imputation system of taxation, when a company makes a distribution of dividends. This tax can, within limits, be offset against the corporation tax liability payable on profits arising in the same *accounting period as that in which the distribution was made. The amount of A.C.T. payable is a proportion of the dividend paid by the company equal to the basic rate of income tax on the net income receivable. Thus if the basic rate of income tax is 33%, the A.C.T. payable would be 33/67 of the dividend paid.

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

advertising. The practice of informing the public or a section of the public of the benefits of a particular product, service, or activity in order to stimulate sales. Consumer advertising attempts to publicize the qualities, price, or other aspects of a product or service in order to increase sales. In a competitive market in which an increase in one company's sales is at the expense of another company, advertising usually attempts to persuade potential consumers to purchase a product that is identified by a *brand name. To this end, special qualities are emphasized when they exist. In some cases, such as common table salt, there are no distinguishing qualities and the advertising is then aimed at keeping the manufacturer's name before the public. However,

not all products or services are identified in advertisements by a brand name; sometimes advertising is devoted to a type or category of product, such as milk or wool. *Trade advertising* is not directed at the public in general but to a specific section of it. For example, drug companies restrict to doctors their advertising of products that can only be purchased on prescription. Similarly, laboratory equipment would only be advertised in a medium likely to be seen by experimental scientists.

A distinction can be made between *informative advertising*, which assists consumers to choose between alternatives on offer and thus reduces market imperfections (as well as informing the public of the existence of a product), and *persuasive advertising*, which emphasizes and sometimes exaggerates the distinctive characteristics of a product—perhaps to the extent of increasing market imperfections by introducing monopolistic competition. Informative advertising is largely restricted to technical magazines.

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

Although considerable sums are spent on advertising (2% of the GNP in the U.K. and 3% in the U.S.), there are strong arguments both for and against it. Apart from providing useful information about a product, it is claimed that advertising can lower production costs and therefore price by helping to stimulate a continuous demand. It can also assist in maintaining the quality of a product, since advertised products must meet the advertised specifications. Nevertheless, advertising often does not specify the composition of a product

and it may emphasize false differentials or appeal to emotion rather than reason (sexual stimuli are extensively used in an attempt to sell a wide range of products, from toothpaste to cars). All too often advertising makes spurious appeals to the aspirations and fantasies of the consumer rather than restricting itself to the real benefits that a purchaser might expect to derive from a product. However, studies so far made have failed to confirm the belief that advertising can persuade people to buy things they do not want.

It is also argued that advertising cannot increase the total sales of an industry, although it can increase the share of the market of a particular firm, especially if its competitors do not advertise. If this hypothesis is true, advertising represents a waste of resources as all producers are forced to advertise in order to maintain their market shares, whereas if they all reduced their expenditure on advertising none would be worse off.

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

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

aerial advertising. See advertising.

affidavit. A sworn statement or declaration in writing that is made voluntarily and witnessed by a person who is

acceptable to a court of law, such as a notary. Affidavits are usually made for use in legal proceedings.

affiliated society. See friendly society.

after date. The form of words used in a bill of exchange to indicate that the specified period for which the bill is drawn is to be calculated from the date inserted on the bill; for example, "30 days after date, we promise to pay....". *Compare* after sight.

after-hours dealings. Dealings made between the offices of Stock Exchange members (i.e. stockbrokers and stockjobbers) after the official close of business at 1530 hours.

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

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

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

agenda. A list of the items that are to be discussed at a meeting. It will usually be circulated to those who are to attend well in advance. Typically it will allot time: for the reading of the minutes of

the previous meeting, for any matters arising from this, for the discussion of items included on the agenda, and for the discussion of any other business (matters not specifically itemized on the agenda).

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

aggregated rebate scheme. A method of marketing in which a proportionately higher discount is offered as purchases increase. The size of the rebate that any buyer is entitled to is calculated from his total volume of purchases in a given period. A sliding scale of rebates that rises with the amount purchased is usual, with the highest rebate that the purchaser achieves applicable to all his purchases. These schemes have been condemned by the Monopolies Commission on the grounds that they "impede competition from independent producers, because of their strong economic incentive to buyers to confine their purchases to members of the group (who operate the aggregated rebate scheme)". A purchaser might continue to buy some of his goods from the firm using the scheme rather than from an independent producer, because he might lose more in loss of rebate than he would gain in lower prices, so effectively tying himself to the larger firm. Aggregated rebate schemes must be registered with the Restrictive Practices Court, which has the power to ban them if it considers them to be against the public interest.

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

agreement for a lease. See lease.

A.G.M. See annual general meeting.

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

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

Agriculture Act (1947). An Act of Parliament that, when passed, was of major importance in that it contained many important amendments to the law relating to agriculture. Most of it has now, however, been either repealed or modified by subsequent legislation, mainly by the Agricultural Holdings Act (1948) and the Agriculture Act (1957). Part I of the Act set up a system of assured markets for farm produce at guaranteed prices. Part II gave the Minister of Agriculture certain powers to ensure good estate management on farms. Part III provided for compensation to be paid to agricultural tenants at the end of their tenancies. Part IV regulated the

provision by local authorities of small-holdings, and Part V (the only part which remains largely in force) set up a system of tribunals to regulate agriculture.

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

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

air consignment note. See air waybill.

air freight. 1. The transportation of goods by air. This method of transport is used if it is cheaper than other forms, which occurs if the value of the goods is high compared to their weight, or if an extra cost is justified for speed of delivery. In the latter case it is important not to overlook transit time to and from airports or the time that goods may lie in airport freight sheds awaiting customs clearance.

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

air waybill. A numbered document (sometimes called an *air consignment note*) made out by, or on behalf of, the consignor of goods to be transported by *air freight. It shows the names of consignor and consignee; the airports of loading and destination; the nature, weight, and value of the goods; the marks, numbers, and dimensions of the packages; the route; and the freight charge. It is usually prepared at the same time as the *bill of lading.

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

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

allotment. See application and allotment.

allowances. In assessing the taxable income of an individual for income tax purposes, certain allowances are deducted from actual income. The extent of the allowances depends on the person's status: a single person is allowed less than a married person; additional allowances are given for children, other dependent relatives, and a housekeeper (in the case of a single or widowed person in certain circumstances).

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

alternate hypothesis. See hypothesis (def. 1).

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

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

American National Standards Institute Inc. The U.S. organization concerned with establishing standards for industry, commerce, and science. It was founded

in 1918 and is situated in New York. It represents the U.S. in the *International Standards Organization.

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

amortization. 1. See depreciation.

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

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

analog computer. A device for performing calculations and solving problems by use of electrical or mechanical analogy. For example, an electrical circuit can be constructed in which the output voltage bears some predecided relationship to the input voltage. Thus mathematical operations, such as multiplication, division, and integration, can be performed by representing known and unknown quantities by the size of the input and output voltages. The data has the form of a continuously variable physical quantity (the voltage): it is this that distinguishes the analog computer from the digital *computer, in which data is handled in discrete units.

Analog computers are less common than digital computers but special-purpose analog devices do have some applications in simulating complex systems. For example, an economic

model involves relationships between various parameters: investment, consumption, world trade, etc. The basis of the analog method is to represent these by physical quantities (voltage, resistance, etc.), and to form a circuit in which the relationships between these quantities obey the same rules as those governing the relationships between parameters of the model. Thus, an analogy exists between the economic model and the electrical circuit: unknown parameters can be obtained from known ones and the behaviour of the model can be investigated under a variety of conditions.

analysis of variance. The analysis of the total variation of a set of observations, as measured by the variance of the observations multiplied by their number (in other words, the sums of squares of deviations from the mean). It is often possible to separate such total variation into components representing different sources of variation that correspond to classification criteria for the observations. For instance, in the single-equation econometric model:

$$Y = a + bX + e,$$

Y is the dependent variable, X is the independent variable, a and b are coefficients, and e is a stochastic disturbance. The equation reduces to:

$$Y - \bar{Y} = b(X - \bar{X}) + e,$$

where \bar{Y} and \bar{X} are the means of Y and X respectively and e is assumed to have zero mean. From this latter equation it is possible to separate that part of the variation in Y which is explained, or represented by the variation in X , from that part which is unexplained, or represented by e .

Thus, from:

$$Y - \bar{Y} = b(X - \bar{X}) + e$$

it follows that for n observations:

$$\Sigma_n (Y - \bar{Y})^2 = b^2 \Sigma_n (X - \bar{X})^2 + \Sigma_n e^2,$$

where $b^2 \Sigma_n (X - \bar{X})^2$ is the explained variation and $\Sigma_n e^2$ the unexplained variation.

animal spirits. A concept popularized by Joan Robinson, which avers that decisions to act in a positive economic

manner are impelled by the innate desire of humans towards action as opposed to inaction. The importance of the theory is that it seeks to refute the assertion that man responds in a rational way in search of expected future profits. Investments are made by entrepreneurs in response to an internal and conditioned aggressive reflex towards growth. If the assertion were correct, then normative arguments claiming efficiency for competitive economies would be weakened.

Annual Abstract of Statistics. An annual publication of the Central Statistical Office. It includes the United Kingdom's vital statistics, national income aggregates, major sectoral and industrial statistics, and social, legal, educational, health, and housing statistics. See also *Monthly Digest of Statistics*.

annual general meeting (A.G.M.). A meeting of the members of a company which every company is required to hold annually and at which the accounts of the period must be approved. Not more than 15 months must elapse between the date of one annual general meeting and the next. The annual general meeting has historic significance in that it provided an occasion for the members of the company to meet and judge the acts of the directors of their company. Now, however, the directors normally have full control over the voting at the annual general meeting.

annual report. A report that is sent by a company to its members each year. It usually contains a report by the chairman of the year's trading and will often also discuss the prospects of the company for the coming year. It also contains an *auditor's report, a *balance sheet, and a *profit and loss account. It will list the names of the directors and the number and type of shares in the company owned by each director or any trusts set up by him. If the company is part of a group, the report will contain a consolidated profit and loss account and

a consolidated balance sheet. The report may also contain any information about the company products, structure, marketing, or general policy that the directors may consider to be of interest to the shareholders.

annual return. A document that every company with share capital must submit to the Register of Companies each year. It must contain those details specified by the Companies Act (1948), such as the address of its registered office, the address of the register of members, charges and mortgages on the company, a list of the current members, and other sundry information. Certification is required by the directors, in the case of a private company, that it still satisfies the conditions of a private company. Attached to the annual return must also be a copy of the latest certified accounts.

annuity. A form of pension in which an insurance company, in return for a certain sum of money (paid in a lump sum or by instalments), agrees to repay this money plus the investment income that it is able to earn over the expected lifetime of the investor, in the form of a guaranteed income. This means that the insurance company takes the mortality risk and therefore the individual investor gains substantially if he lives beyond the normal life expectancy for a man of his age and loses if he dies at an earlier age. Annuities can be paid in yearly, half yearly, quarterly, or monthly instalments that are in arrear or in advance. See also immediate annuity, deferred annuity, contingent annuity, self-employed annuity, annuity certain, purchased life annuity, joint life and last survivor annuities.

annuity certain. An *annuity that is payable for a fixed period of, for example, 5 or 10 years, as opposed to an annuity that is payable for life.

ante-date. To enter on a deed or document a date earlier than that on which it was actually executed, signed, or issued. This practice may in certain cases be