Economic Stimulus Plans - A Glossary Of Terms

Every industry has its specific nomenclature. In economics things are often even more difficult because economists disagree on theories and even over the specific definitions of the terms that they all use.

Depression and recession are good examples of economic terms everyone knows but whose definition is debated by economists. The standard definition of a recession is a decline in the Gross Domestic Product (GDP) for two or more consecutive quarters. That is the definition that you will see in the media. However, very few economists use that definition and that makes for bizarre debates, as in 2008 when the Bush administration economists claimed that we were not technically in recession and yet CNN had economists on regularly that claimed we were in recession.

Generally accepted definitions are given below so that you can become conversant in the language of stimulus packages and recession. However, beware that your very definitions may be challenged if you intend to debate the issue with an economist. That is the nature of macroeconomics.

Aggregate demand - The sum of all demand in an economy. Basically the total expenditure on consumer goods and services, investment, and (total exports - total imports).

Capital flight - The movement of savings and liquid financial assets from one country to another and from one currency to another. Often during financial crises, residents of the crisis country will transfer savings and other liquid assets into dollar-denominated assets, often in the United States. This has the effect of putting pressure on the exchange rate and often leads to devaluation and the draining of liquidity out of the crisis country's banking and financial system.

Consumer Debt- debt which is used to fund consumption rather than investment - Often credit card debt.

Consumer income-Often, the term "consumer income" is used synonymously with a country's gross domestic product (GDP). In technical national income account terms, consumer income should more specifically refer to disposable income or household income, which would be approximately 70 percent of GDP.

Consumer price index (CPI)-A price index that measures the cost of a fixed basket of consumer goods with weights based on consumption shares of urban consumers. It is published by the Bureau of Labor Statistics(BLS) for the United States.

Country terms of trade-The relative value of a country's export prices divided by the relative value of a country's import prices, measured as an index. We say a country's terms of trade are improving if export prices are rising relative to import prices.

Depository institutions-Commercial banks, credit unions, savings and loan associations, mutual savings banks, and federal savings banks.

Depression-A depression is any economic downturn where real GDP declines by more than 10 percent.

Economic Stimulus-The use of fiscal policy -- government spending or tax measures -- to support or revive an economy in recession. 

Exchange rate-The price that one currency converts to another. For example, on April 16, 2002, 3.8 Malaysian ringgits were equal to one U.S. dollar.

Fiscal policy-The government's program determining the amount of taxes and government expenditures to be made in a year. When an economy is moving into recession, an expansionary economic policy would dictate that the government should provide an economic stimulus by increasing expenditures or reducing taxes. This is referred to as a simulative fiscal policy. During periods with low unemployment and rising inflation, constraining fiscal policy is often suggested, involving increased taxes or reduced government expenditures.

Fiscal Stimulus-A government effort to boost economic activity during periods of economic weakness by increasing short-term aggregate demand. The 2009 Stimulus Package was an example of fiscal stimulus

Gross domestic product (GDP)-The value of the total final output produced inside a country during a given year. It equals gross national product (GNP) less overseas remittances.

Gross national product (GNP)-The value of all final goods and services produced during a year by the factors of production in a country. It is the sum of expenditures by consumers and governments, gross investment spending, and total merchandise exports less imports.

Income elasticity-The percent change in quantity demanded induced by a percent change in income. If a 1-percent change in income induces a change in quantity demanded by more than 1 percent, then the demand is said to be elastic. If the response is less than 1 percent, the demand is said to be inelastic. Since elasticity is a relative measure, it is independent of scale and thus provides a useful measure of comparison across all ranges and scales of quantities.

Macroeconomics-The study of aggregate economic variables such as national income, employment, interest rates, exchange rates, and prices.

Monetary policy-The set of policies determined by the Board of Governors of the Federal Reserve System involving influence over the money supply, short-term interest rates, and credit market conditions.

Purchasing power parity-A concept in which the dollar equivalent will purchase the same bundle of goods in all economies.

Real federal funds rate-The nominal federal funds rate minus the near-term expected rate of inflation. The federal funds rate is the rate that one depository institution charges another on borrowings of funds held at Federal Reserve Banks.

Recession-a decline in the Gross Domestic Product (GDP) for two or more consecutive quarters.

Transmission elasticity (or exchange rate pass-through)-Because markets are imperfect and there are barriers to trade, a change in international prices or exchange rates does not necessarily translate perfectly into a change in domestic prices. The transmission elasticity measures the rate of transmission and varies between 0 and 1. A transmission elasticity of 1 indicates that international price changes and exchange rate changes are perfectly transmitted to the domestic economy. A transmission elasticity of 0 implies no change in domestic prices from a change in international prices or exchange rates. Countries with highly imperfect markets and significant trade barriers have low transmission elasticity's while countries with open international markets have high transmission elasticity's.

TARP- The **T**roubled **A**sset **R**elief **P**rogram which was the 2008 economic package to purchase assets and equity from financial institutions in order to save the financial sector from collapse and to address the subprime mortgage crisis. Companies that accepted TARP funds in 2008 are excluded from many of the 2009 stimulus package programs. This has cause much debate in Congress.

Unemployment rate-The percentage of the total work force of people actively seeking employment who are currently unemployed.