

GLOSSARY

Accommodating Items	A term used in BOP Accounts, that refer to transactions that occur because of other activity in the BOP, such as government financing.
Accounting Period	An accounting period or a financial year often does not coincide with a calendar year. Ordinarily, a financial year refers to, for example, April 1, 2003 to March 31, 2004
Actual Investment	The actual amount of investment that took place, measured after the fact.
Actual Savings	The actual amount of savings that took place, measured after the fact.
Adjustable Peg	Adjustable peg system is one in which member countries fix or 'peg' their currencies' rate of exchange against one particular currency. The fixed or 'pegged' exchange rate could be adjusted under certain conditions, hence the term adjustable peg.
Administrative Revenue	Revenue that arises on account of the administrative function of the government.
Aggregate Demand	The total demand for goods and services in the economy.
Aggregate Supply	Total supply of goods and services in the economy.
Autonomous Items	A term used in the BOP Accounts, that refer to international economic transactions that take place due to some economic motive such as profit maximization.
Average Propensity to Consume	At any particular level of income, the ratio of consumption to income is called the Average Propensity to Consume. (APC). The APC gives the average consumption — income relationship at different levels of income.

Average Propensity to Save	At any particular level of income, the Average Propensity to Save (APS) is the ratio of savings to income.
Balance of Payments	The balance of payments of a country is a systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries during a given period of time.
Balance of Trade	Those transactions that arise out of the exports and imports of goods. It does not consider the exchange of services rendered such as shipping, insurance and banking, payment of interest and dividend or expenditure by tourists
Balanced Budget	It is a budget where the estimated revenue equals the estimated expenditure.
Bank Rate	The bank rate is the rate at which the central bank lends funds as a 'lender of last resort' to banks, against approved securities or eligible bills of exchange.
Barter Exchange	The exchange of 'goods for goods' is called barter exchange.
Base Year	It is a reference year in the past, i.e. it is a year chosen to be the basis for comparison of the value of a particular variable with the value of that variable in another year. For example, if we are comparing the price level in 2003 with that in 2000, then 2000 is the base year.
Bearer of Options	Money is a bearer of options because it gives the freedom to its possessor to either hold it or to spend it on any commodity, which can be purchased from anyone.
Bills of Exchange	A document acknowledging an amount of money owed in consideration for goods received.
Budget	The budget is an annual statement of the estimated receipts and expenditures of the government over the fiscal year, which runs from April 1 to March 31.

Budget Deficit	The budget deficit is the difference between the total expenditure on one hand, and current revenue and net internal and external capital receipts of the government. It has to be financed by net internal and external capital receipts.
C-C Economy	An economy in which commodities are exchanged for commodities.
Capital Budget	A statement of the estimated capital receipts and payments of the government over the fiscal year, which runs from April 1 to March 31.
Capital Consumption Allowance	Monetary value assigned to the rate of depreciation of a physical asset in one year.
Capital Expenditure	Consists mainly of expenditure on acquisition of assets like land, buildings, machinery, equipment; investments in shares, etc. and loans and advances granted by the central government to state and union territory governments, government companies, corporations and other parties.
Capital Receipts	Items included in capital receipts are loans raised by the government from the public (these are called Market Loans), borrowings by the government from the Reserve Bank of India and other parties through the sale of treasury bills, loans received from foreign governments and other international bodies (For example, World Bank, Asian Development Bank, etc.), recoveries of loans granted to state and union territory governments and other parties, small savings and deposits in the public provident fund (PPF), etc.
Cash Credit	Credit which is advanced against the value of the borrower's current assets, which comprise mainly stocks of goods — raw materials, semi-manufactured or finished goods, and bills receivable (dues) from others.

Cash Reserve Ratio	The portion of net demand and time liabilities every bank is required to deposit with the RBI.
Circular Flow	A pictorial illustration of the interdependence between the major sectors of economic activity.
Commercial Revenue	Revenue received by the government in the form of prices paid for government—supplied commodities and services, i.e. revenues derived from the government from their public enterprises.
Consumption Function	The relationship between consumption and income.
Constant Prices	Prices prevailing in the base year.
Crawling Peg	A scheme by which a country specifies a parity value for its currency and permits a small variation around that parity (such as ± 1 per cent from parity). However, the parity rate is adjusted regularly by small amounts as warranted by the position of international reserves held by a country, changes in money supply or prices, or variations in the exchange rate .
Credit Money	This refers to money, whose value is greater than the commodity value of the material from which the money is made.
Currency	Currency consists of paper currency, that is all the notes issued by the Central Bank, as well as coins.
Currency Appreciation	A situation in which there is a decrease in the domestic currency price of the foreign currency.
Currency Authority	The authority for the issue of currency in the country.
Currency Depreciation	A situation in which there is an increase in the domestic currency price of the foreign currency.
Current Account Deposits	Deposits in current accounts that are payable on demand. They can be drawn upon by cheque without any restriction. No interest is paid on these deposits.
Deferred Payments	Payments which are to be made in the future.

Deficient Demand	If the aggregate demand is an amount of output which is less than the full employment level of output, then it is known as deficient demand.
Deficit Budget	A budget where the estimated revenue is less than the estimated expenditure.
Deflationary Gap	The difference between the actual level of aggregate demand, and the level of aggregate demand required to establish the full-employment equilibrium. It is a measure of the amount of aggregate demand deficiency.
Demand Loans	A demand loan is one that can be recalled on demand. It has no stated maturity. The entire loan amount is paid in lump sum by crediting it to the loan account of the borrower.
Depreciation	The value of the existing capital stock that has been consumed or used up in the process of producing output.
Developmental Expenditure	Development expenditure includes plan expenditure of Railways, Posts and Telecommunications and non-departmental commercial undertakings financed out of their internal and extra budgetary resources, including market borrowings and term loans from financial institutions to State Government public enterprises. It also includes developmental loans given by the Central and State Governments to non-departmental undertakings, local bodies and other parties
Direct Tax	Those taxes that are levied immediately on the property and income of persons, and those that are paid directly by the consumers to the state. Income tax, interest tax, wealth tax, corporation tax are all examples of direct taxes.
Dividend	The amount paid out annually to shareholders, by the company whose stock is owned by the shareholders.
Double Counting	Counting product two or more times is called double counting. Double counting will exaggerate or over-estimate the value of GDP.

Double-entry Accounting	An accounting principle requiring funds that come in to be entered in an account that shows where they came from and also in an account that shows where they are put. Funds that go out are entered in an account that shows for what they are spent on and also in an account that shows where they came from.
Durable Goods	Goods that have a long life span in their use to consumers.
Effective Exchange Rate	The measure of average relative strength of a given currency with respect to other currencies.
Equilibrium	The equilibrium between aggregate demand and aggregate supply occurs, when at a particular price level, the aggregate demand is equal to the aggregate supply. It is the point at which the total output of goods and services produced equals the total demand for those goods and services.
Escheat	All the claims of the government on the property of a person who dies without having any legal heirs or without leaving a will.
Excess Demand	If the aggregate demand is for a level of output more than full-employment level of output, then it is known as excess demand.
Factor Incomes	Incomes received by the factors of production for their contribution to the production process. Land receives rent, labour receives wages, capital receives interest and entrepreneurs receive profits.
Factor Market	The market for factors of production.
Fee	A payment to defray the cost of each recurring service undertaken by the government, primarily in the public interest, but conferring a measurable special advantage on the fee payer. For example, college fees in government colleges.
Fiat Money	Money that serves as money on the fiat (order) of the government.

Fiduciary Money	Money which is accepted as money on the basis of the trust that its issuer commands.
Final Goods	Those that are meant for final use by consumers or firms. These goods are not required to enter into further stages of production or resale to change their form and content. They are finished goods meant only for final consumption or investment.
Financial Intermediaries	Institution that receive funds from savers and lends them to borrowers. These include depository institutions such as banks and non-depository institutions such as mutual funds, pension funds, etc.
Fine	Fines are amounts levied for an infringement of a law.
Fiscal Deficit	The difference between the total expenditure of the government and the revenue receipts plus those capital receipts which are not in the nature of borrowing, but which finally accrue to the government.
Fiscal Discipline	Fiscal discipline is having control over expenditures, given the quantum of revenues.
Fiscal Policy	Government's expenditure and tax policy together is known as its fiscal policy.
Fiscal Year	The fiscal year runs from April 1 to March 31.
Fixed Deposits	These are deposits for a fixed term (period of time) varying from a few days to a few years.
Fixed Exchange Rate	Under this system exchange rate is officially declared and it is fixed. Only a very small deviation from this fixed value is possible.
Flexible Exchange Rate	A situation where there is no official intervention in the foreign exchange market. The exchange rate is determined by the interaction of supply and demand in the foreign exchange market.
Forfeitures	Penalties imposed by courts for non-compliance with orders or non-fulfillment of contract, etc.

Forward Rate	Exchange rate that prevails in a forward contract for the purchase or sale of foreign exchange.
Frictional Unemployment	Temporary unemployment of people who are between jobs. Since it takes time for a person to switch from one job to another, at any one point of time there will be a small amount of temporary unemployment.
Full-bodied Money	Full-bodied money is money whose value as a commodity for non-monetary purposes is as great as its value as money.
Full-employment Equilibrium	An equilibrium where all resources in the economy are fully utilised.
GNP Deflator	The average level of the prices of all the goods and services that make up GNP. It is calculated as the ratio of nominal GNP to real GNP, multiplied by 100.
Hedging	Activity that is designed to minimize risk of loss
Inconvertible Currency	Currency that is not convertible into the precious metal (gold), or other assets that back it.
Inflationary Gap	It is the amount by which the actual aggregate demand exceeds the level of aggregate demand required to establish the full-employment equilibrium. The inflationary gap is a measure of the amount of the excess of aggregate demand.
Intermediate Goods	Intermediate goods are those goods which are used to produce other goods and therefore they always move from one stage of production to another in the manufacture of a final product.
Indirect Taxes	Those taxes that are levied on goods and services. They only affect the income and property of persons indirectly, through their consumption of goods and services.
Inventory	Stocks of final goods awaiting sale, semi-finished goods, or of materials used in the production process (inputs).
Investment Demand Function	The relationship between investment demand and the rate of interest.

Legal Tender	Money that has the legal power to discharge debts, and a creditor who refuses it may not demand anything else in payment of an existing debt.
License Fee	Fees that are paid in those instances in which the government authority is invoked simply to confer a permission or privilege rather than to perform a service of a more tangible and definite sort. For example, registration fee for an automobile, firearm, etc.
Liquidity	The ability to convert an asset into money quickly and without loss of value.
Lump Sum Tax	Taxes that do not change with income or other economic variables.
M1, M2, M3, M4	These are measures of the money stock that are reported by the RBI, and decrease in liquidity from M1 to M4.
Macroeconomics	Study of relations between broad economic aggregates
Managed Floating	This is a hybrid of fixed and flexible exchange rates. It is characterized by some intervention in the exchange rate movements but the intervention is discretionary on the part of monetary authorities.
Marginal Propensity to Consume	The change in consumption per input change in income.
Marginal Propensity to Save	The change in savings per unit change in income
Minimum Reserve System	A system of note issue whereby the Central Bank has to keep a minimum reserve of assets backing its notes, against which it may issue any amount of notes.
Monetary Liability	It is the liability of the Central Bank arising out of its currency issue. This means that the Central Bank is obliged to back the currency with assets of equal value
Monetary Policy	The policies of the Central Bank in exercising its control over money, interest rates and credit conditions. The instruments of monetary policy are mainly open-market operations, reserve requirements, and the bank rate.

Monetary Standard	Type of standard money used in the economy.
Monetizing Debt	The process of converting government debt (whether existing or new), which is a non-monetary liability, into Central Bank currency, which is a monetary liability.
Money Flow	All the payments to factors of production and expenditure on goods and services in the circular flow of income .
Money Supply	Total stock of moneys of various kinds at any particular point of time in an economy.
Moneyness	Having characteristics of money.
Moral Suasion	This is a combination of persuasion and pressure that the Central Bank applies on the other banks in order to get them to fall in line with the Central Bank's policy.
Multiplier	It is the number by which the change in investment must be multiplied in order to determine the resulting change in output.
Natural Monopoly	A natural monopoly is a situation where there are economies of scale over a large range of output; then one firm can produce at a lower average cost than could more than one firm. Industries which are potential natural monopolies are railways, electricity, etc
Nominal GNP	GNP measured in terms of current market prices.
Nominal Effective Exchange Rate (NEER)	The measure of average relative strength of a given currency with respect to other currencies without eliminating the effect of price change.
Non-developmental Expenditure	Expenditures on defence, interest payments, tax collection, police. It also include expenditure on general administration, pensions, ex-gratia payments to former rulers, famine relief, subsidies on food and controlled cloth, grants and loans to foreign countries and loans for non-development purpose to other parties, etc.
Non-durable Goods	Goods that have a short life span in their use to consumers.

Non-market Goods	These are goods that have been consumed without using organized markets.
Non-plan Expenditure	Is that public expenditure which does not represent current development and investment outlays that arise due to plan proposals.
Non-tax Revenue	All revenue receipts that do not arise out of taxes.
Open Market Operations	Buying and selling of securities by the RBI in the open market. This is a tool of the Central Bank for monetary control.
Overdraft	An advance given by allowing a customer to overdraw his current account upto an agreed limit.
Paper Currency Standard	When a monetary authority adopt a standard currency made of paper in a country, that country is on a paper currency standard.
Parity Value	In a fixed exchange rate system, the value of a currency will be fixed in terms of another currency or in terms of gold. This value is known as the parity value of the currency.
Penalty	An amount levied for an infringement of a law.
Plan Expenditure	That public expenditure which represents current development and investment outlays that arise due to plan proposals.
Planned Investment	The amount of planned or desired investment given by the investment demand function.
Planned Savings	The amount of planned or desired savings given by the savings function.
Price Index	An index number that shows how the average price of a bundle of goods has changed over a period of time.
Price Level	The average level of prices prevailing in an economy. It is measured by the price index.
Primary Deficit	Fiscal deficit minus interest payments. It indicates how much of the government borrowing is going to meet expenses other than interest payments.

Promissory Notes	A promissory note is a promise to pay the bearer of the note a certain sum.
Real GNP	GNP that is computed as per constant prices.
Real Effective Exchange Rate (REER)	An effective exchange rate based on real exchange rates instead of nominal rates.
Real Exchange Rate	The exchange rate that is based constant prices.
Real Flow	The flow of factor services and goods and services in the circular flow of income.
Representative Full Bodied Money	It is equivalent to a circulating warehouse receipt for full-bodied coins or their equivalent in bullion. The representative full-bodied money itself has no value as a commodity, but it represents in circulation an amount of money with a commodity value equal to the value of the money.
Representative Token Money	This is usually in the form of paper, which is in effect a circulating warehouse receipt for token coins or an equivalent amount of bullion that is backing it.
Resource Allocation	The manner in which an economy distributes its resources among the potential uses in order to produce a particular set of final goods.
Rest of the World	The rest of the countries in the world, excluding the domestic country.
Revenue Budget	A statement of the estimated revenue receipts of the government and the expenditure met from such revenues.
Revenue Deficit	The excess of government's revenue expenditures over revenue receipts.
Revenue Expenditure	Expenditure incurred for the normal running of government departments and provision of various services, interest charges on debt incurred by the government, subsidies, etc. In general, any expenditure that does not result in the creation of assets.
Saving	Income which is not consumed and not paid out in the form of taxes.

Savings Account Deposits	These deposits combine the features of both current account deposits and fixed deposits. They are payable on demand and also withdrawable by cheque, but with certain restrictions on the number of cheques issued in a period of time. Interest is paid on the deposits in these accounts.
Savings Function	The relationship between savings and income.
Say's Law of Markets	'Supply creates its own demand'. If goods are produced then there will automatically be a market for them. This means that there cannot be a general 'overproduction' or 'glut' in an economy that is based on a market system of production and exchange.
Search Cost	It is the physical cost of searching the time spent in searching.
Selective Credit Controls	Measures used to channel the flow of credit to particular sectors, usually the priority sectors.
Short-term Loans	Loans given for a short period of time. They are given as personal loans, working capital finance or as priority sector advances.
Spot Rate	Exchange rate that prevails in the spot market for foreign exchange.
Standard Money	Legal money by which the government of a country discharges its obligations.
Statutory Liquidity Ratio	The SLR requires the banks to maintain a specified percentage of their net total demand and time liabilities in the form of designated liquid assets.
Subsidies	Payments by government to firms or households that provide or consume a commodity. For example, government may subsidize food by paying for a part of the food expenditures of low-income households.
Surplus Budget	It is one where the estimated revenues are greater than the estimated expenditures.

Tax Revenue	All the proceeds of taxes and other duties levied by the Central Government.
Token Coins	Coins whose value as money is far above the value of the metal contained in them.
Trading Costs	The cost of engaging in trade.
Transfer Payments	Payments made where there is no good or service received in exchange.
Under-employment Equilibrium	A state of equilibrium where all resources are not fully utilised, that is, some resources are under-employed.
Value Added	Value added is defined as the difference between total value of output of a firm and value of inputs brought from other firms. It measures the value which the firm concerned has added by its production process.
Wage-price Flexibility	A situation in which (money) wages and prices are flexible, that is, they can increase or decrease freely and quickly. The effect of wage-price flexibility is that the market for labour and the markets for goods and services will always be in equilibrium.
Wider Band	It is a modification of the Bretton Woods system that states that the permissible variations around parity should be set at 10 per cent, for all member-countries to carry on balance of payments adjustment easily.