Created by Zsolt Nemeth & Eva Galai, IBS Team Challenge Project, 2013

Text of Macroeconomics Talking Definitions week 5-6 voice file

Paradox of thrift:

Economic concept that if everyone tries to save an increasingly larger portion of his or her income, they would become poorer instead of richer. This is because the economy will slow down from reduction in demand and the very same people would lose their jobs.

Crowding out

A decrease in investment that results from government borrowing

bond

a certificate of indebtedness

stock

a claim to partial ownership in a firm

Financial asset:

Financial claims to the income generated by the firm's real assets. The firm finances its investments in real assets by issuing financial assets to investors.An asset that derives value because of a contractual claim. Stocks, bonds, bank deposits, bank loan and the like are all examples of financial assets.

Liquidity of an asset

the ease with which an asset can be converted into the economy's medium of exchange.The set of assets in an economy that people regularly use to buy goods and services from other people

Token money:

Token money is money made from tokens of some form, as opposed to account money. Most modern coins used in circulation are token money, as are paper notes.

IOU money:

An informal document that acknowledges a debt owed. IOU is an abbreviation, in phonetic terms, of "I owe you." The debt owed does not necessarily involve a monetary value but can also involve other products. Acceptance depend on the reliability of the issuer.

Budget Deficit and Budget surplus:

An excess of government spending over government tax receipts
The opposite of a budget deficit is a budget surplus, and when inflows are equal to outflows, the budget is said to be balanced.

National debt:

The accumulated amount of past deficit.

Monetary base

In a modern industrialized monetary economy, the monetary base is made up of:
1.The currency held by individuals and firms and
2. bank reserves kept within a bank or on deposit at the central bank.

Money supply

The quantity of money available in the economy

Money in use

Today, there are three common forms of money in use. Commodity money is a good whose inherent value serves as the value of money – gold or silver being one good example. Fiat money is a good whose value is less than the value of money it represents – paper money, for instance. Bank money consists of accounting credits that can be drawn on by the depositor – checking accounts, for instance.

Money multiplier
The amount of money the banking system generates with each unit or reserves

Fractional reserve banking
A banking system in which banks hold obly a fraction of deposits as reserves

Reserves
Deposits that banks have received but have not loaned out

Reserve ratio
The fraction of deposits that banks hold as reserves

Required reserve ratio
Regulations on the minimum amount of reserves that banks must hold against deposits

Discount rate
The interest rate at which the Federal Reserve lends on a short term basis to the US banking system

Refinancing rate
The interest rate at which the Central Bank lends on a short term basis to the banking sector

The central bank
An institution designed to regulate the quantity of money in the economy

Lender of Last Resort

The central bank stands ready to lend to banks when financial panic threatens,

- to avoid the snowball effect of temporary illiquidity,
- to prevent financial crises,
- and maintain confidence in the financial system.

Monetary Policy

The set of actions taken by the central bank in order to affect the money supply

Automatic stabilizers

Changes in fiscal policy that stimulate aggregate demand when the economy goes into a recession, without policy makers having to take any deliberate action

Stabilization policy

A macroeconomic strategy enacted by governments and central banks to keep economic growth stable, along with price levels and unemployment. Ongoing stabilization policy includes monitoring the business cycle and adjusting benchmark interest rates to control aggregate demand in the economy. The goal is to avoid erratic changes in total output, as measured by Gross Domestic Product (GDP) and large changes in inflation; stabilization of these factors generally leads to moderate changes in the employment rate as well.