

A

Abnormal profit: occurs when total revenue is greater than total economic cost. It is also known as economic profit.

Absolute advantage: where a country is able to produce more output than other countries using the same input of factors of production.

Absolute poverty: the amount of income a person needs to have in order to stay alive. It is measured in terms of the basic need for survival.

Abuse of market power: occurs when a monopolistic firm uses its market power to eliminate competitors or to prevent new firms entering an industry.

Actual growth: occurs when previously unemployed factors of production are brought into use. It is represented by a movement from a point within a production possibility curve (PPC) to a new point nearer to the PPC.

Administrative barriers: trade barriers, in the form of regulations, that are intended to reduce or slow down imports into a country. Examples may be unnecessary “red tape” (bureaucracy), health and safety standards and environmental standards, and in the extreme, embargoes.

Adverse selection: occurs when a buyer and seller do not have the same information, causing a transaction to take place based upon uneven terms. It is also known as asymmetric information.

Aggregate demand (AD): the total spending in an economy consisting of consumption, investment, government expenditure and net exports.

Aggregate demand curve: a curve showing the planned levels of spending on domestic goods and services at different average price levels.

Aggregate supply (AS): the total amount of domestic goods and services supplied by businesses and the government, including both consumer goods and capital goods.

Aggregate supply curve: a curve showing the planned level of output that domestic firms are willing and able to produce at different average price levels.

Allocative efficiency: the level of output where marginal cost is equal to average revenue. The firm sells the last unit it produces at the amount that it cost to make it, that is the socially optimum level of output.

Allocative inefficiency: occurs where the marginal social cost of producing a good is not equal to the marginal social benefit of the good to society. In other words, it occurs where the marginal cost of producing a good (including any external costs) is not equal to the price that is charged to consumers. ($P = MC$)

Anchor/Anchoring: mental reference points, relating to ideas or values, that are used to make decisions. Value is often set by anchors or imprints in our minds that we then

use as mental reference points when making decisions. When an idea or a value is firmly anchored in a person's mind, it can lead to automatic decisions and behaviours.

Anti-dumping: refers to any policy, such as a tariff, that aims to increase the price of imported goods that are being dumped, that is sold at a price below their cost of production.

Anti-monopoly regulation: laws that are intended to “regulate” the market share of an individual company, in order to restrict anti-competitive behaviour and enforce competition.

Appreciation: an increase in the value of one currency in terms of another currency in a floating exchange rate system.

Appropriate technology: where technology caters to the particular economic, social and environmental characteristics of its users.

Asymmetric information: where one party in an economic transaction has access to more or better information than the other party. It is also known as adverse selection.

Automatic stabilizers: features of government fiscal policy (such as unemployment benefits and direct tax revenues) that automatically counter-balance fluctuations in economic activity. For example, government spending on unemployment benefits automatically rises and direct tax revenues automatically falls when economic activity is slow.

Average cost: total cost per unit of output. It is total cost divided by output.

Average revenue: revenue earned per unit of sales. It is total revenue divided by output. Average revenue is usually equal to price.

Average tax rate: the proportion of a person's income that is paid in tax, usually expressed as a percentage.

B

Balance of payments: a record of the value of all the transactions between the residents of a country with the residents of all other countries over a given period of time.

Balance of trade in goods: a measure of the revenue received from the exports of tangible (physical) goods minus the expenditure on the imports of tangible goods over a given period of time.

Balance of trade in services: measure of the revenue received from the exports of services minus the expenditure on the imports of services over a given period of time.

Barriers to entry: are barriers (obstacles) that prevent new firms from entering an industry, such as economies of scale, natural monopoly, legal barriers, brand loyalty and anti-competitive behaviour.

Behavioural economics: a branch of economic research that adds elements of psychology to traditional models in an attempt to better understand decision-making by economic actors. It challenges the assumption that actors will always make rational choices with the aim of maximizing utility.

Biases: systematic deviations from rational decision-making.

Bilateral trade: an agreement, related to trade between two countries, to reduce or remove trade barriers, such as tariffs or quotas.

Bounded rationality: suggests that most consumers and businesses do not have enough information to make fully informed choices and so opt to satisfice, rather than maximize their utility.

Bounded self-control: in reality, consumers are often not rational in their self-control and do not stop consuming, even when it is sensible to stop. They consume even though the price of the good or service is greater than the marginal utility they gain from consumption.

Bounded selfishness: concern for the well-being of others, rather than maximizing self-interest.

Budget deficit: a situation that exists when planned government spending exceeds planned government revenue. A government may “run a budget deficit” in order to increase aggregate demand in the economy.

Business confidence: an economic indicator that measures the degree of optimism that business managers feel about the state of the economy and the prospects of their companies/organizations.

Business cycle: a diagram showing the periodic/cyclical fluctuations in economic activity. The business cycle shows that economies typically move through a pattern of economic growth with the phases: recovery, boom, slowdown, recession.

Business tax: a tax levied on the profits of a business or corporation.

C

Capital: the factor of production that comes from investment in physical capital and human capital. Physical capital is the stock of manufactured resources (for example, factories, roads, tools) and human capital is the value of the workforce (improved through education or better healthcare).

Capital account: a measure of the buying and selling of assets between countries. The assets are often separated to show assets that represent ownership and assets that represent lending.

Capital flight: occurs when money and other assets flow out of a country to seek a “safe haven” in another country.

Capital gains tax: a tax levied on profits received from the sale of financial assets, such as stocks, shares or bonds. It could also be levied on individual gain, such as house sales.

Capital transfers: a measure of net monetary movements gained or lost through actions such as the transfer of goods and financial assets by migrants entering or leaving the country, transfers relating to the sale of fixed assets, gift taxes, inheritance taxes and death duties.

Carbon (emissions) taxes: taxes levied on the carbon content of fuel.

Central bank: the government’s bank – the institution that is responsible for an economy’s monetary policy.

Ceteris paribus: A Latin expression meaning “all other things being held equal”.

Choice architecture: suggests that the decisions we make are affected by the layout, sequencing and range of choices that are available.

Circular economy: an economic system that challenges the linear economy model (take → make → waste) by adopting a “regenerative” and “restorative” circular approach (take → make use → resell/refurbish → remanufacture → take...).

Circular flow of income: a simplified model of the economy that shows the flow of money through the economy.

Collective self-governance: individuals and communities working together, without top-down regulation, to develop rules and institutions to manage common pool resources (natural resources) in a sustainable and equitable manner.

Collusive oligopoly: where a few firms act together to avoid competition by resorting to agreements to fix prices or output in a market.

Common market: a customs union with common policies on product regulation, and free movement of goods, services, capital and labour.

Common pool resources: natural resources (such as fishing grounds, forests and pastures) over which there is no established private ownership – they are non-excludable, but rivalrous.

Comparative advantage: where a country is able to produce a good at a lower opportunity cost of resources than another country.

Competitive market: a market where no individual firm has the ability to control the market price.

Competitive market equilibrium: occurs where quantity demanded equals quantity supplied in a competitive market.

Competitive supply: exists where products are produced by the same factors of production, and so compete for these resources for their production.

Complements: goods are used in combination with each other, for example digital cameras and memory cards.

Composite indicator: any economic indicator that combines a number of single indicators with weighting, to give a single, combined figure, for example the Inclusive Development Index.

Concentration ratios: functions showing the percentage of market share (or output) held by the largest X firms in an industry, expressed in the form CR_X, where X represents the number of the largest firms. Most commonly, it is expressed as CR₄.

Consumer confidence: an economic indicator that measures the degree of optimism that consumers feel about the state of the economy and their own personal financial situation.

Consumer nudges: positive reinforcement and indirect suggestions used to influence the behaviour and decision-making of consumers.

Consumer price index (CPI): a measure of the average rate of inflation that calculates the change in the price of a representative basket of goods and services purchased by the “average” consumer.

Consumer surplus: the additional benefit/utility received by consumers by paying a price that is lower than they are willing to pay.

Consumption (C): spending by households on consumer goods and services over a period of time.

Contractionary fiscal policy: fiscal policy designed to decrease aggregate demand and so the level of economic activity. It reduces inflationary pressure.

Contractionary monetary policy: monetary policy designed to decrease aggregate demand and so the level of economic activity. It reduces inflationary pressure.

Corporate indebtedness: the total debts of a corporation (business) owed to financial institutions and individuals.

Corporate social responsibility (CSR): an approach taken by firms where they attempt to produce in a responsible/ethical way, demonstrating a positive impact on the community and environment.

Cost-push inflation: inflation that is caused by an increase in the costs of production in an economy, that is a shift of the SRAS curve to the left.

Credit creation: the ability of commercial banks to expand the deposits of money that they receive by lending multiples of the amount, so increasing the overall money supply.

Credit items: any transaction in the balance of payments that leads to an inflow of currency (or precious metal).

Credit rating: a grade given by credit rating agencies, such as Fitch, Moody's and Standard and Poor, to quantify the borrowing risks of purchasing a country's debt instruments, for example bonds or treasury bills. The lowest risk rating is AA1 or AAA.

Crowding out: a situation where the government increases spending through increased borrowing, forcing up interest rates and “crowding out” or limiting access to private investment and private consumption.

Current account: a measure of the flow of funds from trade in goods and services, plus net investment income flows (profit, interest and dividends) and net transfers of money (foreign aid, grants and remittances).

Current account deficit: where revenue from the exports of goods and services and income flows is less than the expenditure on the import of goods and services and income flows in a given year.

Current account surplus: where the revenue from the export of goods and services and income flows is greater than the expenditure on the import of goods and services and income flows in a given year.

Current transfers: are recorded in the balance of payments whenever an economy receives goods, services, income or financial items without something in return. All transfers that are not considered to be capital are current.

Customs union: an agreement made between countries, where the countries agree to trade freely among themselves, and they also agree to adopt common external barriers against any country attempting to import into the customs union.

Cyclical (demand-deficient) unemployment: disequilibrium unemployment that exists when there is insufficient demand in the economy and wages do not fall to compensate for this.

D

Debit items: any transaction in the balance of payments that leads to an outflow of currency (or precious metal), usually shown as a minus in the accounts.

Debt relief (cancellation): the act of eliminating the debt owed by the government of a developing country in order to allow it to achieve development objectives.

Debt servicing: the amount of repayment of interest and capital of a debt, for an individual, a company or a whole country. Debt servicing payments are a barrier to development for developing countries.

Default choices: when consumers are automatically enrolled in a system, so that consumers will “make” this choice if they take no action.

Deflation: a persistent fall in the average level of prices in an economy.

Deflationary/recessionary gap: the situation where total spending (aggregate demand) is less than the full employment level of output, so causing unemployment.

Demand: the willingness and ability of consumers to purchase a quantity of a good or service.

Demand curve: shows the relationship between the price of a good or service and the quantity demanded. It is normally downward sloping.

Demand management: a (Keynesian) policy emphasizing the importance of government intervention in managing the level of aggregate demand in the economy, through fiscal and monetary policies.

Demand-pull inflation: inflation that is caused by increasing aggregate demand in an economy, that is a shift of the AD curve to the right.

Demand-side policies: fiscal and monetary policies that are implemented to affect aggregate demand, and so the average price level and real GDP. This, in turn, affects inflation, economic growth and unemployment.

Demerit goods: goods or services considered to be harmful to people that would be over-provided by the market and so over-consumed.

Depreciation: a fall in the value of one currency in terms of another currency in a floating exchange rate system.

Deregulation: a type of supply-side policy where the government reduces the number or type of regulations governing the behaviour of firms.

Devaluation: a decrease in the value of a currency in a fixed exchange rate system.

Development aid: consists of grants, concessional long-term loans, project aid and programme aid.

Direct taxes: taxes on income, profits or wealth imposed by the government.

Discount rate: the interest rate charged by the central bank to commercial banks for short-term borrowing.

Disinflation: a fall in the rate of inflation.

Disposable income: the remaining income available for an individual to spend or save, after taxation.

Dumping: the selling of a good in another country at a price below its unit cost of production.

E

Economic development: a broad concept involving improvement in standards of living, reduction in poverty, improved health and education (along with increased freedom and economic choice).

Economic growth: the growth of the real value of output in an economy over time. Usually measured as growth in real GDP.

Economic well-being: a multi-dimensional concept relating to the level of prosperity and quality of living standards in a country.

Economic integration: a process whereby countries coordinate and link their economic policies. As economic integration increases, trade barriers between countries decrease and their fiscal and monetary policies are more closely harmonized.

Economics: the science that studies human behaviour as a relationship between ends and scarce resources which have alternative uses.

Economies of scale: unit cost advantages that a business may experience as an outcome of increasing its scale of operations.

Efficiency: a quantifiable concept, determined by the ratio of useful output to total input.

Elasticity: a measure of the responsiveness of something to a change in one of its determinants.

Elasticity of demand for exports: a measure of the responsiveness of the quantity demanded of exports when there is a change in the price of exports.

Elasticity of demand for imports: a measure of the responsiveness of the quantity demanded of imports when there is a change in the price of imports.

Engel curve: a curve showing the relationship between income and quantity demanded.

Entrepreneurship: the factor of production involving organizing and risk-taking.

Equilibrium: “a state of rest, self-perpetuating in the absence of any outside disturbance”.

Equity: the concept or idea of fairness.

Excess demand: occurs where the price of a good is lower than the equilibrium price, such that the quantity demanded is greater than the quantity supplied.

Excess supply: occurs where the price of a good is higher than the equilibrium price, such that the quantity supplied is greater than the quantity demanded.

Exchange rate: the value of one currency expressed in terms of another, for example €1 = US\$1.5.

Expansionary fiscal policy: fiscal policy designed to increase aggregate demand and so the level of economic activity. It increases inflationary pressure but also increases real output and employment.

Expansionary monetary policy: monetary policy designed to increase aggregate demand and so the level of economic activity. It increases inflationary pressure but also increases real output and employment.

Expenditure approach: measures the value of all spending on goods and services in an economy. It is the sum of $C + I + G + (X - M)$.

Expenditure-reducing policies: policies implemented by the government that attempt to reduce overall expenditure in the economy, including expenditure on imports.

Expenditure-switching policies: policies implemented by the government that attempt to switch (move) the expenditure of domestic consumers away from imports towards domestically produced goods and services.

Export promotion: strategies based on openness and increased international trade. Growth is achieved by concentrating on increasing exports and export revenue, as a leading factor in the AD of the economy. Growth in the international market should be translated into growth in the domestic market over time.

Export revenue: value of exports earned by producers.

Exports: goods and services produced in one country and purchased by consumers in another country.

Export subsidy: payments made to exporting firms, usually per unit of exports, by the government.

External balance: the value of exports of goods and services minus the value of imports of goods and services.

Externalities: external costs or benefits to a third party, when a good or service is produced or consumed.

F

Factors of production: the four resources that allow an economy to produce its output: land, labour, capital and entrepreneurship (management).

Fairtrade: a scheme where products from producers in developing countries can be certified to display the registered Fairtrade mark encouraging consumers to buy them because they know that the producers of the products have been paid a fair price and the products have been produced under approved conditions.

Financial account: a measure of the net change in foreign ownership of domestic financial assets, usually to earn profit.

Firms: represent the productive units in the economy that turn the factors of production into goods and services.

Fiscal policy: a demand-side policy using changes in government spending and/or direct taxation to achieve economic objectives relating to inflation and unemployment.

Fixed exchange rate: an exchange rate regime where the value of a currency is fixed, or pegged, to the value of another currency, or to the average value of a selection of currencies, or to the value of some other commodity, such as gold.

Floating exchange rate: an exchange rate regime where the value of a currency is allowed to be determined solely by the demand for, and supply of, the currency on the foreign exchange market.

Foreign aid: the international transfer of capital, goods or services from a country or international organization, for the benefit of a recipient country and its population.

Foreign direct investment (FDI): long-term investment by a multinational corporation (MNC) in a foreign country (where the foreign investor owns more than 10 per cent of the domestic company).

Foreign sector: the segment of the circular flow of income that includes exports and imports.

Framing: the way that choices are described and presented. Changing the framing of a choice may affect tastes and preferences.

Free goods: the few things, such as air and salt water, that are not limited in supply (relatively scarce) and so do not have an opportunity cost

Free market economy: an economy where the means of production are privately held by individuals and firms. Demand and supply (market forces) determine how much to produce, how/many to produce and for whom to produce.

Free rider problem: occurs when people who benefit from consuming resources, goods or services do not have to pay for them, which results in overconsumption.

Free trade: international trade that takes place without any barriers, such as tariffs, quotas or subsidies.

Free trade area/agreement: an agreement made between countries, where the countries agree to trade freely among themselves, but are able to trade with countries outside the free trade area in whatever way they wish.

Frictional unemployment: equilibrium unemployment that exists when people have left a job and are in the process of searching for another job.

Full employment: occurs when the economy is producing at its potential level of real output. It is where the economy is producing on the PPC curve and there is only natural unemployment.

Full employment level of output: the level of output that is produced by the economy when there is only natural unemployment.

G

Game theory: a branch of mathematics that studies the strategic interaction of decision-makers.

Gender Inequality Index (GII): measures gender inequalities in three aspects of human development (reproductive health, empowerment and economic status).

Gini coefficient (index): a coefficient (index) that measures the ratio of the area between a Lorenz curve and the line of absolute equality to the total area under the line of equality. The higher the figure, the more unequal is the distribution.

Government (national) debt: the total outstanding borrowing of a government, made up of internal debt (owing to national creditors) and external debt (owing to foreign creditors).

Government spending (G): spending by governments on goods and services.

Gross domestic product (GDP): the total of all economic activity within a country, regardless of who owns the productive assets.

Gross national income (GNI): the total income that is earned by a country's factors of production regardless of where the assets are located. It is equal to GDP + net property income from abroad.

Growth in production possibilities: occurs when the PPC curve shifts outwards, caused by an increase in the quantity and/or quality of factors of production.

H

Happiness Index: an index that is used to measure the collective happiness and well-being of a population.

Happy Planet Index: an index that combines four elements to show how efficiently residents of different countries are using environmental resources to lead long, happy lives. The elements are well-being, life expectancy, inequality of outcomes and ecological footprint.

Homogeneous product: goods or services that are considered identical in the view of consumers, although they are produced by different businesses.

Households: represent the groups of individuals in the economy who perform two functions. They are the consumers of goods and services and they are the owners and providers of the factors of production that are used to make the goods and services.

Human capital: the education, training, skills, experience and good health existing within a country's labour force.

Human Development Index (HDI): a composite index that brings together three variables that reflect the three basic goals of development (a long and healthy life, improved education and a decent standard of living). The variables measured are life expectancy at birth, mean years of schooling and expected years of schooling, and GNI per capita (PPP US\$).

Human Opportunity Index (HOI): measures how individual circumstances, such as place of residence, gender and education of the household head, can affect a child's access to basic opportunities such as water, education, electricity and sanitation. The index is created by the World Bank.

Humanitarian aid: aid given to alleviate short-term suffering, consisting of food aid, medical aid and emergency relief aid.

I

Imperfect competition: a market structure showing some, but not all, features of perfect competition.

Imperfect information: exists where some stakeholders in an economic transaction have more access to knowledge than others.

Import expenditure: the value of spending on imports.

Import substitution: strategies to encourage the domestic production of goods, rather than importing them. It should mean that industries producing the goods domestically grow, as will the economy, and then should be competitive on world markets in the future. The strategies encourage protectionism.

Imports: goods and services purchased by consumers in one country that have been produced in another country.

Incentive role of prices: prices give producers the incentive to either increase or decrease the quantity that they supply. A rising price gives producers the incentive to increase the quantity supplied, as the higher price may allow them to earn higher revenues.

Income: a flow of earnings from using factors of production to produce goods and services. Wages and salaries are the factor reward to labour and interest is the flow of income for the ownership of capital.

Income approach: measures the value of all incomes (wages, rent, interest and profits) earned in an economy.

Income effect: when a decrease in the price of a good or service that is being consumed means that consumers experience an increase in real income, usually allowing them to purchase more of the product. The income effect may be negative.

Income elasticity of demand (YED): a measure of the responsiveness of the demand for a good or service to a change in income.

Indirect taxes: taxes on expenditure that are added to the selling price of a good or service.

Industrial policies: interventionist supply-side policies where specific industries are given government support to encourage growth. Support could include subsidies, preferential loans and tax cuts.

Inequality adjusted HDI (IHDI): basically the HDI, but each of the components is adjusted downwards by its level of inequality. With perfect equality, a country's IHDI value would equal its HDI value.

Infant industry: a new industry that should be protected from foreign competition until it is large enough to achieve economies of scale that will allow it to be internationally competitive.

Inferior goods: a good where the demand for it decreases as income increases and more superior goods are purchased.

Inflation: a sustained increase in the general, or average, level of prices and a fall in the value of money.

Inflation rate: the percentage change of a price index over a certain period of time.

Inflationary gap: the situation where total spending (aggregate demand) is greater than the full employment level of output, so causing inflation.

Informal economy: the part of an economy that is neither taxed nor monitored by the government. The activities of the informal economy are not included in a country's national income figures.

Infrastructure: the large-scale capital usually provided by government that is necessary for economic activity to take place.

Injections: the investment, government expenditure and export revenues that add spending to the circular flow of income.

Interest rate: the price of credit/borrowed money.

International Monetary Fund (IMF): an organization working to foster global monetary cooperation, secure financial stability, facilitate international trade and reduce poverty.

International trade: involves the exchange of goods or services between two countries.

Interventionist supply-side policies: policies that aim to shift the LRAS curve to the right, increasing the country's productive capacity. The policies are based upon the idea that the government has a fundamental role to play in actively encouraging growth.

Investment (I): the addition of capital stock to the economy or expenditure by firms on capital.

J

J-curve: suggests that in the short term, even if the Marshall-Lerner condition is fulfilled, a fall in the value of the currency will lead to a worsening of the current account deficit before things improve in the long term.

Joint supply: goods that are produced together, or where the production of one good involves the production of another product (for example, as a by-product of production).

K

Keynesian aggregate supply curve: an aggregate supply curve, illustrating the level of real output in an economy in relation to the average price level. It has three phases: a perfectly elastic phase, followed by an upward-sloping phase and then a perfectly inelastic phase.

Keynesian multiplier: the ratio of an induced change in the level of national income to an original change in one or more of the injections into the circular flow of income (that is investment, government spending or export revenue).

Keynesian revolution: an economic school of thought based upon the works of John Maynard Keynes, challenging the classical (*laissez faire*) viewpoint and advocating the role of government in managing the level of aggregate demand.

L

Labour: the human factor of production. It is the physical and mental contribution of the existing work force to production.

Labour market flexibility: refers to the speed with which labour markets adapt to fluctuations and changes in production, the economy or society.

Labour union: an organization of workers whose goals include the improvement of working conditions and payments to workers. Unions work on behalf of workers through negotiations (collective bargaining) with management.

Laissez faire: the view that markets should be left alone, with minimal intervention by government.

Land: the physical factor of production. It consists of natural resources, some of which are renewable (for example, wheat) and some of which are non-renewable (for example, iron ore).

Land rights: legal rights over the ownership of land

holdings, relating to possession, occupation and usage.

Law of demand: as the price of a good falls, the quantity demanded will normally increase.

Law of diminishing average returns: as extra units of a variable factor are added to a given quantity of a fixed factor, the output per unit of the variable factor will eventually diminish.

Law of diminishing marginal returns : as extra units of a variable factor are added to a given quantity of a fixed factor, the output from each additional unit of the variable factor will *eventually* diminish.

Law of diminishing marginal utility: as an individual consumes additional units of a good or service, the extra satisfaction (utility) received from each extra unit eventually decreases.

Law of supply: as the price of a good rises, the quantity supplied will normally rise.

Leakages: the savings, taxes and import expenditure that remove spending from the circular flow of income.

Least developed countries (LDCs): countries classified by the UN as being “low-income countries confronting severe structural impediments to sustainable development. They are highly vulnerable to economic and environmental shocks and have low levels of human assets” (UN Department of Economic and Social Affairs, December 2020, <https://www.un.org/development/desa/dpad/least-developed-country-category.html>).

Long-run aggregate supply (LRAS): aggregate supply that is dependent upon the resources in the economy and that can only be increased by improvements in the quantity and/or quality of factors of production.

Long-run Phillips curve: a curve showing the monetarist view that there is no trade-off between inflation and unemployment in the long run and that there exists a natural rate of unemployment that can only be affected by supply-side policies.

The **long run in microeconomics:** the period of time in which all factors of production are variable, but the state of technology is fixed.

The **long run in macroeconomics:** the period of time in which the general price level, contractual wage rates and expectations adjust fully to the state of the economy.

Long-term growth: economic growth over a long period of time. It occurs when the LRAS curve shifts to the right and is also shown by an outward shift of the PPC.

Long-term growth trend: the long-term trend line in the business cycle diagram.

Lorenz curve: a curve showing what percentage of the population owns what percentage of the total income in the economy. It is calculated in cumulative terms. The further

the curve is from the line of absolute equality (45-degree line), the more unequal is the distribution of income.

Loss (economic): occurs when total economic costs are greater than total revenue. It is also known as negative economic profit.

Luxury goods: goods that are not considered necessity goods by consumers. The goods tend to have both price elastic demand and income elastic demand.

M

Macroeconomics: the study of aggregate economic activity. It investigates how the economy as a whole works.

Managed exchange rate: an exchange rate, floating in the foreign exchange markets, but subject to intervention from time to time by domestic monetary authorities, in order to resist fluctuations that they consider to be undesirable. It is also known as a ‘dirty float’.

Mandated choices: when consumers are required to state whether or not they wish to take part in an action.

Manufactured goods: goods that have been processed by workers, often employing capital goods.

Marginal benefit: the additional benefit received by a consumer from consuming one more unit of a product.

Marginal costs: the additional costs of producing one more unit of output.

Marginal propensity to consume (mpc): the proportion of each extra amount of income that is spent by households on domestically produced goods and services (consumption), expressed as a decimal.

Marginal propensity to import (mpm): the proportion of each extra amount of income that is spent by households on imported goods and services, expressed as a decimal.

Marginal propensity to save (mps): the proportion of each extra amount of income that is saved by households, expressed as a decimal.

Marginal rate of taxation (mrt): the proportion of each extra amount of income that is taken in tax, expressed as a decimal.

Marginal revenue : the extra revenue that a firm gains when it sells one more unit of a product in a given period of time.

Marginal social benefit (MSB): the extra benefit/utility to society of consuming an additional unit of output, including both the private benefit and the external benefit.

Marginal social cost (MSC): the extra cost to society of producing an additional unit of output, including both the private cost and the external costs.

Marginal tax rate: the proportion of a person's additional income that is paid in tax, usually expressed as a

percentage.

Marginal utility: the extra utility derived from consuming one more unit of a good or service.

Market: where buyers and sellers come together to carry out an economic transaction.

Market-based supply-side policies: policies that aim to shift the LRAS curve to the right, increasing the country's productive capacity, based upon allowing markets to operate more freely with minimal government intervention.

Market concentration: the extent to which total sales in a market are accounted for by the largest companies, usually measured by concentration ratios. It is a measure of market (monopoly) power.

Market demand: the horizontal sum of the individual demand curves for a product of all the consumers in a market.

Market equilibrium: the point where the quantity of a product demanded is equal to the quantity of a product supplied. This creates the market clearing price and quantity where there is no excess demand or excess supply.

Market failure: the failure of markets to produce at the point where community surplus (consumer surplus + producer surplus) is maximized.

Market mechanism: the system where the forces of demand and supply determine the prices of products. It is also known as the price mechanism.

Market-oriented policies: policies that aim to shift the LRAS curve to the right, increasing the country's productive capacity, based upon allowing markets to operate more freely with minimal government intervention. It is also known as market-based policies.

Market power: the ability of a firm (or group of firms) to raise and maintain price above the level that would prevail under perfect competition.

Market share: the percentage of total market sales that are accounted for by one firm.

Market supply: the horizontal sum of the individual supply curves for a product of all the producers in a market.

Marshall-Lerner condition: states that a depreciation, or devaluation, of a currency will only lead to an improvement in the current account balance if the sum of the elasticity of demand for exports plus the elasticity of demand for imports is greater than one.

Maximum price: a price set, usually by the government, below the equilibrium price, preventing producers from raising price above it. It is also known as a price ceiling.

Merit goods: goods or services considered to be beneficial for people that would be under-provided by the market and so under-consumed.

Microeconomics: the study of the behaviour of individual consumers, firms and industries and the determination of market prices and quantities of good, services and factors of production.

Microfinance: the provision of small loans to poor entrepreneurs who lack access to traditional banking services.

Minimum income standard (MIS): a research method to identify what incomes different types of households require to reach a socially acceptable living standard. It is essentially a measure of poverty.

Minimum lending rate : the rate of interest that the central bank charges on loans and advances to commercial banks. It is also known as the base rate, discount rate or refinancing rate.

Minimum price: a price set, usually by the government, above the equilibrium price, preventing producers from lowering price below it. It is also known as a price floor.

Minimum reserve requirements: a requirement by the central bank that sets the minimum amount of reserves that commercial banks must maintain to back their loans.

Minimum wage: the minimum amount of remuneration that an employer can legally pay a worker. It is a floor price that is usually set above the labour market equilibrium wage.

Mixed economy : an economy that has elements of planning and elements of the free market. In reality, all economies are mixed. What is different is the degree of the mix from country to country.

Monetarist/new classical counter revolution: an economic school of thought that argues that changes in the money supply are the most significant determinants of the rate of economic growth and the behaviour of the business cycle. In this school of thought, policy-makers should not intervene to manage the level of aggregate demand.

Monetary policy: a demand-side policy using changes in the money supply or interest rates to achieve economic objectives relating to inflation and unemployment.

Monetary union: where two or more countries share the same currency and have a common central bank.

Money: any object that is generally accepted as payment for goods and services and repayment of debts in a country. The main functions of money are distinguished as: a medium of exchange, a unit of account, a store of value and a standard of deferred payment.

Money creation: the ability of commercial banks to expand the deposits of money that they receive by lending multiples of the amount, so increasing the overall money supply. It is also known as credit creation.

Money supply: the total value of monetary assets available in an economy at a specific time.

Monopolistic competition: a market structure where there are many buyers and sellers, producing differentiated products, with no barriers to entry or exit.

Monopoly: a market structure where there is only one firm in the industry, so the firm is the industry. Monopolies may, or may not, have barriers to entry.

Moral hazard: occurs when a party provides misleading information and changes behaviour after a transaction has taken place.

Multidimensional Poverty Index (MPI): an international measure of acute poverty covering over 100 developing countries. It complements traditional income-based poverty measures by capturing the deprivations that each person faces at the same time with respect to education, health and living standards.

Multilateral development assistance: assistance provided by multilateral organisations, such as the IMF and the World Bank, to help developing countries to achieve their development objectives.

Multilateral trade agreement: an agreement between a number of countries to reduce protectionist barriers, such as tariffs and quotas, in order to encourage free trade. A main actor in this process is the World Trade Organization.

N

National income: the total value of the final output of all new goods and services produced in a country in one year. It can also be stated in terms of total income or total expenditure.

National income accounting: the process of measuring the elements of an economy's national income.

National income statistics: the statistical data generated and employed in national income accounting.

Natural monopoly: exists when there are only enough economies of scale in a market to support one firm.

Natural rate of unemployment : the rate of unemployment that is consistent with a stable rate of inflation. It is the rate where the long-run Phillips curve touches the x-axis.

Necessity goods: a good where the demand for it increases as income increases, but then demand will stop increasing, as the consumer has enough of the good (such as salt).

Negative externalities of consumption: the negative effects that are suffered by a third party when a good or service is consumed.

Negative externalities of production: the negative effects that are suffered by a third party when a good or service is produced.

Net exports ($X - M$): export revenues minus import expenditure.

Nominal gross domestic product: the total money value of all final goods and services produced in an economy in a given time period, usually one year, at current values (not adjusted for inflation).

Nominal interest rates: interest rates that have not been adjusted for inflation.

Non-collusive oligopoly: where firms in an oligopoly do not resort to agreements to fix prices or output. Competition tends to be non-price. Prices tend to be stable.

Non-excludability: exists when it is impossible to prevent a person, or persons, from consuming a good or service.

Non-governmental organization (NGO): a non-government organization that exists to promote economic development and/or humanitarian ideals and/or sustainable development.

Non-price competition: competition between firms that is not based upon price. Forms of non-price competition include branding, packaging, advertising and sales promotion. They all aim to differentiate a firm's products.

Non-produced, non-financial assets : a measure of the net international sales and purchases of non-produced assets, such as land, and intangible assets, such as patents and copyrights.

Non-rivalrous: one of the characteristics of a pure public good, where consumption of the good by one consumer does not prevent others from consuming the product as well.

Normal goods: a good where the demand for it increases as income increases.

Normal profit: this occurs when total revenue is equal to total economic cost. It is also known as zero economic profit. It is the minimum return required for an entrepreneur to keep a firm in an industry in the long-run.

Normative economics: deals with areas of the subject that are open to personal opinion and belief.

Nudge theory: generally used to describe situations where nudges (prompts, hints) are used to improve the life and well-being of people and society.

O

OECD Better Life Index: an index to compare well-being across countries, based on 11 topics that the OECD has identified as essential, in the areas of material living conditions and quality of life.

Official borrowing: international borrowing by a government to help to cover a current account deficit.

Official Development Assistance (ODA): aid that is provided to a country by another government or an official government agency. It may be multilateral or bilateral in nature.

Oligopoly: a market structure where there are a few large firms that dominate the market.

Open market operations: the buying or selling of government securities in the open market in order to increase or decrease the amount of money in the economy.

Opportunity cost: the next best alternative foregone when an economic decision is made.

Output approach: measures the actual value of all goods and services produced in an economy; usually using a value-added method of calculation.

Overvalued currency: occurs when the value/exchange rate of a currency is above the equilibrium value. It only occurs in the long run in managed or fixed exchange rate systems.

P

Payoff matrix: the table that shows the possible outcomes that may be achieved by decision-makers in game theory analysis.

Per capita: means “per person” in Latin. Per capita measurements are usually achieved by dividing an economic measure by the size of the population, for example GDP per capita.

Perfect competition: a market structure where there are a very large number of small firms, producing identical products that are incapable of affecting the market supply curve. Because of this, the firms are price takers. There are no barriers to entry or exit and all the firms have perfect knowledge of the market.

Perfect information: exists where all stakeholders in an economic transaction have access to the same knowledge.

Perfectly elastic demand: where an increase in the price of a good or service leads to a fall in the quantity demanded of the good or service to zero. (PED would be infinity.)

Perfectly elastic supply: where a fall in the price of a good or service leads to a fall in the quantity supplied of the good or service to zero. (PES would be infinity.)

Perfectly inelastic demand: where a change in the price of a good or service leads to no change in the quantity demanded of the good or service. (PED would be equal to zero.)

Perfectly inelastic supply: where a change in the price of a good or service leads to no change in the quantity supplied of the good or service. (PES would be equal to zero.)

Personal income taxes: taxes paid by individuals, or by households, on their incomes. Incomes might be wages, salaries, interest or dividends.

Phillips curve: a curve showing the relationship between the rate of unemployment and the rate of inflation.

Pigouvian taxes: an indirect tax that is imposed to eliminate the external costs of negative externalities.

Planned economy: an economy where the means of production are collectively owned (except labour). The state determines how much to produce, how/many to produce and for whom to produce.

Portfolio investment: the purchase of financial investments such as shares and bonds in order to gain a financial return in the form of interest or dividends.

Positive discrimination: the practice of giving advantage to groups that have been treated unfairly in the past.

Positive economics: deals with areas of the subject that are capable of being proven to be correct or not.

Positive externalities of consumption: beneficial effects that are enjoyed by a third party when a good or service is consumed.

Positive externalities of production: beneficial effects that are enjoyed by a third party when a good or service is produced.

Potential output: the level of output produced in an economy, when it is at the full employment level of income in the long run.

Poverty: the scarcity or the lack of a certain amount of material possessions or money.

Poverty line: a level of income determined by a government or international organization that is deemed to be just sufficient to satisfy a family's minimum needs. In effect, it is an absolute poverty line.

Poverty trap/cycle: any circular chain of events starting and ending in poverty, such as low income means low savings means low investment means low growth means low incomes.

Preferential trade agreement: where a country agrees to give preferential access (such as reduced tariffs) to certain products from one or more trading partners.

Price ceiling (maximum price): a price imposed by an authority and set below the equilibrium price. Prices cannot rise above this price.

Price competition: competition between firms that is based upon adjusting prices to gain a competitive advantage.

Price controls: prices imposed by an authority, set above or below the equilibrium market price.

Price deflator: a coefficient that removes the impact of inflation when measuring economics statistics.

Price elastic demand: where a change in the price of a good or service leads to a proportionally larger change in the quantity demanded of the good or service. (PED would be greater than one.)

Price elastic supply: where a change in the price of a good

or service leads to a proportionally larger change in the quantity supplied of the good or service. (PES would be greater than one.)

Price elasticity of demand (PED): a measure of the responsiveness of the quantity demanded of a good or service when there is a change in its price.

Price elasticity of supply (PES): a measure of the responsiveness of the quantity supplied of a good or service when there is a change in its price.

Price expectations: forecasts or views that consumers hold about future price movements that play a role in determining consumer demand.

Price floor (minimum price): a price imposed by an authority and set above the market price. Prices cannot fall below this price.

Price inelastic demand: where a change in the price of a good or service leads to a proportionally smaller change in the quantity demanded of the good or service. (PED would be less than one.)

Price inelastic supply: where a change in the price of a good or service leads to a proportionally smaller change in the quantity supplied of the good or service. (PES would be less than one.)

Price maker: any firm that is able to charge its own price for its product. This is all firms except, those in perfect competition.

Price mechanism: the system where the forces of demand and supply determine the prices of products. It is also known as the market mechanism.

Price taker: a firm that cannot influence the industry price, and so has to accept whatever the market price is. This applies to all firms in perfect competition.

Price war: commercial competition characterized by the repeated cutting of prices below those of competing firms. The aim is to increase market share. It often leads to short-run economic losses.

Primary commodities: raw materials that are produced in the primary sector.

Primary sector: extracts or harvests products directly from the earth in order to produce raw materials or food.

Privatisation: a type of supply-side policy where the government sells public assets to the private sector.

Producer surplus: the additional benefit received by producers by receiving a price that is higher than the price they were willing to receive.

Product differentiation: occurs when a firm attempts to make its products different from the products of competing firms, to make the demand for them more price inelastic. For example, points of difference might be in brand

names, packaging, special features, after-sales service, appearance.

Production possibility curve (PPC): a curve showing the maximum combinations of goods or services that can be produced by an economy in a given period of time, if all the resources in the economy are being used fully and efficiently and the state of technology is fixed.

Productive capacity: the maximum possible output of an economy.

Profit maximization: producing at the level of output where profits are greatest – where marginal revenue equals marginal cost.

Progressive taxation: a system where the marginal tax rate paid increases as income increases, and so the average tax rate also increases. It normally consists of a number of “tax brackets”, each taxed at a higher rate as income increases.

Property rights: the exclusive, legal authority to own and determine how a resource is used, whether that resource is owned by the government or by individuals.

Proportional tax: a system of taxation in which tax is levied at a constant rate as income rises.

Public goods: goods or services that would not be provided at all by the market. They have the characteristics of non-rivalry and non-diminishability, for example flood barriers.

Public/private partnerships: a contractual arrangement between a public agency (federal, state or local) and a private sector firm.

Purchasing power parity (PPP): a theory which states that exchange rates between currencies are in equilibrium when their purchasing power is the same in each of the two countries.

Q

Quantitative easing: an expansionary monetary policy where a central bank buys predetermined amounts of government bonds, or other financial assets, in order to stimulate the economy and increase the money supply.

Quantity demanded: the willingness and ability to purchase a quantity of a good or service at a certain price over a given time period.

Quantity supplied: it is the willingness and ability to produce a quantity of a good or service at a given price over a given time period.

Quasi-public goods: goods which may satisfy the two public good conditions (non-rivalry and non-excludability) only to a certain extent or only some of the time. An example may include a public motorway that becomes jammed with excess traffic, stopping drivers from using it.

Quota: import barriers that set limits on the quantity or

value of imports that may be imported into a country.

R

Rational consumer choice: assumes that when making economic decisions, consumers attempt to maximize utility, act in their own self-interest, have perfect information and have consistent tastes and preferences. The rational consumer is known as *homo economicus*.

Rational producer behaviour: assumes that producers behave “rationally” by always attempting to maximize the profits that they make.

Rationing: an artificial control on the distribution of scarce resources.

Real GDP : the total money value of all final goods and services produced in an economy in a given time period, usually one year, adjusted for inflation.

Real GDP per person (per capita): real GDP divided by the population of the country.

Real GNI per person (per capita): real GNI divided by the population of the country.

Real interest rates: Interest rates that have been adjusted for inflation.

Recession: characterized by two consecutive quarters of negative real GDP growth

Refutation: a scientific and social-scientific method of proof where any proposition must be empirically tested to see if it can be proven to be wrong (refuted). If refuted, then the proposition is rejected.

Regional trade agreement: an agreement between a number of countries in a geographical area to reduce or eliminate barriers to international trade.

Regressive taxation: taxation that takes a larger share of income from lower income people than from higher income people. The average tax rate falls as incomes rise. Indirect taxes are good examples of regressive taxation.

Relative poverty: a comparative measure of poverty. A person is said to be in relative poverty if they do not reach some specified level of income, for example 50 per cent of average earnings for the country.

Remittances: the transfer of money by foreign workers to individuals, often family members, in their home country.

Reserve assets: foreign currencies and precious metals held by governments (central banks) as a result of international trade. Reserves may be held so that the government may maintain a desired exchange rate for the country's currencies.

Resource allocation: the process of assigning available resources (factors of production) to particular production

activities. This may be achieved through the market system, through planning, or through a mixture of both.

Restricted choices: when the choice of a consumer is restricted, but still exists.

Revaluation: an increase in the value of a currency in a fixed exchange rate system.

Rivalrous: goods and services are considered to be rivalrous when the consumption by one person, or group of people, prevents others from consuming the good.

Rules of thumb: mental shortcuts (heuristics) for decision-making to help people make a quick, satisfactory, but often not perfect, decision to a complex choice.

S

Satisficing: occurs when entrepreneurs endeavour to cover their opportunity costs, but do not push themselves significantly further, even though they might be able to earn higher profits. It is essentially a mix of the words ‘satisfy’ and ‘suffice’.

Say's law of markets: states that the production of goods creates its own demand.

Scarcity: the limited availability of economic resources relative to society's unlimited demand for goods and services.

Screening: using a screening process to gain more information regarding a participant in a transaction, in order to reduce asymmetric information and so reduce adverse selection.

Seasonal unemployment: equilibrium unemployment that exists when people are out of work because their usual job is out of season, such as a ski instructor in the summer.

Shortage: occurs when the quantity demanded of a product at a given price is greater than the quantity supplied.

Short-run aggregate supply (SRAS): aggregate supply that varies with the level of demand for goods and services and that is shifted by changes in the costs of factors of production.

The **short run in macroeconomics:** the period of time over which wages and the prices of other factors of production are “sticky”, or inflexible.

The **short run in microeconomics:** the period of time in which the supply of at least one factor of production is fixed.

Short-run Phillips curve: a curve showing the inverse relationship between the rate of unemployment and the rate of inflation, which suggests a trade-off between inflation and unemployment

Short-term fluctuations of economic activity: periodic

fluctuations in economic activity measured by changes in real GDP, illustrated in the business cycle.

Signalling: the sending of a signal revealing relevant information to a participant in a transaction in order to reduce asymmetric information, and so reduce adverse selection.

Signalling effect: prices give a signal to both producers and consumers. A rising price gives a signal to producers that they should increase their quantity supplied and signals to consumers that they should decrease the quantity demanded, and vice versa.

Social conformity: prevailing social norms or social customs that influence people's daily behaviour/choice making.

Social enterprise: a company in the social economy, whose main objective is to have a social impact rather than to make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives.

Social safety net: a collection of social welfare services provided by the state, or other institutions, targeted at poor and vulnerable households, to prevent falling into poverty.

Social sciences: studies of people in society and how they interact with each other.

Social/community surplus: the combination of consumer surplus and producer surplus.

Socially optimum output: occurs where the marginal social cost of producing a good is equal to the marginal social benefit of the good to society. In other words, it occurs where the marginal cost of producing a good (including any external costs) is equal to the price that is charged to consumers. ($P = MC$)

Specialization in microeconomics: an economy of scale where, as firms grow, they are able to have management specialize in individual areas of expertise. This increases efficiency and so reduces LRAC.

Specialization in global economics: occurs when an individual firm, or country, concentrates upon the production of one, or a limited number, of goods or services. It is related to the theory of comparative advantage.

Speculation: the buying or selling of an economic asset with the aim of making short-run profits. It often occurs when the price of a product is expected to increase or decrease in the future. It is particularly applicable to currency speculation.

Stakeholder: someone who has an interest, or stake, in an economic activity.

Standard of living: the level of wealth, comfort, material goods and necessities available to a certain socioeconomic

class in a country.

Structural unemployment: equilibrium unemployment that exists when in the long-term the pattern of demand and production methods change and there is a permanent fall in the demand for a particular type of labour. There is a mismatch between skills and the jobs available.

Subsidies: financial support paid by governments to firms

Subsidy (international): an amount of money paid by the government to a firm, per unit of output, to encourage output and to give the firm an advantage over foreign competition.

Substitutes: goods which can be used in place of each other, for example different brands of running shoes.

Substitution effect: when the price of a product falls, relative to other products, there is an incentive to purchase more of the product, since the marginal utility/price ratio has improved.

Supply: the willingness and ability of producers to produce a quantity of a good or service.

Supply curve: shows the relationship between the price of a good or service and the quantity supplied. It is normally upward sloping.

Supply-side policies: government policies designed to shift the long-run aggregate supply curve to the right, so increasing potential output in the economy.

Surplus: occurs when the quantity supplied of a product at a given price is greater than the quantity demanded.

Sustainability: meeting the needs of the present generation without compromising the ability of future generations to meet their own needs.

Sustainable debt: the level of debt that a country can "service", while still being able to achieve its economic growth objectives.

Sustainable development: the development needed to meet the needs of the present generation without compromising the ability of future generations to meet their own needs.

T

Tariff: a duty (tax) that is placed upon imports to protect domestic industries from foreign competition and to raise revenue for the government.

Tastes: the subjective, individual preferences of consumers.

Tight monetary policy: monetary policy designed to decrease aggregate demand and so the level of economic activity. It reduces inflationary pressure.

Total costs: the complete explicit and implicit costs of producing output. They may be split into total fixed costs and total variable costs.

Total revenue: the aggregate revenue gained by a firm from the sale of a particular quantity of output (equal to price times quantity sold).

Tradable permits: permits to pollute, issued by a governing body, which sets a maximum amount of pollution allowable. Firms may trade these permits for money.

Trade creation: occurs when the entry of a country into a customs union leads to the production of a good or service transferring from a high-cost producer to a low-cost producer.

Trade diversion: occurs when the entry of a country into a customs union leads to the production of a good or service transferring from a low-cost producer to a high-cost producer.

Trade liberalization: the process of reducing barriers to international trade.

Trade protection: an economic policy aiming to limit imports and/or encourage exports by setting up trade barriers.

Trading bloc: a group of countries that join together in some form of agreement in order to increase trade between them and/or to gain economic benefits from cooperation on some level.

Tragedy of the commons: a situation with common access resources, where individual users acting independently, according to their own self-interest, go against the common good of all users by depleting or spoiling that resource through their collective action.

Transfer payment: a payment for which no good or service is exchanged, often paid by the government. Examples may include unemployment benefit, pensions, student grants or even pocket money (allowances).

U

UN sustainable development goals (SDGs): a collection of 17 global goals set by the United Nations, to mobilize efforts to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind.

Undervalued currency: occurs when the value/exchange rate of a currency is below the equilibrium value. It only occurs in the long run in managed or fixed exchange rate systems.

Unemployment: the state of being eligible for work, actively looking for work, but without a job.

Unemployment benefits: payments, usually made by the

government, to people who are unemployed (and actively seeking employment).

Unemployment rate: the number of unemployed workers expressed as a percentage of the total workforce.

Unitary elastic demand: where a change in the price of a good or service leads to an equal and opposite proportional change in the quantity demanded of the good or service. (PED would be equal to one.)

Unitary elastic supply: where a change in the price of a good or service leads to an equal proportional change in the quantity supplied of the good or service. (PES would be equal to one.)

Universal basic income: a regular cash payment given to all on an individual basis, without means test or work requirement.

Utility: a measure of the satisfaction derived from purchasing a good or service.

W

Wage: the payment made to the factor of production, labour. It is usually paid by the hour, day or week. It may be paid per unit of output.

Wealth: the total value of all assets owned by a person, firm, community or country

Weighted price index: an approach to calculating the change in the price level by giving a weight to each item according to its importance in the consumers' budgets.

Welfare loss: a loss of economic efficiency that can occur when equilibrium for a good or service is not allocatively efficient.

World Bank: an organisation whose main aims are to provide aid and advice to developing countries, as well as reducing poverty levels and encouraging and safeguarding international investment.

World Trade Organization (WTO): an international body that sets the rules for global trading and resolves disputes between its member countries. It also hosts negotiations concerning the reduction of trade barriers between its member nations.