

Glossary of Terms

Asset – Items that one owns; they can be financial or non-financial in nature.

Balanced budget – Government revenues equal expenditures.

Banks – Corporations chartered by state or federal government to offer numerous financial *services* such as checking and savings accounts, loans, and safe deposit boxes; the Federal Deposit Insurance Corporation (FDIC) insures accounts in federally chartered banks.

Benefits – Something that is favorable to the decision maker.

Borrowing – Obtaining or receiving something on *loan* with the promise or understanding of returning it or its equivalent.

Budget – A plan for managing *income* and expenses.

Budget deficit – A shortfall of government receipts from government spending.

Budget surplus – An excess of government receipts over government spending.

Capital gains – Gains from selling stocks or other *financial investments* for more than what was paid for them.

Choices – Decisions.

Commissions – Fees to a third party for assisting in a business transaction, such as buying or selling an *asset*.

Compound interest – *Interest* credited daily, monthly, quarterly, semi-annually or annually on both *principal* and previously credited *interest*.

Consequences – Outcomes that logically or naturally follow from an action or condition; consequences can occur with the decision maker or with an uninvolved party.

Consumers – People whose wants are satisfied by using *goods* and *services*.

Costs – Something that is unfavorable to the decision maker.

Credit – All *money borrowed*, other than home financing.

Credit bureaus – Organizations to which business firms apply for credit information on prospective customers.

Credit card – Any card, plate, or coupon book that may be used repeatedly to borrow money or buy goods and services on credit.

Credit reports – Statements containing information about prospective customers furnished by *credit bureaus*.

Credit unions – Not-for-profit cooperatives of members with some type of common bond (e.g., employer) that provide a wide array of financial *services*, often at a lower cost than banks.

Creditworthy – Having the ability and willingness to repay *debts*.

Debt – An obligation or liability to pay or render something to someone else.

Debit card – A card issued by a bank that directly accesses available funds from a bank account, typically a savings or checking account.

Deductions – Amounts that are or may be lawfully deducted from *tax* obligations.

Demand – The quantity of *goods, services* or *resources* that consumers are willing and able to buy at all possible *prices* in a given time period.

Discount rate – The interest rate charged to commercial banks and other depository institutions on loans they receive from their regional Federal Reserve Bank's lending facility--the discount window.

Disposable income – The income a person has left to spend or save after taxes and other required deductions have been taken out of his or her gross pay; net pay.

Diversification – To distribute *money* among several *financial investment* tools in order to average the *risk* of loss.

Dividends – Periodic payments of the profit of a corporation to its stockholders or owners.

Employee benefits – Something of value that an employee receives in addition to a *wage* or *salary*. Examples include health insurance, life insurance, discounted child care and subsidized meals at the company.

Employer-sponsored savings plans – A government-approved program through which an employer can assist workers in building their personal retirement funds.

Entrepreneurs – People who organize, manage, and assume the *risks* of a firm, taking a new idea or a new product and turning it into a successful business.

Exemptions – Release from *tax* payments that the IRS allows.

Federal funds rate – The interest rate at which depository institutions lend balances (federal funds) at the Federal Reserve to other depository institutions overnight. It is *not* (as the name might initially suggest) the rate at which the Fed lends to financial institutions.

Federal Insurance Contribution Act (FICA) taxes – Every year a person works, the person and his/her employer contribute equal amounts (6.2% in 2005) up to the earnings cap and 1.45% of amounts over that to Social Security. If a person earns more than the cap, he/she continues to pay 1.45% of the total amount for Medicare. FICA taxes are also called payroll taxes.

Federal Reserve System – The central bank of the United States.

FICO score – Fair Isaac and Company software used by credit bureaus to calculate an individual's credit risk provided to lenders; the higher the score the lower the risk but other factors are considered in addition to this score.

Financial investment – *Money* set aside to increase wealth over time and accumulate funds for long-term financial goals such as retirement.

Financial plan – A plan of action that allows a person to meet not only immediate desires but also long-term goals.

Fiscal policy – The spending and taxing policies used by the government to influence the economy.

Free riders – Persons who receive the benefit of a *good* but avoid paying for it.

Goods – Objects that can satisfy people's *wants*.

Gross domestic product (GDP) – The total *market* value, expressed in dollars, of all final *goods* and *services* produced in an economy in a given year.

Human capital – The knowledge, skills and experience that make a worker more productive.

Human resources – The *resources* provided to the economy by people who work (mental or physical work) in the economy.

Incentives – Perceived *benefits* that encourage certain behaviors.

Income – Earnings received as *wages*, rent, *profit*, or *interest* (alternative: payments received for providing *resources* in the market).

Individual Retirement Account (IRA) – Accounts established by the Federal government in 1981 to encourage people to save money for retirement. Individuals with income from employment can deposit up to 10% of their earnings, to a maximum set by the government each year, into a special account set up using a bank, brokerage, or mutual fund as trustee or custodian. IRAs are self-directed, which means the individual chooses how the money is invested. Deposits in traditional IRAs are tax deductible. The money is taxed when it is withdrawn from the account.

Individual Retirement Account (IRA) Roth – A new type of IRA, established in the Taxpayer Relief Act of 1997, which allows taxpayers, subject to certain income limits, to save for retirement while allowing the savings to grow tax-free. Taxes are paid on contributions, but withdrawals, subject to certain rules, are not taxed at all. Individuals with income from employment can deposit a maximum amount set by the government each year into a special account using a bank, brokerage, or mutual fund as trustee or custodian. Roth IRAs are self directed.

Inflation – A sustained increase in the average *price* level.

Insurance – Coverage by contract through which one party agrees to indemnify or guarantee another against loss which results from a specified peril or contingency.

Interest – The *price* of using *credit*. Interest is the *income* payment for the use of capital resources.

Interest rate – The *price* of using *credit* expressed as a percentage of the amount owed.

Intermediate goods – Things produced by people and used in the production of other *goods* and *services*.

Investment – The purchase of new capital *resources*. (A more sophisticated definition is the diversion of *resources* from the production of *goods* and *services* for current consumption to the production of *goods* that increase the economy's productive capacity.)

Labor unions – Worker associations that bargain with employers over wages and working conditions.

Leasing – Entering into a rental agreement.

Liquidity – The quality of an *asset* that permits it to be converted quickly into cash without loss of value.

Loan – A sum of *money* provided temporarily on the condition that the amount *borrowed* be returned, usually with an *interest* fee.

Market – A group of buyers and sellers of a particular *good* or *service*.

Market system – An economy that allocates *resources* through the decentralized decisions of many firms and households as they interact in *markets* for *goods* and *services*.

Medicare – The federal government-sponsored health insurance program for citizens 65 or older. An individual's contribution to Medicare is part of FICA – the Federal Insurance Contribution Act.

Medium of exchange – What sellers generally accept and buyers generally use to pay for *goods* and *services*.

Monetary policy – The behavior of the Federal Reserve System regarding the *money supply*.

Money – Anything that is used as a medium of exchange.

Money supply – The quantity of *money* available in the economy.

National debt – The total amount of outstanding government securities held by the public.

Natural resources – Physical inputs that occur naturally in our world.

Net worth statement – A record of what a family or person would own after paying off all liabilities; *assets* – liabilities = net worth.

Opportunity cost – The value of the highest foregone alternative.

PACED decision making grid – Problem, Alternative, Criteria, Evaluate and Decision grid is a graphic organizer used to make an informed decision.

Payroll deductions – Amounts subtracted from a paycheck as the government requires or the employee requests. Mandated deductions include various taxes. Voluntary deductions include loan payments or deposits into saving accounts.

Per capita GDP – *Gross Domestic Product* divided by population.

Personal income taxes – A tax levied on a person’s annual *income*.

Price – What people pay when they buy a *good* or *service* and what they receive when they sell a *good* or *service*.

Prime Rate – The interest rate charged by banks to their most creditworthy customers (usually the most prominent and stable business customers).

Principal – The original amount of *money* invested or borrowed, excluding any *interest* or *dividends*.

Producers – People who use *resources* and intermediate *goods* to make *goods* and *services*.

Productivity – A ratio of output to input. For example, output per worker is a measure of the productivity of labor. The productivity of a firm can be increased through *specialization* or division of labor, *investment* in *human capital*, and investment in capital *resources*.

Profit – The revenue remaining after the business has paid its *costs* of production. Profit is the *income* payment to *entrepreneurs*.

Property rights – Having the legal authority to control the use of an item one owns.

Property taxes – Required payments on one’s property to local government.

Public goods – *Goods* that cannot be sold effectively in the marketplace; these *goods* are characterized by shared consumption and non-exclusion. As a result, government usually provides these *goods*.

Purchasing power – A measurement of the relative value of *money* in terms of the quality and quantity of *goods* and *services* it can buy.

Rate of return – Also called the “yield,” this is the return on an investment expressed as a percentage of its *cost*.

Rent – The amount charged to use something for a period of time. The income payment received for the use of natural resources.

Rent to Own – To borrow with the intent to take permanent possession through purchase.

Resources – Things used to produce *goods* and *services*.

Risk – Exposure to loss of investment capital due to a variety of causes such as business failure, stock market volatility, and *interest rate* changes; in business, the likelihood of loss or reduced *profit*; the danger or probability of loss to an individual.

Salaries – Payments for work, usually calculated in periods of a week or longer. Salary is usually tied to the completion of specific duties over a minimum but not maximum number of hours.

Sales taxes – *Taxes* levied on the retail price of merchandise and collected by the retailer.

Save – To set aside *income* (earnings) for future use.

Saving – The process of setting aside *income* (earnings) for future use.

Savings – The accumulation of *money* set aside for future use.

Savings and loan associations – Financial institutions that provide *loans* and interest-bearing accounts.

Scarcity – The condition of not being able to have all of the *goods* and *services* that one wants; it exists because human wants for *goods* and *services* exceed the quantity of *goods* and *services* that can be produced using all available *resources*.

Self-employment – Work for oneself, not for an employer.

Self-interest – Regard for one's personal advantage.

Services – Actions that can satisfy people's *wants*.

Smart card – A plastic card containing a computer chip with memory and CPU capabilities. Such a card may be used for identification, to store information or financial amounts, or other forms of data. Also called an integrated circuit card or a chip card.

Social Security – A federal government program of transfer payments for retirement, disability, or the loss of *income* from a parent or guardian.

Spending – Using *income* (earnings) to buy *goods* and *services*.

Standard of living – A measure of the *goods* and *services* affordable by and available to a person or a country; the dollar value is calculated as *per capita GDP*.

Supply – The quantities of *goods*, *services*, or *resources* that producers are willing and able to sell at all possible prices in a given time period.

Tax credits – An amount that a taxpayer who meets certain criteria can subtract from tax owed. Examples include a credit for earned *income* below a certain limit and for qualified post-secondary school expenses.

Tax-deferred – *Financial investments* where taxes due on the amount invested and/or its earnings are postponed until funds are withdrawn, usually at retirement.

Tax-exempt – *Financial investments* (e.g., municipal bonds) earnings that are free from tax liability.

Taxes – Government fees on business and individual *income*, activities, or products.

Tax shelter – An investment intended to reduce tax; any technique that allows one to legally reduce or avoid tax liabilities.

Tips – Amount paid beyond what is required, usually to express satisfaction with service quality; also known as a gratuity.

Trade – To give in exchange for something else; *trade* can involve *money* or *barter*.

Trade-off – The act of giving up some of one thing to have more of another.

Transfer payments – Payments by governments, such as social security, veterans' benefits, and welfare, to people who do not supply current *goods*, *services*, or labor in exchange for these payments.

Unearned income – *Money* received for which no exchange was made, such as a gift.

Unemployment rate – The percentage of people without jobs who were actively seeking work within the past 30 days.

Wages – Payment for work, usually calculated in periods of an hour.

Wants – Desires that can be satisfied by consuming a *good* or *service*.

Wealth – Accumulated assets such as *money* and/or possessions, often as a result of saving and investment.

Withholding—The amount of an employee's income that an employer sends directly to the federal, state, or local tax authority as partial payment of that individual's tax liability for the year. When people start new jobs they are required to complete a W-4 form on which they indicate their filing status and the number of allowances they are claiming.