UPKAR'S

Dictionary of Economics and Commerce

Dr. Anupam Agrawal

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By
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WITH PROFOUND REVERENCE
DEDICATED TO THE
ETERNAL MEMORY OF MY
DEAR & RESPECTED FATHER
LATE MR. SHRAVAN KUMAR.
BY THE DIVINE BLESSINGS
OF HIS SPIRIT
THIS WORK COULD COME TO ITS
CONCLUSION.

Dr. Anupam Agrawal
Author

From Author's pen……

This 'Upkar Dictionary of Economics & Commerce has been designed to make it a comprehensive companion of readers so as to resolve the complexity of the subject. This book provides pin-pointed explanation of various aspects related to Economics as well as business life. Bold headwords provide quick and easy access to a number of entries.

The basic aim of presenting Upkar Dictionary of Economics & Commerce is to assist the readers, particularly students, in answering short-answer questions within the specified limited words as per the latest U.G.C. pattern of examination.

I will welcome all constructive suggestions for making this Dictionary a better one.

—Dr. Anupam Agrawal
Author

Dictionary of Economics & Commerce

A

Abandoned Option

This term is used in Capital Market. When share option is not exercised because the price is against the buyer, it is called 'Abandoned Option'.

Ability to Pay

This is a principle of taxation. This doctrine states that the burden of taxation should be shared amongst the members of society so as to conform to the principle of justice and equality and this equity criterion will be satisfied if the tax burden is apportioned among tax payers according to their relative ability to pay. Ability to pay principle, in other words, states that the amount of tax payable by an individual should depend on his ability to pay. Progressive taxation satisfies the doctrine of 'Ability to Pay.'

Abrasion

This term was frequently used in Gold Standard. Abrasion is the loss of weight of coins resulting from wear while they are in circulation.

Absenteeism

When a worker fails to complete the agreed number of hours of work for reasons apart from sickness or other approved cause, it is called 'Absenteeism'. This term is restricted to only voluntary absence from work for which worker gives no satisfactory reason. Absenteeism becomes a significant cause of production loss and it has a deleterious effect on the efficiency of a firm.

Absolute Cost Advantage

This doctrine was given by Adam Smith while explaining **two country-two Commodity model** of international trade. According to Adam Smith, exchange of commodities will take place between two nations if each of one can produce a commodity at an absolutely lower labour cost than that of other country. Absolute cost advantage doctrine states that division of labour and specialisation will increase total production and profits to both the nations if the first nation is more efficient than the second at producing one commodity while the second nation is more efficient at producing the other.

Illustration

Product	India	England
A	100	40
B	30	120

India can produce 100 units of commodity A while England can produce only 40 units of it with same labour cost. Hence India is having absolute cost advantage in production of commodity A. Similarly England has an absolute cost advantage in production of commodity B.

Absolute Monopoly

It is a market situation where single producer has a total command or control over the entire market. In pure monopoly only one seller is found in the market. No substitute for monopoly product is available in the market, as a result **the cross elasticity of demand for the monopoly product and its substitutes is zero.**

The absolute monopoly market has an average revenue curve (AR Curve) that has a unitary price elasticity throughout. In other words the AR Curve of a pure monopolist is a **rectangular hyperbola.**

Abstinence Theory of Interest

This theory was given by a classical economist N.W. Senior which asserts that interest is the payment for abstaining from current consumption. The sacrifice of present consumption and diverting resources from present use to future use is called abstinence. Such people, who sacrifice present consumption and provide funds to borrowers, are paid interest as a reward for their abstinence. In other words, since abstinence from consumption is painful, it is necessary to reward the saver for this act.

Accelerated Depreciation

It means reductions in tax liability which is related to a firm's capital expenditure. It is a practice whereby for tax purposes a firm is permitted to depreciate a new capital goods (*e.g.* machine) over a shorter period than that for which it is likely to be employed, with possibly a much

larger allowance for the first year than for subsequent years.

Acceleration

Acceleration principle is generally associated with the name of Prof. Aftalion who introduced this concept in 1917. 'Accelerator' shows the dependence of investment on consumption. This principle states that a given increase in demand for consumption goods generally causes an accelerated or magnified demand for capital goods, the latter bringing a stimulus to the whole economy. Thus **'consumption expenditure'** gives stimulus to **'investment expenditure'**. When initial investment is made in the economy, it increases the consumption which , in turn, stimulates induced investment. Hence, acceleration principle is associated with **'induced investment'.**

This principle was further developed by J.M. Clark, Pigou, Harrod, Robertson, Hansen, Samuelson, Hicks etc.

Accelerator Coefficient

The accelerator measures the change in investment as a result of changes in consumption. The accelerator coefficient, thus, is the ratio between induced investment and an initial change in consumption expenditure.

Accelerator Coefficient

$$= \frac{\text{Change in Induced Investment}}{\text{Change in Consumption}} = \frac{\Delta I}{\Delta C}$$

Accelerator Coefficient depends upon the size of capital-output ratio. Incremental capital output ratio shows how much capital has to be increased for raising one additional unit of output. Higher capital output ratio and the durability of capital goods increase the accelerator coefficient.

Accelerator-Multiplier Model

This is a model of trade cycle based on the interaction of multiplier and acceleration principle. According to the multiplier principle, a change in investment (autonomous) causes change in income.

At the time t, Multiplier $K = \frac{\Delta Y_t}{\Delta I_t}$

or, $\Delta Y_t = K(\Delta I_t)$

This change in income (ΔY_t) determines, through the acceleration principle, a level of investment. According to the acceleration principle, level of investment depends upon the rate of change in income. If this level is different from the level previously attained, there is further change in investment, which further results a change in income and so on. In this way multiplier and the accelerator act and react upon each other and this chain of actions and reactions goes on and on. Hence, according to this accelerator multiplier model, the full magnified effect of initial change in investment upon income can be measured by combining the acceleration and multiplier analysis. [Also see **Leverage Effect.**]

Acceptance

It is a term which is used to deserve a bill of exchange. It is needed to be accepted by the drawee *i.e.*, debtor. Acceptance is an instruction in black and white that appears across the face of the bill. The bill is 'honoured' and 'paid' only after the written instruction of the drawee agreeing to the order of the drawer *i.e.,* creditor.

Accepting Credit

This is a method of payment required in overseas trade. As the credit of importer is unknown, the exporters may require payment for the goods through the bankers who are the intermediaries between the importer and exporter. The banker of the importing nation is liable for the payment of amount as a specified period to the exporter. This is called a bank accepting credit.

Accepting House

Accepting or guaranteeing bills of exchange needs an institution for this purpose. Accepting House means a financial institution specialized in this business. Side by side, the financial institutions deal in loan issues, deposits and other matters relating to finance.

Accession Tax

This is a tax which is levied on gifts and inherited property. This tax is not a liability on the donor. This tax is levied on the recipient.

Accident Insurance

It is a kind of insurance against various types of accidents *e.g.*, personal accident, sickness insurance, motor vehicle insurance, theft, injury or loss etc. General Insurance Corporation deals with accident insurance.

Accommodating Transactions

It is also called compensating transactions. These transactions are most accurate for

measuring dis-equilibrium in the balance of payments. It is difficult to distinguish the type of transactions—autonomous or accommodating. Generally, the official-financing of the capital amount comes under accommodating transaction entries.

Accounts

This is a stock exchange term. It refers to the period during which transactions take place. There are 24 account periods in a year; two of them extend to 3 weeks and the rest are of a 15 days duration. Speculators pay or receive payment for shares bought or sold on the account day which follows the account in which transactions are made.

Accountant

Accountant is the person who is incharge with the day-to-day transactions. It ensures the posting of the transactions into the ledger. Preparation of the trial balance and the final accounts also comes under his authority. A qualified accountant, therefore, is a must for business concern.

Account Day

It is also called Pay Day or Settlement Day. On the Pay Day, the wages are paid to the workers while on the Settlement Day, payments are made for all the transactions made during the preceding period.

Accounting Period

It is the period, usually one year, for which the account books are kept. When the accounting period ends, the Accountant draws the trial balances, prepares the account as regards trading, profit and loss and also prepares the Balance Sheet.

Accrual Basis

When the Accountant prepares the Trading, Profit & Loss Account, the trader is able to know what has accrued to him—profit or loss. He also becomes aware of the precise amount as regards profit or loss.

Accrued Interest

Interest on a security which has accumulated upto a certain time is called Accrued Interest.

Active Stock

Shares of a particular company or all sets of companies—reputed, highly reputed, marginal or sub-marginal in which there are frequent dealing on the stock exchange are called Active Stock. A table of Active Stocks is prepared daily and weekly.

Activity Rate

It is also called Participation Rate. The working population *e.g.* employees, registered unemployed and the self-employed is taken into account while preparing the Activity Rate. School children and retired people are excluded while determining the Activity Rate. Activity rate in the rate or ratio of the total working population to the aggregate population of a country at a particular time.

Acid Test Ratio

After the preparation of the final accounts which specifies the assets and liabilities, the Acid-Test Ratio is ascertained. For this, two factors are taken into consideration—

1. ***The liquid assets i.e.***,Cash in hand, balance in bank, securities etc. which can be converted into money without any difficulty.

2. ***Current Liabilities i.e.*****,** money owned to the banks for overdrafts, payment received on account, money owned to trade creditor for work done but not paid for and taxation.

Aggregate of liquid assets is divided by the Current Liabilities to determine the Acid Test Ratio.

Active Circulation

Active Circulation is that part of the note issued by the Reserve Bank of India which is found in circulation at any time. It is shown in the weekly Bank Return for the Issue Department as "Notes in Circulation."

Active Market

This is a term used by stock exchange which specifies the particular stock or share which deals in frequent and regular transactions. It helps the buyers to obtain reasonably large amounts at any time.

Act of God

Natures' fury or Godly sent mishaps such as earthquakes, cyclone etc. are Acts of God which are inevitable. G.I.C. (General Insurance Company) covers and compensates most of the losses which are caused by such Acts of God.

Actuals

This is related to the items which are bought for immediate delivery in a commodity market. These are also called spot transactions at the stock exchange.

Actuary

Actuary is the person who can calculate risk wisely. Insurance companies cover risk to property and life. The insurance companies specify and determine the premium according to the estimate of the risk involved. Actuary assesses risks for the purposes of insurance.

Adaptive Expectation

In the economic field, particular changes take place *e.g.* inflation, interest rate, exchange rate etc. The expectations or apprehensions of the people concerned and involved are affected with these changes. The people expect that the Government can achieve and will fulfil the economic aims. This expectation is known as Adaptive Expectation.

Additive Utility Function

Additive utility function depends on the notion that the utility of one article is independent of the utility derived from the other article. In other words, utility functions are independent. Additive utility can be worked out by adding the utilities of various articles of consumption. As the utility functions are independent, the utility derived from the consumption of one article is unaffected by the utility derived from the consumption of other article. This assumption of additive utility does not hold true in case of related goods (*i.e.* substitutes and complementary goods) where utility functions are dependent.

Administered Price

The administrative body *e.g.*,the Government, a marketing board or a trading group determines this price. The competitive market forces are not entitled to determine this price. The Government fixes this price in accordance with demand-supply position in the market.

Ad valorem Tax

Advalorem tax is a kind of indirect tax in which goods are taxed by their values. In the case of advalorem tax, the tax amount is calculated as the proportion of the price of the goods. Value Added Tax (VAT) is an ad valorem tax [Also see **Specific Tax**].

Advance

It is a loan made by the banker or firm or company to an individual. It is made for a certain period of time at a certain rate of interest. The amount (Principal + interest) is returned in equal instalments out the entire period as agreed upon.

Advanced Countries

Advanced countries are countries which are industrially advanced, having high national and per capita income and ensure high rate of capital formation. These countries possess highly developed infrastructure and apply most updated and advanced technical know-how in their productive activities. A strong and well organised financial structure is found in these advanced countries.

Adverse Balance of Payments

The balance of payments statement includes all the payments which a country has to receive for exporting visible and unvisible items and which the country has to pay for importing all the visible and invisible items. When the payment for such imports exceeds the receipts of exports, it is called adverse balance of payments.

Adverse Balance of Trade

Unlike balance of payment, balance of trade includes only exports and imports of merchandise (*i.e.,* visible goods). In other words, balance of trade statement includes all the payments which a country has to receive for exporting only visible items and which the country has to pay for importing only visible items. When the payment of such imports exceeds the receipt of visible exports, it is called adverse balance of trade.

Advertising

Advertising means publicising of goods which are produced by enterprises. It informs the customers about the details of the goods, price of the product, availability, specification etc. The aim of advertising is to keep the buyers well-informed about the commodity. Good advertisement creates market for buying a greater quantity by the customers.

Advice Note

This Advice Note is meant to inform a person that a certain transaction has been carried out. It is a commercial document. The supplier informs the purchaser about the date of despatch of goods and also the means of transport employed in sending the goods.

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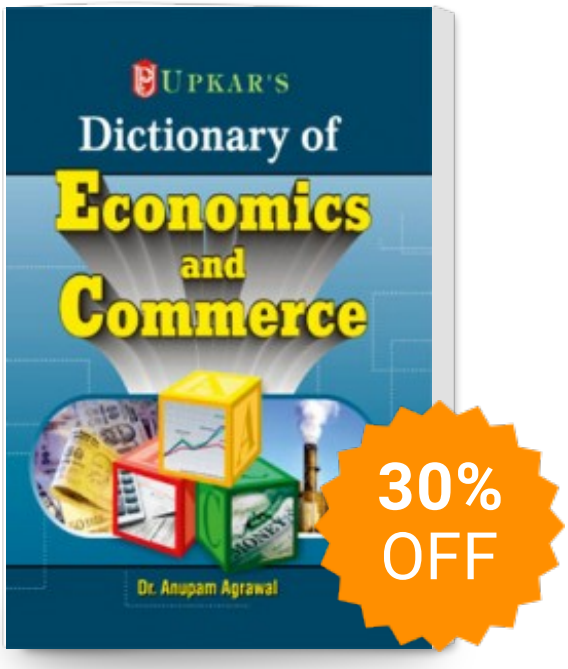

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