AP Macroeconomics: Unit 4 Terms

Glossary

Chapter 26

bond	a certificate of indebtedness
budget deficit	a shortfall of tax revenue from government spending
budget surplus	an excess of tax revenue over government spending
crowding out	a decrease in investment that results from government borrowing
financial intermediaries	financial institutions through which savers can indirectly provide funds to borrowers
financial markets	financial institutions through which savers can directly provide funds to borrowers
financial system	the group of institutions in the economy that help to match one person's saving with another person's investment
market for loanable funds	the market in which those who want to save supply funds and those who want to borrow to invest demand funds
mutual fund	an institution that sells shares to the public and uses the proceeds to buy a portfolio of stocks and bonds
national saving (saving)	the total income in the economy that remains after paying for consumption and government purchases
private saving	the income that households have left after paying for taxes and consumption
public saving	the tax revenue that the government has left after paying for its spending
stock	a claim to partial ownership in a firm

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compounding	the accumulation of a sum of money in, say, a bank account, where the interest earned remains in the account to earn additional interest in the future
diversification	the reduction of risk achieved by replacing a single risk with a large number of smaller, unrelated risks
efficient markets hypothesis	the theory that asset prices reflect all publicly available information about the value of an asset
finance	the field that studies how people make decisions regarding the allocation of resources over time and the handling of risk
firm-specific risk	risk that affects only a single company
fundamental analysis	the study of a company's accounting statements and future prospects to determine its value
future value	the amount of money in the future that an amount of money today will yield, given prevailing interest rates
informational efficiency	the description of asset prices that rationally reflect all available information
market risk	risk that affects all companies in the stock market
present value	the amount of money today that would be needed, using prevailing interest rates, to produce a given future amount of money
random walk	the path of a variable whose changes are impossible to predict
risk aversion	a dislike of uncertainty

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central bank	an institution designed to oversee the banking system and regulate the quantity of money in the economy
commodity money	money that takes the form of a commodity with intrinsic value
currency	the paper bills and coins in the hands of the public
demand deposits	balances in bank accounts that depositors can access on demand by writing a check
discount rate	the interest rate on the loans that the Fed makes to banks
federal funds rate	the interest rate at which banks make overnight loans to one another
Federal Reserve (Fed)	the central bank of the United States
fiat money	money without intrinsic value that is used as money because of government decree
fractional-reserve banking	a banking system in which banks hold only a fraction of deposits as reserves
liquidity	the ease with which an asset can be converted into the economy's medium of exchange
medium of exchange	an item that buyers give to sellers when they want to purchase goods and services
monetary policy	the setting of the money supply by policymakers in the central bank
money	the set of assets in an economy that people regularly use to buy goods and services from other people
money multiplier	the amount of money the banking system generates with each dollar of reserves
money supply	the quantity of money available in the economy
open-market operations	the purchase and sale of U.S. government bonds by the Fed
reserve ratio	the fraction of deposits that banks hold as reserves
reserve requirements	regulations on the minimum amount of reserves that banks must hold against deposits
reserves	deposits that banks have received but have not loaned out
store of value	an item that people can use to transfer purchasing power from the present to the future
unit of account	the yardstick people use to post prices and record debts

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classical dichotomy	the theoretical separation of nominal and real variables
Fisher effect	the one-for-one adjustment of the nominal interest rate to the inflation rate
inflation tax	the revenue the government raises by creating money
menu costs	the costs of changing prices
monetary neutrality	the proposition that changes in the money supply do not affect real variables
nominal variables	variables measured in monetary units
quantity equation	the equation $M \times V = P \times Y$ relates the quantity of money, the velocity of money, and the dollar value of the economy’s output of goods and services
quantity theory of money	a theory asserting that the quantity of money available determines the price level and that the growth rate in the quantity of money available determines the inflation rate
real variables	variables measured in physical units
shoeleather costs	the resources wasted when inflation encourages people to reduce their money holdings
velocity of money	the rate at which money changes hands