Text of Macroeconomics Talking Definitions week 7-8 voice file

Direct tax
A tax that is levied directly on a person’s income.

Indirect tax
A tax that is levied on goods and services bought.

Benefits principle
The idea that people should pay taxes based on the benefits they receive from government services

GDP deflator
A measure of the price level calculated as the ratio of nominal GDP to real GDP times 100.

Shoe leather costs
The resources wasted when inflation encourages people to reduce their money holdings.

Menu costs
The costs of changing prices

Indexation
The automatic correction of a money amount for the effects of inflation by law or contract

Trade balance
The value of a nation’s exports minus the value of its imports; also called net exports.

Net Exports

Spending on domestically produced goods by foreigners (exports) minus spending on foreign goods by domestic residents (imports).

Current account

The difference between a nation's total exports of goods, services and transfers, and its total imports of them. Current account balance calculations exclude transactions in financial assets and liabilities.

Capital account

A national account that shows the net change in asset ownership for a nation. The capital account is the net result of public and private international investments flowing in and out of a country.

Balance of payments (BoP)

A record of all transactions made between one particular country and all other countries during a specified period of time. BOP compares the dollar difference of the amount of exports and imports, including all financial exports and imports. A negative balance of payments means that more money is flowing out of the country than coming in, and vice versa.

Barter economy

A barter economy is an economy that lacks a commonly accepted currency, so all exchanges must be made with goods and services because money does not exist in these economies.

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

Fisher hypothesis, Fisher effect:

The one-for-one adjustment of the nominal interest rate to the inflation rate

Cost of inflation:

Economists have identified six cost of inflation:
1. Sholeather costs associated with reduced money holdings,
2. Menu cost associated with more frequent adjustment of prices,
3. Increased variability of relative prices,
4. Unintended changes in tax liabilities due to non-indexation of the tax system.
5.Confusion and inconvenience resulting from a changing unit of account,
6. Arbitary redistributions of wealth between deptors and creditors.

Hyperinflation

Extremely rapid or out of control inflation. There is no precise numerical definition to hyperinflation. Hyperinflation is a situation where the price increases are so out of control that the concept of inflation is meaningless.

Seigniorage:

The difference between the value of money and the cost to produce it - in other words, the economic cost of producing a currency within a given economy or country. If the seigniorage is positive, then the government will make an economic profit; a negative seigniorage will result in an economic loss.

The inflation tax:

The revenue the government raises by creating money

Under estimated inflation:

Infaltion is underestimated if the actual level is higher than expected. Redistribution from the owners of nominal assets to the owners of nominal liabilities. From lenders to borrowers. From employees to employers.

Nominal/Real Appreciation

Deflation abroad
Inflation at home

Consequence of real appreciation: Loss of international competitiveness. Domestic price of foreign goods decrease relative to domestic price of domestic goods. Export decrease, import increase.

Under estimated inflation:

Infaltion is underestimated if the actual level is higher than expected. Redistribution from the owners of nominal assets to the owners of nominal liabilities. From lenders to borrowers. From employees to employers.

Velocity of money:

The rate at which money changes hands

Nominal exchange rate:

The rate at which a person can trade the currency of one country for the currency of another.

Real exchange rate

The rate at which a person can trade the goods and services of one country for goods and services of another.

Real Depreciation

Consequence of real depreciation: Gain of international competitiveness, domestic price of foreign goods increase relative to domestic price of domestic good. Export increase, imports decrease, trade deficit decrease.

Purchasing Power Parity path

Purchasing power parity (PPP) is 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. This means that the exchange rate between two countries should equal the ratio of the two countries' price level of a fixed basket of goods and services. When a country's domestic price level is increasing that country's exchange rate must depreciated in order to return to PPP.

Over or under valued currency

The situation of a currency whose value on the exchange market is higher or lower than is believed to be sustainable. This may be due to a pegged or managed rate that is above or below the market-clearing rate, or, under or above a floating rate, it may be due to speculative capital inflows. Contrasts with under-valued currency

Balance of Payments

A record of all transactions made between one particular country and all other countries during a specified period of time. BOP compares the dollar difference of the amount of exports and imports, including all financial exports and imports. A negative balance of payments means that more money is flowing out of the country than coming in, and vice versa.

Current Account:

The difference between a nation's total exports of goods, services and transfers, and its total imports of them. Current account balance calculations exclude transactions in financial assets and liabilities.

Capital account (also known as financial account)

A national account that shows the net change in asset ownership for a nation. The capital account is the net result of public and private international investments flowing in and out of a country.

Met capital outflow:

The purchase of foreign assets by domestic residents minus the purchase of domestic assets by foreigners

Internal balance:

A situation in which the consumption in an economy roughly equals production. That is, external balance occurs when what is spent and what is produced in the economy are never too far from being even. Internal balance may be characterized by both full employment and low inflation, though not all economists believe this is possible. Maintaining internal balance is considered sustainable.

External balance:

A situation in which the money a country brings in from exports is roughly equal to the money it spends on imports. That is, external balance occurs when the current account is neither excessively positive nor excessively negative. An external balance implies capital movement. That is, a country needs to have both imports and exports to maintain an external balance; it is not sufficient simple to note no balance by not buying and selling goods. An external balance is considered sustainable.