

Revision Note

AS Economics

Definitions

Revision Note by: Apsara Sumanasiri

Student Name :

Date:

TheRevisionGuide® (www.TheRevisionGuide.com) is a free online resource for Economics and Business Studies.

Don't forget to visit our website as part of your revision.

List of Definitions for Edexcel Economics

Unit 2 Managing the Economy

1. **Actual GDP:** the amount spent on consumption, investment, government expenditure and net exports (AD)
2. **Aggregate demand:** total amount of goods and services demanded at any given price level
3. **Aggregate supply:** total supply of goods and services produced within an economy at any given price level
4. **Annual real GDP growth:** an increase in the market value of all final goods and services produced within a country adjusted for inflation measured from one year to another
5. **Appreciation:** when £1 gets to purchase more foreign currency
6. **Balance of payments:** an account that summarises the financial transactions between one country and the rests of the world
7. **Balance of trade:** difference between a country's imports and its exports
8. **Budget deficit:** when government spending exceeds tax revenue
9. **Capital and financial account:** an account that records the buying and selling/ transactions of assets such as land, companies, stocks and government bonds and others like FDI and hot money
10. **Cost-push inflation:** an increase in price level that is due to an increase in costs of factors of production such as land, labour and capital
11. **CPI/ RPI-X:** a weighted price index that measures the monthly change in the prices of goods and services (about the same but not exactly)
12. **Crowding out effect:** when an increase in government spending causes the interest rates in the money market to increase thus a fall in private spending
13. **Current account deficit:** when the total imports of goods and services are greater than the country's total exports of goods and services
14. **Current account:** one of the two components under balance of payments that is largely made up of net trade in goods and services
15. **Cyclical/ demand-deficient/ Keynesian unemployment:** unemployment that is due to negative economic growth/ recession/ lack of aggregate demand for goods and services
16. **Deflation:** a decrease in the general price level/ increase in the purchasing power of £1
17. **Deflationary/ contractionary/ tight monetary policy:** the rise in interest rates to cool down an overheating economy/ prevent the price level from increasing too far above the targeted level
18. **Deflationary/ contractionary/ tightening fiscal policy:** the increase of tax or/ and slash in government expenditure to slow down the economy/ prevent overheating

19. **Demand side/ management policies:** policies that are meant to influence the AD such as fiscal and monetary policy
20. Demand-pull inflation: an increase in price level that is due to an increase in aggregate demand/ when TOTAL demand for goods and services exceeds TOTAL supply
21. **Depreciation:** when £1 gets to purchase lesser foreign currency
22. Depression: a sustained, long-term downturn in economic activities/ recession that lasts longer and hence has a larger decline in economic activities
23. Deregulation: the process of removing government controls over the market
24. **Disinflation:** a slowdown in the rate of increase in general price level/ prices of goods and services
25. **Disposable income:** income after tax
26. **Economic growth:** an increase in real GDP/ potential GDP
27. **Exchange rate:** the value of a currency express in terms of another
28. **Fiscal policy:** the manipulation of government spending and level of taxation to influence the movement of AD and overall level of economic activities
29. Frictional unemployment: transitional unemployment when people are moving in between jobs/ short term joblessness whilst involved in job search
30. **Full capacity:** when all economic resources like land, labour and capital are fully utilised
31. **GDP:** market value of all final goods and services produced within a country in a given period
32. GNP: market value of all final goods and services produced by a country's citizens regardless of where they are
33. Hidden/ black/ informal economy: economic activity where trade and exchange take place but it goes unreported to the tax authorities motivated by the desire to evade tax
34. Hot money: short term, speculative flows of money across foreign exchanges in order to make a profit on the difference between the buying and selling price of the currency
35. **Human Development Index (HDI):** a measurement of development/ well being that is made up of real GDP per capita (PPP), life expectancy at birth and literacy rate/ average number of years spent in schooling
36. Hyperinflation: a large/ rapid increase in the price level
37. Hysteresis effect: a situation where if unemployment is high, it will remain high for a considerable period of time since some people become less motivated or lose their skills making it difficult for them to re-enter the labour market
38. Imported inflation: an increase in price level that is due to an increase in prices of imports
39. Income effect: when income tax is lowered, people earn a higher disposable income and in case if that is the targeted monthly income, then they wouldn't be bothered to increase their productivity
40. **Inflation:** a sustained increase in price level/ fall in the purchasing power of £1

41. **Injections:** inflow of money into the circular flow of income that does not come from households such as investment, government spending and exports
42. **Investment:** spending by FIRMS to acquire more capital goods such as the purchase of machineries and building of new factories
43. Invisible trade: imports and exports of services
44. Liquidity trap: a situation which prevailing interest rates are low and yet savings rate is high, making monetary policy ineffective
45. Marginal propensity to consume: an increase in consumption that is due to an increase in £1 of disposable income
46. Marginal propensity to import: an increase in import expenditure that is due to an increase in £1 of disposable income
47. Marginal propensity to save: an increase in saving that is due to an increase in £1 of disposable income
48. Menu costs: costs incurred by firms when they need to update prices on a more regular basis e.g. printing new menus, updating price catalogues, updating computer systems and hiring consultants to develop pricing strategies
49. **Monetary policy:** the manipulation of interest rates in order to influence the movement of AD and overall level of economic activities
50. **Multiplier effect:** an initial increase in spending (consumption, investment, government spending and net exports) which will eventually lead to a larger secondary increase in AD
51. National debt: total amount of money that the British government owes to private sector and other purchasers of UK gilts/ sum of all previously incurred annual budget deficits
52. **Negative output gap:** happens when actual GDP is below potential GDP
53. **Output/ GDP gap:** difference between potential GDP and actual GDP
54. **Positive output gap:** happens when actual GDP is above potential GDP
55. **Potential GDP:** maximum output that can be produced within a country if all economic resources are fully employed (AS)
56. Poverty trap: a situation where people on low incomes are discouraged from working extra hours or getting a better paid job since any extra income they earn will be taken away in the form of higher tax or lost benefits
57. Privatisation: the transfer of assets from state ownership to private sector ownership
58. Purchasing power parities: a theory that argues that in the long run, identical goods and services in different countries should cost the same due to the adjustment of exchange rate
59. Quantitative easing: the increase in money supply when government securities are bought from financial institutions allowing those banks to have more liquidity and hence greater ability to generate lending/ a policy that is usually pursued when the interest rates have already been lowered close to 0% and yet failed to deliver the desired effect/ solution to liquidity trap

60. **Rate of interest:** interest rate that is set by the Monetary Policy Committee which will eventually influence the return on savings and costs of borrowing/ price of money
61. Real GDP per capita: market value of all final goods and services produced within a country adjusted for inflation per person
62. **Real GDP/ GDP at constant prices:** market value of all final goods and services produced within a country adjusted for inflation
63. **Recession:** is when a country experiences fall in real GDP for two successive quarters
64. **Reflationary /Expansionary/ loose fiscal policy:** the lowering of tax or/ and increase in government expenditure to stimulate the economy/ revive the economy from recession
65. **Reflationary/ expansionary/ loose monetary policy:** the lowering down of interest rates in order to stimulate economic activities/ to prevent deflation/ ensure that the price level does not fall too far from the targeted level
66. **RPI:** a measurement of inflation that includes mortgage interest payments and other housing related costs
67. Savings ratio: the ratio of personal savings to disposable income/ percentage of disposable income that is saved
68. Seasonal unemployment: an unemployment that is caused by seasonal variation of the jobs offered
69. Shoe leather costs: cost in terms of time and effort that people spend to counter the effect of inflation e.g. making more trips to banks to withdraw money and spend it (before it falls in value)
70. **Spare capacity/ excess capacity:** when economic resources like land, labour and capital are not fully utilised
71. **Stagflation:** an economy that faces stagnation/ falling growth/ rising unemployment that is coupled with rising inflation
72. Structural unemployment: unemployment due to mismatch of skills of the unemployed and the requirement of new jobs
73. Substitution effect: when an increase in wages creates incentive to work longer hours as the financial reward from working has increased
74. **Supply side policies:** policies meant to influence the movement of AS by increasing the potential/ productive capacity of an economy
75. Sustainable development: development which meets the needs of the present generation without compromising the needs of future generations
76. Sustainable growth: the maximum increase in potential capacity within an economy that will not lead to a fall in the potential capacity for future generations
77. Transfer payments: income for which there is no corresponding output such as unemployment benefits or pension payments
78. **Unemployment rate:** percentage of the total labour force that is unemployed BUT actively seeking employment and willing to work

- 79. Unemployment trap: a situation where unemployed people have no incentive to take up a job knowing that the net increase in their income is insignificant due to income tax and withdrawal of some benefits
- 80. Visible trade: imports and exports of goods
- 81. **Wealth effect:** an increase in spending when people 'feel richer' associated with an increase in value of assets like stocks and properties
- 82. **Withdrawals/ leakages:** outflow of money from the circular flow of income since households may save, pay tax and buy imports