Dictionary of

ECONOMICS

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The Penguin Dictionary of Economics

Graham Bannock is a graduate of the London School of Economics and author of several books on finance and business. He has worked in market research for Ford and Rover, and in economic research at the OECD and the Economist Intelligence Unit, of which he was managing director. He founded Bannock Consulting Ltd, an economic research company in London. He is co-author of *The Penguin International Dictionary of Finance* and *The New Penguin Dictionary of Business*, and two of his other books, *The Juggernauts: The Age of the Giant Corporations* and *How to Survive the Slump*, are also published by Penguin. He is a director of Central Banking Publications.

Ron Baxter graduated from the London School of Economics with a degree in economics. He has held posts in the International Nickel Company, Hoover Ltd and the Electricity Council in London. He was Director of Economics and Statistics at the National Ports Council. He jointly founded Baxter Eadie Ltd, specializing in the appraisal of port investment projects worldwide. He has acted as consultant for a wide range of private corporations and international institutions. He is co-author of *Readings in Economics* and author of *Ports and Island Waterways*.

Evan Davis is the Economics Editor of the BBC. He was previously Economic Correspondent on the BBC's *Newsnight* Programme. He has also worked at the Institute for Fiscal Studies and the London Business School. He studied at St John's College, Oxford, and at the Kennedy School of Government at Harvard University. He is the author of *Public Spending* and co-author of *The New Penguin Dictionary of Business*.

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The Penguin Dictionary of ECONOMICS

Graham Bannock
R. E. Baxter
Evan Davis

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Foreword

Foreword to the Fifth Edition

'... no dictionary of a living tongue can ever be perfect, since while it is hastening to publication, some words are budding, and some falling away'

Samuel Johnson, *The Dictionary of English* (1755)

'In the case of economics there are no important propositions that cannot, in fact, be stated in plain language'

J. K. Galbraith, *Annals of an Abiding Liberal* (1979)

Our labours in regularly improving and updating this book have been rewarded, to date, by total sales, worldwide, in excess of 500,000 copies. For this fifth edition we have continued the process of revision. Some seventy entries have been deleted and many others abbreviated to make space for over 150 new entries taking account of new developments in economic theory and practical affairs.

Both the intended readership and the scope and method of the book are unaltered. The dictionary is planned as a companion to two kinds of users of economics. First, for the general reader who wants to follow economic discussion in the press or elsewhere and for the increasing number of people who need some knowledge of economics in their daily work, in teaching, business, the civil service, representative bodies and the professions. Secondly, it is aimed at students – especially those up to the second-year university courses in the subject – but also others, e.g. those at business schools for whom economics is part of the curriculum.

Our distinctive approach remains unique. This approach consists of a micro-encyclopaedic treatment with extensive cross-referencing, up-to-date institutional material and a level of exposition that attempts to combine a reasonable degree of academic rigour with brevity and practical relevance.

Our subject is large and growing continuously and we have had to be highly selective. Words in common usage are not normally included unless they have a specialized meaning in economics. Economic theory, including international, monetary and welfare economics, has been treated fairly comprehensively. We have also given considerable emphasis to the history of economics in keeping with our view of the subject as a developing one. Individual economists are included only where they have made an important and definable contribution to the body of economic thought as it exists today. We have been particularly sparing in our inclusion of contemporary economists (other than Nobel Prize-winners), so that many distinguished living members of the profession are left out. We have tried to include all the key terms used by econometricians and statisticians that are in general use. Our treatment of financial and business economics, public finance, international trade and development and payments has been more selective still but, institutions apart, we hope that nothing important has been omitted.

We have been helped and encouraged by the response we have received from our readers. We hope that they will continue to point out to us any errors or omissions.

G. B.
R. E. B.
E. D.
May 1991

Single and double arrows (➤ ➤➤) in the text indicate, respectively *see* and *see also*, where a point is either amplified or complemented in another entry.

Foreword to the Seventh Edition

This new edition has again been substantially revised and updated and we have included a number of additional diagrams. We continue to emphasize the international, rather than the purely UK, aspects of our subject and to incorporate institutional detail and statistics where relevant.

Although the content has been greatly revised and expanded, the basic plan of the work remains unchanged since it first appeared over 30 years ago. Readers are referred to the Foreword to the Fifth Edition for an explanation of the scope of the book and the system of cross-referencing.

We are greatly indebted to the help and support we have received from Dee Baxter and Françoise Bannock, and from Alex Allan in getting the work to the press. Finally, we wish to acknowledge the work of our copy-editor, Anthony John.

We hope that our many readers who have contacted us with valuable suggestions will continue to do so. Readers may write to us care of Penguin Books, or use the website www.penguin.co.uk/economics.

G. B.
R. E. B.
E. D.
London,
September 2002

A

'A' shares ➤share.

above the line ➤below the line.

absolute cost advantage ➤barriers to entry.

absorption Total expenditure on final goods and services. Domestic absorption in an economy is equal to ➤consumption plus ➤investment plus ➤government expenditure (or $C + I + G$), and is equivalent to ➤national income minus net exports.

absorption costing ➤management accounting.

abstinence theory of interest ➤interest, abstinence theory of.

acceleration principle The hypothesis that the level of ➤investment in an economy varies directly with the rate of change of output. Given technological conditions and the relative prices of ➤capital and ➤labour, a certain size of capital stock will be chosen to produce a particular level of output. If this level of output changes, then, other things being equal, the desired size of capital stock will also change. Net investment is, by definition, the amount by which the capital stock changes, so it follows that the amount of investment depends on the size of the change in output. At its simplest, the hypothesis asserts that investment will be *proportional* to the rate of change of output, at all levels of output. However, under more realistic assumptions the relationship may cease to be a simple, proportional, one. There may, for example, be spare capacity over some range of increasing output, so that the capital stock does not have to be increased until full capacity is reached; or the capital intensity (➤capital-intensive) of production may vary as the level of output varies. In addition, the relation will be influenced by ➤expectations, time lags, etc. As well as being very important in explaining the determination of investment expenditure in the economy, the acceleration principle also plays an important part in theories of the ➤business cycle, e.g. the ➤accelerator–multiplier model, and the theory of ➤economic growth, e.g. in the ➤Harrod–Domar model. ➤➤accelerator coefficient; Clark, J. M.

accelerator coefficient The factor that determines how much ➤investment is induced by a change in output (➤acceleration principle). Its value is influenced by the availability of spare capacity, the productivity of capital, the rate of ➤interest and the price of labour. ➤capital–output ratio; productivity.

accelerator–multiplier model A model of economic growth, incorporating the effects of the ➤acceleration principle and the ➤multiplier. An increase in government expenditure, for example, raises consumers' incomes which, through the multiplier, leads to an increase in output which in turn, through the accelerator, raises investment. The increase in expenditure in investment itself raises incomes and the process is repeated. The model reveals that the multiplier and the accelerator interrelate in a way that can produce a cyclical pattern to economic growth. ➤➤Harrod–Domar model; Samuelson, P. A.

accelerator theory of investment ➤acceleration principle; business cycle.

acceptance The act of accepting, i.e. agreeing to honour a ➤promissory note such as a ➤bill of exchange. By extension, the document itself.

accepting house An institution specializing in accepting or guaranteeing ➤bills of exchange. All accepting houses have taken on other functions as the use of bills of exchange has declined, returning to their original, wider, function of merchant banking (➤merchant banks). The Accepting Houses Committee represents the accepting houses in the City of London and ensures policy co-ordination between them, the ➤Treasury and the ➤Bank of England. Members of this committee are eligible for finer ➤discounts on bills bought by the Bank of England, though this privilege has recently been extended to other banks, including foreign banks, and the term 'accepting house' is now an indication of status rather than function.

account **1** A record of financial transactions in the form of ➤stocks or flows (➤➤balance of payments; balance sheet; current account; social accounting). **2** An arrangement between a seller and a buyer under which a period of ➤credit is allowed before payment, e.g. the period in which ➤stock exchange transactions take place and after the end of which settlement must be made. Up to the end of an account, transactions are made without payment and account dates are thus of vital importance to speculators.

account day The day on which all transactions made during the previous ➤account at the ➤stock exchange must be settled (hence, *settlement day*). On the London Stock Exchange, as in the USA, the markets use rolling accounts which are settled a fixed number of days after the transaction: at present 5 days, or '$T+5$', (eventually $T+3$).

accounting equation, basic ➤balance sheet.

accruals ➤accrued expenses.

accrued expenses The cost of services utilized in advance of payment and written into a company's accounts as ➤liabilities.

ACP Africa, the Caribbean and the Pacific. ➤Cotonou Agreement.

acquisition ➤take-over.

ACT Advance corporation tax ➤corporation tax.

active labour-market policies Measures taken to increase the employment prospects of the unemployed (➤long-term unemployment) without creating upward pressure on wage levels. Such policies include, for example, job counselling (job broking), training, direct job creation in the public sector, and employment subsidies to firms. They differ from the passive measure of paying out State benefits to the unemployed. The distinguishing characteristic of active labour-market measures is