Instructional Vocabulary

Economics

Unit 1: Introduction and Basic Concepts

- **Free enterprise system** – market economy or capitalism in which individuals depend on the interaction of supply and demand in the marketplace to determine the answers to the three economic questions of “what to produce?”, “how to produce?”, and “for whom to produce?”
- **Scarcity** – the condition of unlimited wants and limited resources; “you cannot have everything you want, forcing us to make choices”
- **Opportunity cost** – the next best alternative use of resources, money or time
- **Economic interdependence** – how the different sectors of the economy are connected to each other, and decisions of one will impact the others

Unit 2: Celebrate Freedom Week

- **Economic System** – organized way in which a state or nation allocates its resources and apportions goods and services in the national community
- **Property Rights** – the rights of an owner over property. These generally include rights to use property, and to exclude others from it. Rights are a necessary condition for successful economic development. Property rights are not absolute.
- **Free enterprise** – the same as a market economy. In a market economy, individuals depend on supply, demand, and prices to determine the answers to the four economic questions of “what to produce,” “how to produce,” “how much to produce,” and “for whom to produce.” The system has four characteristics: economic freedom, voluntary exchange, private property, and the profit motive.

Unit 3: Global Economy

- **Absolute advantage** – with given resources, one country can produce more of a product than another country can. A country has an absolute advantage when it can produce more of a given product than other countries using a given amount of resources.
- **Comparative advantage** – with given resources, one country can produce a product with a lower opportunity cost than another country can.
- **Specialization** – the condition in which resources are primarily devoted to specific tasks
- **Trade barriers** – government imposed restriction on the free international exchange of goods or services, such as import policies, restrictions on franchising, quotas, etc.
- **Free trade** – policy that allows for nations to trade without restrictions. International free-trade agreements result from cooperation between at least two countries to reduce trade barriers and tariffs and to trade with each other.
- **Opportunity Cost** – the cost of the next best alternative use of money, time, or resources when one choice is made over another

Unit 4: Microeconomics: Supply and Demand

- **Supply** – the total amount of a product (good or service) available for purchase at any specified price.

- **Demand** – the amount of a particular economic good or service that a consumer or group of consumers will want to purchase at a given price.
- **Equilibrium** – the state in which market supply and demand balance each other and, as a result, prices become stable.
- **Monopoly** – a market in which there are many buyers but only one seller; a commodity controlled by one party

Unit 5: Personal Financial Literacy

- **Investment** – laying out money or capital in an enterprise with the expectation of profit
- **Risk/Return Relationship** – the direct relationship between the risk of an investment and its expected return
- **Compound Interest** – interest which is calculated not only on the initial principal but also the accumulated interest of prior periods
- **Credit Score** – a measure of credit risk calculated from credit report using a standardized formula

Unit 6: Macroeconomics: Government Policy

- **Business cycle** – a pattern to the general level of economic activity or the production of goods and services. Characterized by periods of increased economic activity and periods of decreasing economic activity.
- **Economic indicators** – statistical data showing general trends in the economy. (Examples: unemployment, industrial production, GDP, stock market prices)
- **Gross Domestic Product** – the dollar value of all final goods produced within the borders of the U.S. during a one year period
- **Inflation** – a general rise in the level of prices in an economy
- **Unemployment** – the number of people who do not have a job but are actively seeking employment

Unit 7: Macroeconomics: Money, Banking, and the Federal Reserve

- **Money** – anything commonly accepted in exchange for goods and services
- **Federal Reserve System** – privately owned, publicly controlled system which serves as the nation's central bank. The Federal Reserve regulates the supply of money in the economy through interest notes or by altering the reserve requirement, discount rate, and open market options. The Federal Reserve also supplies paper currency, called Federal Reserve Notes, holds banks' reserves, provides check clearing services, and supervises member banks. The System consists of a seven member Board of Governors with headquarters in Washington, D.C., and twelve Reserve Banks located in major cities throughout the United States.
- **Monetary Policy** – the Federal Reserve's policy of regulating the availability of credit and the money supply to deal with economic instability (unemployment and inflation)
- **Reserve requirement** – the percentage of deposits that the Federal Reserve requires banks to hold on reserve and not lend out
- **Discount rate** – the interest rate that the Federal Reserve charges commercial banks for loans
- **Open Market Operations** – m interventions by a central bank to manipulate liquidity levels by buying or selling short term securities. When it sells the securities, the central bank soaks up the liquidity, and when it buys them it injects liquidity in the local economy. The Federal Open Market Committee makes key decisions regarding the conduct of open market operations. The FOMC, the monetary policymaking body of

the Federal Reserve System, is responsible for formulation of a policy designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.