

GLOSSARY



1. **Economics:** It the branch of knowledge which is concerned with production, consumption and transfer of wealth.
2. **Business Economics:** The use of economic analysis to make business decisions involving the best use of an organization's scarce resources.
3. **Micro Economics:** It is basically the study of behaviour of different individuals and organizations within an economic system. Here the focus is on a small number of group of units rather than all the units combined.
4. **Macro Economics:** It is the study of the overall economic phenomena of the economy as a whole, rather than its individual parts. Accordingly, in Macro Economics, we study the behaviour of the large economic aggregates.
5. **Positive Economics:** It is the branch of economics that concerns the description and explanation of economic phenomena. It focuses on facts and cause and effect relationships.
6. **Normative Economics:** It is that part of economics that expresses value judgements about economic fairness or what the outcome of the economy or goals of public policy ought to be.
7. **Economic System:** An economic system refers to the sum total of arrangements for the production and distribution of goods and services in a society. It includes various individuals and economic systems.
8. **Capitalist Economy:** An economic system in which all means of production are owned and controlled by private individuals for profit.
9. **Socialist Economy:** An economic system where the resources are allocated according to the commands of a central planning authority and market forces have no role to play in the allocation of resources.
10. **Mixed Economy:** An economic system which depends on both markets and governments for allocation of resources. The aim is to include the best features of both Capitalist and Socialist Economy.
11. **Demand:** The various quantities of a given commodity or service which the consumers would buy in one market during a given period of time, at various prices, or at various incomes, or at various prices of related goods.
12. **Market Demand:** It is defined as the sum of individual demands for a product at a price per unit of time.

13. **Elasticity of Demand:** It is defined as the responsiveness of the quantity demanded of a good to changes in one of the variables on which demand depends. More precisely, elasticity of demand is the percentage change in quantity demanded divided by the percentage change in one of the variables on which demand depends.
14. **Inferior Goods:** Inferior goods are those goods whose quantity demanded decreases with the increase in money income.
15. **Price Elasticity:** It expresses the response of quantity demanded of a good to a change in its price, given the consumer's income, his tastes and prices of all other goods.
16. **Income Elasticity:** It is the degree of responsiveness of quantity demanded of a good to changes in the income of consumers.
17. **Cross Demand:** It refers to the quantities of a commodity or service which will be purchased with reference to changes in price, not of that particular commodity, but of other inter-related commodities, other things remaining the same.
18. **Cross Elasticity:** A change in the demand for one good in response to a change in the price of another good represents cross elasticity of demand of the former good for the latter good.
19. **Advertisement Elasticity:** Advertisement elasticity of sales or promotional elasticity of demand is the responsiveness of a good's demand to changes in firm's spending or advertising. The advertising elasticity of demand measures the percentage change in demand that occurs given a one percent change in advertisement expenditure.
20. **Producers Goods:** Producers goods are those goods which are used for the production of other goods- either consumer goods or producer goods themselves.
21. **Consumer Goods:** Those goods which are used for final consumption.
22. **Utility:** Utility is the anticipated satisfaction by the consumer, and satisfaction is the actual satisfaction derived.
23. **Total Utility:** It is the sum of utility derived from different units of a commodity consumed by a consumer.
24. **Marginal Utility:** It is the addition made to total utility by the consumption of an additional unit of a commodity.
25. **Consumer Surplus:** Is defined as the excess of price that the the consumer is ready to pay from which he actually pays.
26. **Indifference Curve:** It is a curve which represents all those combinations of two goods which give same satisfaction to the consumer.
27. **Indifference Map:** A collection of many indifference curves where each curve represents a certain level of satisfaction. In short, a set of indifference curve is called indifference map.

- 28. **Supply:** It refers to the amount of a good or service that the producers are willing and able to offer to the market at various prices during a given period of time.
- 29. **Elasticity of Supply:** It is defined as the responsiveness of the quantity supplied of a good to a change in its price.
- 30. **Equilibrium Price:** The price at which the wishes of both the buyers and sellers are satisfied. At this price, the amount that buyers want to buy and sellers want to sell are equal.
- 31. **Production:** It is the organized activity of transforming resources into finished products in the form of goods and services.
- 32. **Land:** The term "land" is used in a special sense in economics. It does not mean soil or earth's surface alone, but refers to all free gifts of nature.
- 33. **Labour:** The term labour means any mental or physical exertion directed to produce goods and services.
- 34. **Capital:** Capital is that part of wealth of an individual which is used for further production of wealth. Capital is a stock concept which yields a periodical income which is a flow concept.
- 35. **Entrepreneur:** A factor which mobilizes all other factor of production like land, labour, capital, and combines them in the right proportion, initiates the process of production and bears the risk involved in it.
- 36. **Average Product:** Average product is the total product per unit of the variable factor.
- 37. **Marginal Product:** It is the change in total product per unit change in the quantity of variable factor.
- 38. **Isoquant:** An isoquant represents all those combinations of inputs which are capable of producing the same level of output.
- 39. **Cost Analysis:** The study of behaviour of cost in relation to one or more production criteria, namely, size of output, scale of operations, prices of the factor of production and other relevant economic variables.
- 40. **Accounting Costs:** Accounting costs relate to those costs which involve cash payments by the entrepreneur of the firm. These are explicit cost and are the expenses already incurred by the firm.
- 41. **Economic cost:** The cost which takes into account the explicit as well as the implicit cost is known as Economic cost.
- 42. **Social Cost:** Social cost refers to the total cost borne by the society on account of a business activity and includes private cost and external cost.

43. **Fixed Cost:** The costs which do not vary with the level of output upto a certain level of activity are known as fixed cost.
44. **Variable Cost:** These costs are a function of output and hence vary with the production.
45. **Marginal Cost:** Marginal cost is the addition made to the total cost by production of an additional unit of output.
46. **Market:** A market is a collection of buyers and sellers with a potential to trade. The actual or potential interactions of the buyers and sellers determine the price of a product or service.
47. **Perfect competition:** It is a type of market which is characterized by many sellers selling identical products to many buyers.
48. **Monopoly:** It is a situation where there is a single seller and many buyers. The product sold does not have any close substitutes.
49. **Monopolistic competition:** This type of market is characterized by many sellers selling differentiated products to many buyers.
50. **Oligopoly:** There are a few sellers selling competing products to many buyers.
51. **Average revenue:** It is the revenue earned per unit of output. It is nothing but the price of one unit of output.
52. **Marginal revenue:** It is the change in total revenue resulting from the sale of an additional unit of the commodity.
53. **Price discrimination:** It is a method of pricing adopted by a monopolist to earn abnormal profits. It refers to the practice of charging different prices for different units of the same commodity.
54. **Cartel:** Cartel refers to a group of firms that explicitly agree to coordinate their activities.
55. **Business Cycle:** The rhythmic fluctuations in aggregate economic activity that an economy experiences over a period of time are called business cycles or trade cycles. A typical business cycle has four distinct phases namely Expansion, Boom, Contraction, Trough.
56. **Absolute advantage:** The advantage of greater efficiency that one nation may have over another/others to produce a good or service using fewer resources. Considered as basis for international trade by Adam Smith.
57. **Ad valorem tariff:** A tariff expressed as a constant percentage of the monetary value of one unit of the value of the imported good.
58. **Administered interest rates:** The deposit and lending rates are not market determined; these are prescribed by the central bank.

- 59. **Adverse selection:** Opportunism characterized by an informed person's benefiting from trading or otherwise contracting with a less-informed person who does not know about an unobserved characteristic of the informed person. Eg. A disproportionately large share of unhealthy people tends to buy insurance policy.
- 60. **Aggregate demand:** The total demand for goods and services in an economy which is equal to the total spending on goods and services. The four *components* of *Aggregate Demand* (AD) are Consumption (C), Investment (I), Government Spending (G) and Net Exports (X-M).
- 61. **Agreement on Subsidies and Countervailing Measures:** A WTO agreement that aims to clarify definitions of subsidies, strengthen disciplines by subsidy type and to strengthen and clarify procedures for adopting countervailing tariffs
- 62. **Agreement on Technical Barriers to Trade (TBT):** A WTO agreement that aims to prevent the standards and conformity assessment systems from becoming unnecessary trade barriers by securing their transparency and harmonization with international standards
- 63. **Agreement on Textiles and Clothing:** A WTO agreement which replaced the Multi-Fiber Arrangement (MFA) provides that textile trade should be deregulated by gradually integrating it into GATT disciplines over a 10-year transition period.
- 64. **Agreement on Trade-Related Investment Measures (TRIMs):** A WTO agreement that expands disciplines governing investment measures in relation to cross-border investments.
- 65. **Allocation function:** Government role to ensure optimal or efficient allocation of scarce resources to correct the sources of inefficiency in the economic system.
- 66. **American currency quotation:** An indirect quote showing the number of units of a foreign currency exchangeable for one unit of local currency; for example: \$ 0.0151 per rupee
- 67. **Anti-dumping Duties:** Additional import duties so as to offset the foreign firm's unfair price advantage. (*see dumping*)
- 68. **Antitrust laws:** Also referred to as 'competition laws', regulate the conduct and organization of business corporations, generally to promote fair competition for the benefit of consumers.
- 69. **Arbitrage:** The purchase of a currency or good where it is lower priced for immediate resale in a market where it is higher priced in order to make a profit.
- 70. **Asymmetric information:** A situation where one party to an economic transaction possesses greater material knowledge than the other party.
- 71. **Autonomous consumption spending:** The part of consumption spending that is independent of income; also the vertical intercept of the consumption function.

- 72. **Balance of payments:** A summary statement of all the international transactions of the residents of a nation with the rest of the world during a particular period of time, usually a year.
- 73. **Bank Rate:** The standard rate at which the Reserve Bank of India is prepared to buy or re-discount bills of exchange or other commercial papers eligible for purchase under the RBI Act.
- 74. **Base money** *see Reserve Money*
- 75. **Bilateral agreements:** Agreements between two nations regarding quantities and terms of specific trade transactions.
- 76. **Bond:** A debt investment in which an investor lends money to an entity (corporate or governmental) which borrows the funds for the purpose of raising capital for a defined period of time at a variable or fixed interest rate.
- 77. **Bound Tariff:** A tariff which a WTO member binds itself with a legal commitment not to raise above a certain level
- 78. **Bretton Woods institutions:** The World Bank and the International Monetary Fund.
- 79. **Brownfield investment:** The purchase or lease of an existing production facility in order to use it for a new activity.
- 80. **Budget deficit:** The amount by which spending exceeds the income of an entity over a particular period of time.
- 81. **Budget surplus:** The amount by which income exceeds the spending of an entity over a particular period of time.
- 82. **Cambridge approach:** The Neo classical Approach or cash balance approach to quantity theory of money put forth by Cambridge economists
- 83. **Capital consumption:** Depreciation of a fixed asset
- 84. **Capital-intensive commodity:** The commodity with the higher capital- labour ratio at all relative factor prices.
- 85. **Cash Reserve Ratio (CRR):** The fraction of the total net demand and time liabilities (NDTL) of a scheduled commercial bank in India which it should maintain as cash deposit with the Reserve Bank of India irrespective of its size or financial position.
- 86. **Circular flow of income:** The continuous interlinked phases in circulation of production, income generation and expenditure involving different sectors of the economy; a simple model that shows how goods, resources, and money payments flow between households and firms.
- 87. **Club goods:** Impure public goods which are replicable and therefore individuals who are excluded from one facility may get similar services from an equivalent provider.

88. **Common market:** A free trade area with no barriers on trade among members who harmonize trade policies toward the rest of the world, and also allow the free movement of labour and capital among member nations. Eg. the European Union (EU).
89. **Common resource:** A non-excludable and rival good, generally available free of charge.
90. **Comparative advantage:** The advantage conferred on an individual or country in producing a good or service if the opportunity cost of producing the good or service is lower for that individual or country than for other producers.
91. **Compensatory spending:** Government spending carried out with the obvious intention to compensate the deficiency in private investment.
92. **Compound Tariff:** A combination of an ad valorem and a specific tariff.
93. **Consumer Price Index (CPI):** Measures changes in the price level of market basket of consumer goods and services purchased by households; constructed using the prices of a sample of representative items whose prices are collected periodically.
94. **Consumer surplus:** The difference between what consumers are willing to pay for a specific amount of a commodity and what they actually pay for it.
95. **Consumption function:** The functional relationship between aggregate consumption expenditure and aggregate disposable income, expressed as $C = f(Y)$. The specific form consumption function, proposed by Keynes $C = a + bY$
96. **Contractionary fiscal policy:** Government policy designed to restrain levels of economic activity of the economy during an inflationary phase by decreasing the aggregate expenditures and aggregate demand through a decrease in all types of government spending and/ or an increase in taxes.
97. **Contractionary monetary policy:** Type of monetary policy to combat inflation; implemented by central banks by decreasing the money supply of an economy and thus making money and credit more costly and less accessible to individuals and businesses.
98. **Copyright:** The exclusive legal right of the creator of a literary or artistic work to profit from that work; it is a temporary monopoly like a patent.
99. **Countervailing duties (CVDs):** Tariffs imposed on imports to offset artificially low prices charged by exporters who enjoy export subsidies and tax concessions offered by the Governments in their home country.
100. **Crawling bands:** The value of currency is maintained within certain fluctuation margins say ($\pm 1-2\%$) around a central rate that is adjusted periodically.
101. **Crawling peg:** The system under which the par value or exchange rates are changed by very small preannounced amounts at frequent and clearly specified intervals until the equilibrium exchange rate is reached.

- 102. **Credit money:** Part of total money supply created by commercial by banks
- 103. **Credit multiplier:** Also referred to as the 'deposit multiplier' or the 'deposit expansion multiplier', describes the amount of additional money created by commercial bank through the process of lending the available money it has in excess of the central bank's reserve requirements.
- 104. **Cross rate:** The rate between Y currency and Z currency derived from the given rates of the two pairs of currencies (X and Y, and, X and Z).
- 105. **Crowding Out:** A decline in one sector's spending caused by an increase in some other sector's spending.
- 106. **Crowding-out effect:** the negative effect fiscal policy may generate when money from the private sector is 'crowded out' to the public sector.
- 107. **Currency appreciation:** A decrease in the domestic currency price of the foreign currency in a floating-rate system, which is the same as an increase in the value of a currency.
- 108. **Currency convertibility:** The ability to exchange one national currency for another without any restriction or limitation.
- 109. **Customs union:** A group of countries that eliminate all tariffs on trade among themselves but maintain a common external tariff on trade with countries outside the union. Example the European Union (EU).
- 110. **Customs Valuation Agreement:** A WTO agreement that specifies rules for more consistent and reliable customs valuation. It aims to harmonize customs valuation systems on an international basis by eliminating arbitrary valuation systems.
- 111. **Deadweight loss:** The loss in total surplus that occurs whenever an action or a policy reduces the quantity transacted below the efficient market equilibrium quantity.
- 112. **Deficit in the balance of payments:** The excess of debits over credits in the current and capital accounts, or autonomous transactions.
- 113. **Deflation:** A state of sustained decrease in prices and increase in purchasing power of money.
- 114. **Demerit goods:** Goods which impose significant negative externalities on the society as a whole and therefore believed to be socially undesirable.
- 115. **Desired or planned investment:** The level of investment expenditures that business would like to undertake.
- 116. **Devaluation:** A deliberate downward adjustment in the value of a country's currency relative to another currency, group of currencies or standard.

- 117. **Disposable Personal Income (DI):** A measure of the amount of the money in the hands of the individuals that is available for their consumption or savings. $DI = \text{Personal Income} - \text{Personal Income Taxes}$.
- 118. **Doha Round:** The multilateral trade negotiations launched in November 2001 in Doha (Qatar) which was scheduled to be completed in 2004, to address, among other things greater trade access by developing countries in developed countries.
- 119. **Dollarization:** The situation whereby a nation adopts another nation's currency as its legal tender.
- 120. **Domestic content requirements:** Mandate that a specified fraction of a final good should be produced domestically. *See Local Content Requirements.*
- 121. **Dumping:** The export of a commodity at below their full average cost or at a lower price than the sales prices in their domestic market.
- 122. **Duty-free zones or Free Economic Zones:** Areas set up to attract foreign investments by allowing raw materials and intermediate products duty free.
- 123. **Economic integration:** The commercial policy of discriminatively reducing or eliminating trade barriers only among the nations joining together.
- 124. **Effective exchange rate:** A weighted average of the exchange rates between the domestic currency and the nation's most important trade partners, with weights given by the relative importance of the nation's trade with each of these trade partners.
- 125. **Efficiency costs:** see deadweight loss
- 126. **Embargo :** A total ban imposed by government on import or export of some or all commodities to particular country or regions for a specified or indefinite period.
- 127. **Emissions standard:** Legal limit on the amount of pollutants that a firm can emit.
- 128. **Environmental standards:** Rules established by a government to protect the environment by specifying possible and prohibited actions.
- 129. **Escalated tariff structure:** The system wherein the nominal tariff rates on imports of manufactured goods are higher than the nominal tariff rates on intermediate inputs and raw materials, i.e the tariff on a product increases as that product moves through the value-added chain.
- 130. **European currency quotation:** A direct quote which shows the number of units of a local currency exchangeable for one unit of a foreign currency. Eg. \$ 1 = Rs.66.12
- 131. **Exchange rate:** The rate at which the currency of one country exchanges for the currency of another country.
- 132. **Expansionary fiscal policy:** Policy designed to stimulate the economy during the contractionary phase of a business cycle; accomplished by increasing aggregate

expenditures and aggregate demand through an increase in all types of government spending and / or a decrease in taxes.

- 133. **Expansionary monetary policy:** Monetary policy that raises aggregate demand, real income and employment.
- 134. **Expenditure Method:** Also called 'Expenditure Approach', or 'Income Disposal Approach' a method of estimating national income, measures the aggregate final expenditure in an economy during an accounting year composed of final consumption expenditure, gross domestic capital formation and net exports.
- 135. **Export Subsidies:** The granting of tax relief and subsidized inputs to exporters
- 136. **Export tariff :** A tax or duty on exports.
- 137. **External balance:** The state of equilibrium in a nation's balance of payments.
- 138. **Externality:** A by-product of consuming or producing a good that affects someone other than the buyer or seller. These can be external benefits and external costs.
- 139. **Factor Income Method:** Also called 'Factor Payment Method' or 'Distributed Share Method', under which national income is calculated by summation of factor incomes paid out by all production units within the domestic territory of a country as wages and salaries, rent, interest, and profit.
- 140. **Factor-endowment theory:** See *Heckscher-Ohlin theory*.
- 141. **Factor-price equalization theorem:** The part of the H-O theory that predicts, under highly restrictive assumptions, that international trade will bring about equalization in relative and absolute returns to homogeneous factors across nations.
- 142. **Fiat money:** Money which has no intrinsic value, but is used as a medium of exchange because the government has, by law, made it 'legal tender.'
- 143. **Fiscal multiplier:** The response of gross domestic product to an exogenous change in government expenditures.
- 144. **Fiscal policy:** The use of government spending, taxation and borrowing to influence both the pattern of economic activity and level of growth of aggregate demand, output and employment.
- 145. **Fixed exchange rate:** Also referred to as 'pegged exchange rate', is an exchange rate regime under which a country's government announces, or decrees, what its currency will be worth in terms of either another country's currency or a basket of currencies or another measure of value, such as gold.
- 146. **Floating exchange rate:** The flexible exchange rate system under which the exchange rate is always determined by the forces of demand and supply without any government intervention in foreign exchange markets.

- 147. **Foreign Direct Investment (FDI):** The process whereby the resident of one country (i.e. home country) acquires ownership of an asset in another country (i.e. the host country) and such movement of capital involves ownership, control as well as management of the asset in the host country.
- 148. **Foreign exchange futures:** A forward contract for standardized currency amounts and selected calendar dates traded on an organized market (exchange).
- 149. **Foreign exchange market:** The framework for the exchange of one national currency for another.
- 150. **Foreign exchange options:** A contract specifying the right to buy or sell a standard amount of a traded currency at or before a stated date.
- 151. **Foreign exchange risk:** Also called an 'open position'. The risk resulting from changes in exchange rates over time and faced by anyone who expects to make or to receive a payment in a foreign currency at a future date.
- 152. **Foreign portfolio investment:** The flow of 'financial capital' rather than 'real capital' and does not involve manufacture of goods or provision of services or ownership management or control of the asset on the part of the investor.
- 153. **Forward rate:** The exchange rate quoted in foreign exchange transactions involving delivery of the foreign exchange on a future date as per the contract agreed upon.
- 154. **Free rider problem:** A problem that results when individuals who have no incentive to pay for their own consumption of a good take a "free ride" on anyone who does pay; a problem with goods that are nonexcludable
- 155. **Free trade area:** Free-trade area is a group of countries that eliminate all tariff barriers on trade with each other and retains independence in determining their tariffs with nonmembers. Examples EFTA, NAFTA, and MERCOSUR.
- 156. **General Agreement on Trade in Services (GATS):** A WTO agreement that provides the general obligations regarding trade in services, such as most- favoured-nation treatment and transparency.
- 157. **Global public goods:** Public goods, with benefits and/or costs that potentially extend to all countries, people, and generations.
- 158. **Globalization:** The increasing integration of economies around the world, particularly through trade and financial flows and also through the movement of ideas and people, facilitated by the revolution in telecommunication and transportation.
- 159. **Government Failure:** An outcome that occurs when government's intervention is ineffective causing wastage of resources expended for the intervention and/or when government intervention in the economy to correct a market failure creates inefficiency and leads to misallocation of scarce resources.

- 160. Gross Domestic Product (GDP):** The total income earned domestically, including the income earned by foreign-owned factors of production. May be expressed at constant prices or at current prices.
- 161. Gross National Product (GNP):** The total income of all residents of a nation, including the income from factors of production used abroad; ie the total expenditure on the nation's output of goods and services.
- 162. Hard peg:** An exchange rate policy where the central bank sets a fixed and unchanging value for the exchange rate.
- 163. Heckscher-Ohlin (H-O) theorem:** The theory that postulates that a nation will export the commodity intensive in its relatively abundant and cheap factor and import the commodity intensive in its relatively scarce and expensive factor.
- 164. Hedging:** The avoidance of a foreign exchange risk (or the covering of an open position).
- 165. High powered money** *see Reserve Money, Base money*
- 166. Home-currency appreciation or foreign-currency depreciation:** Takes place when there is a decrease in the home currency price of foreign currency (or alternatively, an increase in the foreign currency price of home currency). The home currency thus becomes relatively more valuable.
- 167. Home-currency depreciation or foreign-currency appreciation:** Takes place when there is an increase in the home currency price of the foreign currency (or, alternatively, a decrease in the foreign currency price of the home currency). The home currency thus becomes relatively less valuable.
- 168. Import Quota:** A direct restriction which specifies that only a certain physical amount of the good will be allowed into the country during a given time period, usually one year.
- 169. Import tariff:** A tax or duty on imports.
- 170. Income Method:** The national income is calculated by summation of factor incomes paid out by all production units within the domestic territory of a country as wages and salaries, rent, interest, and profit. Transfer incomes are excluded.
- 171. Inflation targeting:** A monetary policy under which the central bank announces a specific target, or target range, for the inflation rate.
- 172. Inflation:** A general increase in prices and fall in the value or purchasing power of money.
- 173. Intellectual property rights:** The exclusive rights granted to the creators of intellectual property, and include trademarks, copyright, patents, industrial design rights etc.

- 174. Inter-bank money market:** A very short-term money market, which allows financial institutions such as banks, to borrow and lend money at interbank rates.
- 175. Investment function:** The relationship between investment expenditures and income.
- 176. Investment multiplier (k):** The ratio of change in national income (ΔY) due to change in investment (ΔI)
- 177. Kennedy Round:** The multilateral trade negotiations that were completed in 1967 under which agreement was reached to reduce average tariff duties on industrial products by 35 percent.
- 178. Keynesian cross:** A simple model of income determination, based on the ideas in Keynes's 'General Theory', which shows how changes in spending can have a multiplied effect on aggregate income.
- 179. Keynesian model:** A model derived from the ideas of Keynes's 'General Theory'; a model based on the assumptions that wages and prices do not adjust to clear markets and that aggregate demand determines the economy's output and employment.
- 180. Laissez-faire:** The policy of minimum government interference in or regulation of economic activity, advocated by Adam Smith and other classical economists.
- 181. Liquidity Adjustment Facility (LAF):** Facility under which the RBI provides financial accommodation to the commercial banks through repos/reverse repos. Instituted on the basis of the recommendations of Narsimham committee on banking sector reforms.
- 182. Local content requirements:** The mandate that a specified fraction of a final good should be produced domestically.
- 183. M1 =** Also called 'Narrow Money' is a measure of money supply = Currency and coins with the people + demand deposits of banks (Current and Saving accounts) + other deposits of the RBI.
- 184. M2 =** M1 + savings deposits with post office savings banks.
- 185. M3 =** Also called 'Broad Money' = M1 + net time deposits with the banking system.
- 186. M4 =** M3 + total deposits with the Post Office Savings Organization (excluding National Savings Certificates).
- 187. Managed floating exchange rate system:** The policy of intervention in foreign exchange markets by monetary authorities to smooth out short-run fluctuations without attempting to affect the long-run trend in exchange rates.
- 188. Marginal propensity to consume (MPC):** The ratio of change in consumption expenditures to change in income, or $\Delta C / \Delta Y$.

- 189. Marginal propensity to save (MPS):** The ratio of change in saving to change in income, or $\Delta S/\Delta Y$.
- 190. Marginal social benefit:** The full benefit provided by another unit of a good, including the benefit to the consumer and any benefits enjoyed by third parties i.e the sum of marginal private benefit plus marginal external benefit.
- 191. Marginal social cost:** The full cost of producing another unit of a good, including the marginal cost to the producer and any harm caused to third parties, i.e the sum of marginal cost of production and marginal external cost.
- 192. Marginal Standing Facility (MSF):** The facility under which the scheduled commercial banks in India can borrow additional amount of overnight money from the central bank over and above what is available to them through the LAF window by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a limit (a fixed per cent of their net demand and time liabilities deposits (NDTL) liable to change) at a penal rate of interest.
- 193. Market failure:** A market that operates inefficiently and fails to achieve efficient allocation of resources.
- 194. Market Stabilisation Scheme (MSS):** Under this scheme, the Government of India borrows from the RBI (such borrowing being additional to its normal borrowing requirements) and issues treasury-bills/dated securities for absorbing excess liquidity from the market arising from large capital inflows.
- 195. Mercantilism:** The body of thought that postulated that the way for a nation to become richer was to restrict imports and stimulate exports. Thus, one nation could gain only at the expense of other nations.
- 196. MERCOSUR:** The South American Common Market that was formed by Argentina, Brazil, Paraguay, and Uruguay in 1991
- 197. Merit goods:** Goods which are socially desirable and have substantial positive externalities. They are rival, excludable, limited in supply, rejectable by those unwilling to pay, and involve positive marginal cost for supplying to extra users Eg. Education, health care etc.
- 198. Minimum Support Price (MSP):** Guaranteed minimum price as well as procurement by government agencies at the set support prices to ensure steady and assured incomes to producers.
- 199. Mixed tariff:** A combination of an ad valorem and a specific tariff.
- 200. Monetary base:** The sum of currency and bank reserves; also called High- powered money.

- 201. Monetary Policy Committee (MPC):** An empowered six-member panel of experts in India to determine through debate and majority vote, the benchmark policy interest rate (repo rate) required to achieve the inflation target.
- 202. Monetary Policy Department (MPD):** Assists the MPC in formulating the monetary policy.
- 203. Monetary Policy Framework Agreement:** An agreement reached between the Government of India and the Reserve Bank of India (RBI) on the maximum tolerable inflation rate that the RBI should target to achieve price stability.
- 204. Monetary policy instruments:** The various direct and indirect instruments that a central bank can use to influence money market and credit conditions and pursue its monetary policy objectives.
- 205. Monetary policy:** The use of monetary policy instruments which are at the disposal of the central bank to regulate the availability, cost and use of money and credit so as to promote goals of government's economic policy.
- 206. Monetary transmission mechanism:** The process or channels through which the evolution of monetary aggregates affects real variables such as aggregate output and employment.
- 207. Monetary union:** A group of economies that have decided to share a common currency and thus a common monetary policy.
- 208. Money demand function:** A function showing the determinants of demand for real money balance.
- 209. Money multiplier:** The ratio that relates the change in money supply to a given change in the monetary base i.e what multiple of the monetary base is transformed into money supply.
- 210. Money supply:** The amount of money in an economy available to the Public at any particular point of time; usually determined by the Central bank and the banking system
- 211. Money:** Assets which are commonly used and accepted as a means of payment or as a medium of exchange or of transferring purchasing power.
- 212. Moral hazard:** The situation that can exist when someone is protected from paying the full costs of their harmful actions and acts irresponsibly, making the harmful consequences more likely.
- 213. Most Favoured Nation:** The extension to all trade partners of any reciprocal tariff reduction negotiated by a WTO member with any other nation.
- 214. Multilateral trade negotiations:** Trade negotiations among many nations.
- 215. Multiplier:** The ratio of the change in income to change in investment in a closed economy.

- 216. **Narrow money** : The sum of currency held by the public, demand deposits of the banks and other deposits of RBI.
- 217. **National Income Equilibrium**: The level of income at which the desired or planned expenditures equal the value of output, and desired saving equals desired investment.
- 218. **Net exports**: The difference between a country's total value of exports and total value of imports.
- 219. **Net Factor Income from Abroad (NFIA)**: The difference between the total factor income received from abroad and the total factor income paid to abroad.
- 220. **Net Indirect Taxes**: Indirect taxes - Subsidies.
- 221. **Nominal exchange rate** : The rate at which one country's currency trades for another country's currency
- 222. **Nominal GDP**: Gross Domestic Product (GDP) evaluated at current market prices and is not inflation adjusted. Therefore nominal values of GDP for different time periods can differ due to changes in quantities of goods and services and/or changes in general price levels.
- 223. **Nominal tariff**: (such as an ad valorem one) calculated on the price of a final commodity.
- 224. **Non tariff Measures**: Policy measures for restricting trade, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both.
- 225. **Non-excludable goods**: Goods in the case of which the supplier cannot prevent those who do not pay from consuming the good.
- 226. **Non-Profit Institutions Serving Households**: Non-profit institutions which provide goods or services to households for free or at prices that are not economically significant. Examples include churches and religious societies, sports and other clubs, trade unions and political parties.
- 227. **Nonrival goods**: The same unit of good can be consumed by more than one person at the same time.
- 228. **North American Free Trade Agreement (NAFTA)**: The agreement to establish a free trade area among the United States, Canada, and Mexico that came into existence on January 1, 1994.
- 229. **Open-market operations**: A general term used for market operations conducted by the Reserve Bank of India by way of sale/ purchase of Government securities to/ from the market with an objective to adjust the rupee liquidity conditions in the market on a durable basis.
- 230. **Opportunity cost**: the value of the next-highest-valued alternative use of that resource that is given up when a decision is made.

- 231. Over-the-counter market:** A decentralized market, without a central physical location, where market participants trade with one another through various communication modes.
- 232. Own account production:** Production performed by a business or government for its own use.
- 233. Per Capita Income:** Income per head; ie total national income divided by total population.
- 234. Personal Income :** A measure of the actual current income receipt of persons from all sources.
- 235. Pigouvian taxes:** Named after A.C. Pigou , is a tax on pollution. These taxes, by 'making the polluter pay', seek to internalize external costs into the price of a product or activity.
- 236. Plurilateral Trade Agreements:** Four agreements, originally negotiated in the Tokyo Round, which have a narrower group of signatories.
- 237. Policy rate:** In India, the fixed repo rate quoted for sovereign securities in the overnight segment of Liquidity Adjustment Facility (LAF) is considered as the 'policy rate'.
- 238. Precautionary motive:** A desire to hold cash in order to be able to deal effectively with unforeseen, unexpected contingencies that require cash outlay.
- 239. Preferential tariff:** A tariff system under which the parties levy lower rates of duty on imports from one another than they do on imports from third countries.
- 240. Price Ceiling:** When prices of certain essential commodities rise excessively, government may resort to controls in the form of price ceilings (also called maximum price) for making a resource or commodity available to all at reasonable prices.
- 241. Price intervention:** Intervention by governments to influence the outcomes of a market; generally takes the form of price controls which may be either a price floor (a minimum price buyers are required to pay) or a price ceiling (a maximum price sellers are allowed to charge for a good or service).
- 242. Private cost:** A producer's or supplier's cost of providing goods or services. These do not always equate with the total cost to the society.
- 243. Private goods:** A good that is both excludable and rival in consumption.
- 244. Product Method:** Also known as 'Value Added Method' or 'Industrial Origin Method' or 'Net Output Method'. A method of measuring national income that entails the aggregation of production of each industry less intermediate purchases from all other industries.

- 245. Progressive tax:** A tax in which the tax rate increases as the taxable amount increases.
- 246. Prohibitive tariff:** A tariff sufficiently high to stop all international trade
- 237. Public borrowing:** Borrowing by governments.
- 248. Public goods:** Nonexclusive and nonrival good; the marginal cost of provision to an additional consumer is zero and people cannot be excluded from consuming it.
- 249. Pump priming:** When private spending becomes deficient, certain volumes of public spending will help revive the economy
- 250. Pure private good:** A good that is both rivalrous and excludable.
- 256. Pure public good:** A good that is both nonrival and non excludable.
- 257. Quantitative Restrictions (QRs):** A trade restriction (also called trade quota) which places limits on the volume or value of a good or service that can be imported into a country; frequently resorted to for protecting the price of domestically produced goods or to decrease or eliminate a trade deficit.
- 258. Quantity theory of money:** A theory which postulates that the nation's money supply times the velocity of circulation of money is equal to the nation's general price index times physical output at full employment.
- 259. Quasi public goods:** Also called 'near public good' possess nearly all of the qualities of private goods and some of the benefits of public good. It is easy to keep people away from them by charging a price or fee. (for e.g. education, health services).
- 260. Real effective exchange rate (REER):** The nominal effective exchange rate (a measure of the value of a currency against a weighted average of several foreign currencies) divided by a price deflator or index of costs.
- 261. Real exchange rate** = $\text{Nominal exchange rate} \times \frac{\text{Domestic price Index}}{\text{Foreign price Index}}$
- 262. Real GDP:** An inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices, and is often referred to as GDP at constant-price, or inflation-corrected GDP.
- 263. Recession:** Stage of contraction in a business cycle which results in a general slowdown in economic activity.
- 264. Recessionary gap:** Also known as 'contractionary gap', is said to exist if the existing levels of aggregate production is less than what would be produced with full employment of resources.
- 265. Redistribution function:** The state's function to ensure equity and fairness to promote the wellbeing of all sections of people and achieved through taxation, public expenditure, regulation and preferential treatment of target populations.

- 266. Regional Trade Agreements (RTAs):** Groupings of countries (not necessarily belonging to the same geographical region) which are formed with the objective of reducing barriers to trade among member countries.
- 267. Repos:** Repurchase Options or 'Repo', is an instrument for borrowing funds by selling securities with an agreement to repurchase the securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed. It is a money market instrument, which enables collateralised short term borrowing and lending through sale/purchase operations in debt instruments.
- 268. Reserve money:** Reserve money is comprised of currency held by the public, cash reserves of banks and other deposits of RBI.
- 269. Reverse Repo:** An instrument for lending funds by purchasing securities with an agreement to resell the securities on a mutually agreed future date at an agreed price which includes interest for the funds lent.
- 270. Rivalrous:** Referring to a good, describes the case in which one unit cannot be consumed by more than one person at the same time.
- 271. Rules of origin:** Criteria used by governments of importing countries to determine the national source of a product. Their importance is derived from the fact that duties and restrictions in several cases depend upon the country of origin of imports.
- 272. Safeguard Measures:** Measures initiated by countries to restrict imports of a product temporarily if its domestic industry is injured or threatened with serious injury caused by a surge in imports.
- 273. Sanitary and Phytosanitary Measures (SPS):** Measures provided for in WTO agreements which can be applied to protect human, animal or plant life from risks arising from additives, pests, contaminants, toxins or disease-causing organisms and to protect biodiversity.
- 274. Saving function:** The relationship between saving and income. In general, saving is negative when income is zero and rises as income rises, in such a way that the increase in consumption plus the increase in saving equals the increase in income.
- 275. Social costs:** The total costs to the society on account of a production or consumption activity. Social costs are private costs borne by individuals directly involved in a transaction together with the external costs borne by third parties not directly involved in the transaction. $\text{Social Cost} = \text{Private Cost} + \text{External Cost}$.
- 276. Soft peg:** An exchange rate policy under which the exchange rate is generally determined by the market, but in case the exchange rate tends to move speedily in one direction, the central bank will intervene in the market.
- 277. Special Drawing Rights (SDRs):** International reserves created by the IMF to supplement other international reserves and distributed to member nations according to their quotas in the Fund.

278. **Specific tariff:** An import duty that assigns a fixed sum per physical unit of the good imported.
279. **Speculative motive:** People's desire to hold cash in order to be equipped to exploit any attractive investment opportunity requiring cash expenditure.
280. **Spot exchange rates:** The exchange rate in foreign exchange transactions which are carried out in the spot market and the exchange involves immediate delivery.
281. **Stabilization function:** One of the key functions of fiscal policy which aims to eliminate macroeconomic fluctuations arising from suboptimal allocation.
282. **Stabilization policy:** Public policy aimed at reducing the severity of short-run economic fluctuations.
283. **Stagflation:** The combination of recession or stagnation and increasing prices or inflation.
284. **Statutory Liquidity Ratio (SLR):** A stipulated percentage of the total demand and time liabilities (DTL) / Net DTL (NDTL) of a scheduled commercial bank in India which it is required to maintain with RBI in cash, gold or approved investments in securities.
285. **Supply of money:** The nation's total money supply which is equal to the nation's monetary base times the money multiplier.
286. **Tariff rate quotas (TRQs):** Combine two policy instruments namely, quotas and tariffs. Imports entering under the specified quota portion are usually subject to a lower (sometimes zero), tariff rate. Imports above the quantitative threshold of the quota face a much higher tariff.
287. **Tariffs:** Also known as customs duties, are taxes or duties imposed on goods and services which are imported or exported.
288. **Theory of liquidity preference:** A simple model of the interest rate, based on the ideas in Keynes's General Theory, which says that the interest rate adjusts to equilibrate the supply and demand for real money balances.
289. **Tradable emissions permits:** The system of marketable permits allocated among firms, to emit limited quantities of pollutants which can be bought and sold by polluters. The high polluters have to buy more permits and the low polluters receive extra revenue from selling their surplus permits.
290. **Trade policy:** The regulations governing a nation's commerce or international trade and encompass all instruments that governments may use to promote or restrict imports and exports.
291. **Trade-Related Aspects of Intellectual Property Rights (TRIPS):** A WTO agreement that stipulates most-favored-nation treatment and national treatment for intellectual

properties, such as copyright, trademarks, geographical indications, industrial designs, patents etc.

- 292. **Trading bloc:** A group of countries that have a free trade agreement among themselves and may apply a common external tariff to other countries.
- 293. **Tragedy of the commons:** The problem of overuse when a good is rivalrous but non excludable.
- 294. **Transaction demand for money:** The demand for active money balances to carry on business transactions; it varies directly with the level of national income and the volume of business transactions.
- 295. **Transfer payment:** Any Payment from the government to individuals that are not in exchange for goods and services. Eg. Social Security payments.
- 296. **Trigger price mechanisms:** The quick responses of affected importing countries upon confirmation of trade distortion to offset the distortion.
- 297. **Unilateral transfers:** One-way economic transactions between the residents of two nations over a stipulated period of time. These include gifts, donations, personal remittances and other 'one-way' transactions.
- 298. **Uruguay round:** The multilateral trade negotiations 1986-94, the last and most consequential of all rounds culminated in the birth of WTO and a new set of agreements replacing the General Agreement on Tariffs and Trade (GATT).
- 299. **Value Added:** The value of a firm's output minus the value of the intermediate goods the firm purchased.
- 300. **Value-added approach:** Measuring GDP by summing up the values added by all firms in the economy.
- 301. **Vehicle currency:** A currency, such as the U.S. dollar used to denominate international contracts and for international transactions.
- 302. **Voluntary Export Restraints (VER):** A type of informal quota administered by an exporting country voluntarily restraining the quantity of goods that can be exported out of a country during a specified period of time.
- 303. **World trade organization (WTO):** The organization set up at the Uruguay Round with the objective of facilitating the flow of international trade smoothly, freely, fairly and predictably. It has authority over trade in industrial goods, agricultural commodities, and services, and to settle trade disputes.