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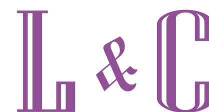

Economics Glossary

Lilith Academy Workbook

Lilith & Co.

Comprehensive Glossary: Economics Terms

Absolute Advantage: The ability of a country to produce a certain good more efficiently than another country.

Adjustable-Rate Mortgage (ARM): A type of mortgage in which the interest rate is initially set below the market rate and then adjusted periodically based on an index.

Alternative Investment: An investment in assets that are different from stocks, bonds, and cash, such as real estate, commodities, or hedge funds.

Amortization: The process of paying off debt in regular installments over a period of time.

Antitrust Laws: Laws that are designed to prevent monopolies and promote competition in the market.

Appreciation: An increase in the value of an asset over time.

Arbitrage: Buying and selling the same asset in different markets to exploit price differences.

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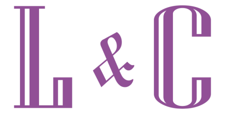

Asset: An item of value that is owned by an individual or organization.

Asset Inflation: When the prices of financial assets rise above their intrinsic value.

Austerity: An economic policy that focuses on raising taxes and reducing government spending.

Balance of Trade: The difference between a country's imports and exports.

Bankruptcy: A legal status for an individual or entity who is unable to repay outstanding debts.

Bear Market: A market that is characterized by falling prices for a prolonged period.

Bonds: Debt securities that pay periodic interest and will return the principal when it has reached maturity.

Budget Deficit: When the government's spending exceeds revenue.

Bull Market: A market that is characterized by rising prices for a prolonged period.

Business Cycle: The natural rise and fall of economic growth over time. The cycle consists of periods of expansion, peak, contraction, and trough.

Capital: Wealth that appears in the form of money or assets. Capital is used to generate more wealth.

Capital Gains Tax: A tax on the profit made from selling an asset, such as stocks, bonds, or real estate.

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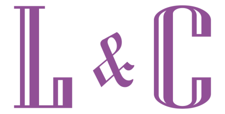

Capitalism: An economic system where private individuals or businesses own capital goods and operate for profit.

Cantillon Effect: The uneven distribution of benefits and costs from changes in the money supply leads to effects, such as asset price inflation, price distortions, and wealth distribution.

Collateral: An asset that an individual uses to secure a loan. If the individual fails to pay off the loan, then the lender can seize the collateral.

Commodity: A raw material or primary agricultural product that can be bought and sold.

Consumer Confidence: A measure of how optimistic consumers are about the overall state of the economy.

Consumer Price Index (CPI): A measure of the average change in prices paid by consumers for goods and services over time.

Consumer Surplus: The difference between what consumers are willing to pay for a good or service compared to what the consumers actually pay.

Credit: The ability to obtain goods or services before payment based on the trust that the payment will be made in the future.

Credit Rating: An assessment of the borrower's credit worthiness. The credit rating is often expressed as a letter grade and is used by lenders to verify the trustworthiness of the borrower.

Currency: A system of money used in a particular region.

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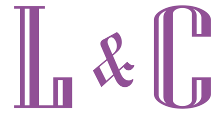

Debt Ceiling: A financial limit of how much money a government can borrow or take on as debt.

Default Risk: The rating of risk that means the lender is taking a significant risk during an investment, and there is a probability that the borrower will not repay the debt.

Deflation: A decrease in the general price level of goods and services.

Demand: The measurement of how much of a good or service is desired by the consumers at a given price and time.

Depreciation: A decrease in the value of an asset over time.

Diversification of Investments: The intentional spread of investments across different types of assets to reduce the risk of financial downfall.

Dividend: A portion of a company's profit that is paid to shareholders.

Economic Indicator: A statistic that provides information about the overall health of the economy.

Entrepreneur: A person who innovates and produces new ideas, goods, or services, often with considerable risk.

Exchange Rate: The comparison of the values between different currencies. Figuring out the exchange rate is necessary when purchasing goods or services in a region with a different currency.

Flat Money: The concept that currency has value because a) a government maintains it and b) people have faith in the currency's value.

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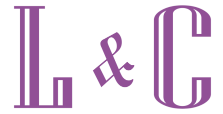

Fiscal Policy: A government policy that determines spending, taxation, and borrowing methods and limitations.

Fiscal Year: The 12-month period that differentiates an organization or company's spending, taxation, and borrowing amounts from year to year.

Fixed Income: Investments that provide a fixed and periodic income for the investor. A bond is an example of a fixed income.

Foreign Exchange (FOREX): The international market for trading currencies.

Good: An item that can be purchased. Gas, food, clothes, and cars are examples of goods.

Greater Fool Theory: The theory that investors can buy an asset with the expectation that someone else will buy the asset from them at a higher price.

Gross Domestic Product (GDP): The total value of goods and services that a country produces within a specified time period and within the country's geographical boundaries.

Gross National Product (GNP): The total value of the goods and services that a country's citizens produce even if they are located outside of the country's geographical boundaries.

Hedge Fund: An investment fund that earns returns for the investors through various strategic methods.

Hyperinflation: The extremely high or accelerating rate of inflation that often exceeds fifty percent per month.

Income Tax: The tax on an individual's or corporation's earnings.

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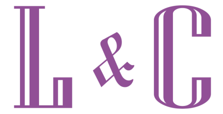

Index Fund: A type of mutual fund or exchange-traded fund that serves to represent a category of companies that an individual can invest in as an entire index, as opposed to investing in the stocks of each company separately.

Inflation: The rate at which the general level of prices for goods and services rises.

Interest Rate: The amount that a borrower must pay to a lender. The interest rate is usually a percentage of the borrowed money.

Investment: The act of allocating money into a service, bond, or other investment opportunity with the expectation of receiving an income or profit as a result.

Liquidity: The ease with which an individual or business can convert their asset into cash without changing the market value.

Liquidity Trap: The event during which the rate of spending is unphased by low interest rates because people prefer to hold onto their money.

Macroeconomics: The study of large-scale factors that affect a region's economy, such as inflation, unemployment, and GDP growth.

Marginal Cost: The increase in production cost in relation to the increase in the quantity of products that are produced.

Market Economy: An economic system in which individuals and businesses drive the decisions for production and consumption within a given market.

Microeconomics: The study of individuals' economic decisions, which includes how demand and prices are determined in each market.

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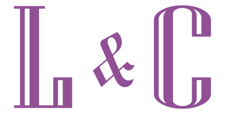

Modern Monetary Theory (MMT): The theory that a government can never run out of money if they generate their own currency.

Monetary Policy: A system designed by a financial entity for the management of the money supply and the goal of economic growth.

Monopoly: A single company's or entity's control over the entire supply of a good or service, which makes it difficult for other companies or entities to enter the same market with the same good or service.

Mortgage: A type of loan that allows the purchase of a real estate property in exchange for periodic payments.

Mutual Fund: An investment fund that pools money from multiple investors to purchase stocks, bonds, and other purchase securities.

National Debt: The total amount of money that a government owes to other governments and loaners.

Nominal Interest Rate: The sum of the real interest rate and inflation rate.

Portfolio: The collection of investments that is owned by an individual or organization.

Price Ceiling: The maximum amount that can be charged for a product or service.

Price Elasticity of Demand: The measurement of the demanded quantity for a good in relation to a change in the good's price.

Price Floor: The minimum amount that can be charged for a product or service.

Quantitative Easing: A central bank policy for the purchasing of government securities with the goal of lowering interest rates and increasing the money supply.

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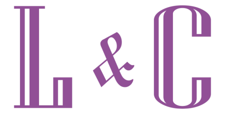

Recession: The significant and lengthy decline in economic activity within numerous markets within a nation's economy.

Regressive Tax: A tax that receives a higher percentage from low-income earners than from high-income earners.

Reserves: The money that is set aside and used during future events such as planned payments, unexpected events, and emergencies.

Return on Investment (ROI): The measurement of the profitability from an investment. The ROI is calculated from the net profit divided by the initial investment cost.

Risk: The possibility of losing some or all of an investment.

Socialism: An economic system in which a community collectively owns and regulates the production, distribution, and exchange of goods and services.

Stagflation: The condition in which the economy has slow or zero economic growth as well as high inflation.

Supply: The economic condition in which a specific entity or region has slow or no economic growth while also having high inflation.

Supply Chain: The network of individuals, organizations, resources, and processes that are involved during the production and distribution of a product.

Tariff: A tax that is placed on imported goods and services by the government.

Trade Deficit: The economic condition in which a country imports more goods and services than it exports.

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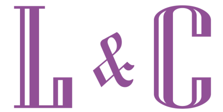

Trade Surplus: The economic condition in which a country exports more goods and services than it imports.

Transaction Costs: The array of costs that are associated with buying or selling goods and services beyond the basic cost of the good or service.

Unemployment Benefits: The payments that the government makes to individuals who legally claim their status of unemployment.

Value-Added Tax (VAT): A type of consumption tax that is placed on a product at every stage of production due to the value that the given stage adds to the product's worth.

Venture Capital: The amount of money that is invested into a start-up or small business with a high probability of growth and success.

Volatility: The economic condition in which the market experiences sharp and unexpected rises or falls in prices.

Welfare Economics: The study of the impact of resource allocation on a region or community's economic well being.

Yield: The income from an investment, which appears as a percentage of the original investment cost or the current market value.

Yield Curve: A graph that compares the yield of different bonds (with equal credit quality) over time. The yield curve helps investors understand the bonds' rates of maturity and return.

Zoning Laws: The governmental restrictions on the usage of land within a jurisdiction. Zoning laws include regulations for commercial, industrial, and residential development.

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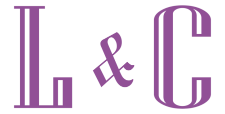

401 (k) Plan: A retirement savings plan that an employer sponsors. The 401 (k) plan allows the employee to invest a portion of their paycheck before the taxes are taken out.

529 Plan: A type of tax-advantaged savings plan that enables users to set aside money for future educational expenses. The 529 Plan is named after Section 529 of the International Revenue Code.

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