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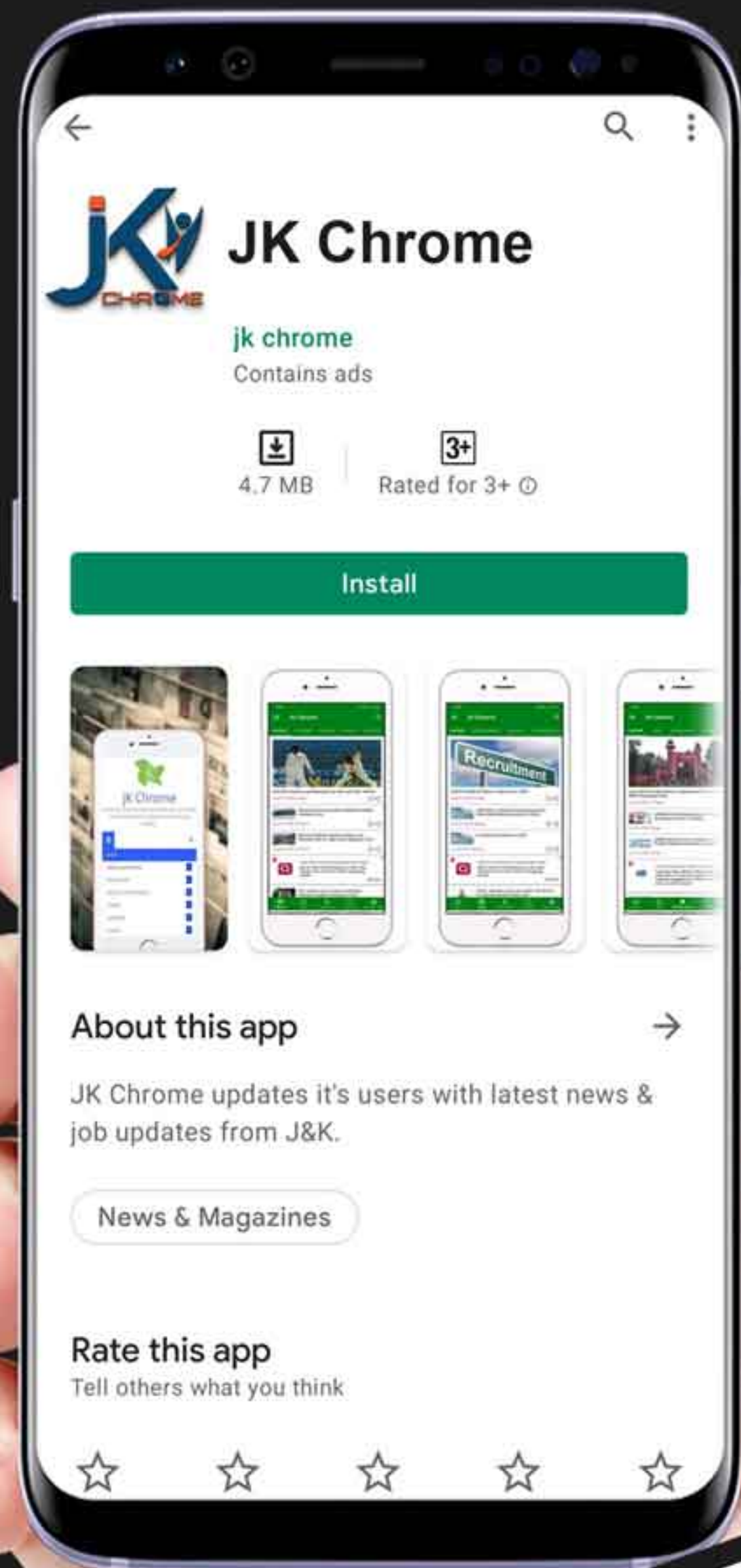
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## Glossary of Economic Financial Terms

**Accrued interest :** The interest due on a bond since the last interest payment was made. The buyer of the bond pays the market price plus accrued interest.

**Acquisition :** The acquiring of control of one corporation by another. In "unfriendly" takeover attempts, the potential buying company may offer a price well above current market values, new securities and other inducements to stockholders. The management of the subject company might ask for a better price or try to join up with a third company.

**Active Market :** This is a term used by stock exchange which specifies the particular stock or share that deals in frequent and regular transactions. It helps the buyers to obtain reasonably large amounts any time.

**Administered Prices :** When the prices of an item or a commodity are decided by the central power, generally the government or any other agency and not on the basis of demand and supply, such types of prices are called Administered Prices.

**Ad-valorem Tax :** Ad-valorem tax is a kind of indirect tax in which goods are taxed by their values. In the case of ad-valorem tax, the tax amount is calculated as the proportion of the price of the goods. Value Added Tax (VAT) is an ad-valorem tax. In other words when the tax is determined on the basis of value of a commodity, it is known as Ad-valorem tax.

**Amalgamation :** It means 'merger'. As and when necessity arises two or more companies are merged into a large organisation. The old firms completely lose their identity when the merger takes place.

**American Depository Receipt (ADR) :** A security issued by a U.S. bank in place of the foreign shares held in trust by that bank, thereby facilitating the trading of foreign shares in U.S. markets.

**Amortization :** Accounting for expenses or charges as applicable rather than as paid. Includes such practices as depreciation, depletion, write-off of intangibles, prepaid expenses and deferred charges.

**Annual report :** The formal financial statement issued yearly by a firm, composing or corporation. The annual report shows assets, liabilities, revenues, expenses and earnings - how the company stood at the close of the business year, how it fared

profit-wise during the year, as well as other information of interest to shareowners.

**Appreciation :** Appreciation means an increase in the value of something e.g. stock of raw materials or manufactured goods. It also includes an increase in the traded value of currency. It is an increase in the value of assets over a particular time period. Example : land, building, paintings etc. Appreciation is just opposite to depreciation. When the prices rise due to inflation, appreciation may occur.

**Arbitrage :** A technique employed to take advantage of differences in price. If, for example, ABC stock can be bought in New York for \$10 a share and sold in London at \$10.50, an arbitrageur may simultaneously purchase ABC stock here and sell the same amount in London, making a profit of \$.50 a share, less expenses. Arbitrage may also involve the purchase of rights to subscribe to a security, or the purchase of a convertible security - and the sale at or about the same time of the security obtainable through exercise of the rights or of the security obtainable through conversion.

**Arbitration :** Where there is an industrial dispute, the Arbitration comes to the force. The judgement is given by the Arbitrator. Both the parties have to accept and honour the Arbitration. Arbitration is the settlement of labour disputes that takes place between employer and the employees.

**Assets :** Everything a corporation or an organisation owns or that is due to it: cash, investments, money due it, materials and inventories, which are called current assets; buildings and machinery, which are known as fixed assets; and patents and goodwill, called intangible assets.

**Auction :** When a commodity is sold by auction, the bids are made by the buyers. Who so ever makes the highest bid, gets the commodity which is being sold. The buyers make the bid taking into consideration the quality and quantity of the commodity.

**Auction market :** The system of trading securities through brokers or agents on an exchange such as the Bombay Stock Exchange. Buyers compete with other buyers while sellers compete with other sellers for the most advantageous price.

**Auditor's report :** Often called the accountant's opinion, it is the statement of the accounting firm's work and its opinion of the corporation's financial statements, especially if they conform to the normal and generally accepted practices of accountancy.

**Autarchy :** It means self-sufficiency and self-reliance of an economy. Autarchy is an indicator of self-sufficiency. It means that the country itself can satisfy the needs of its

population without making imports from other countries.

**Averages :** Various ways of measuring the trend of securities prices, one of the most popular of which is the Dow Jones Industrial Average of 30 industrial stocks listed on the New York Stock Exchange. The prices of the 30 stocks are totaled and then divided by a divisor that is intended to compensate for past stock splits and stock dividends, and that is changed from time to time. As a result, point changes in the average have only the vaguest relationship to dollar-price changes in stocks included in the average.

**Balance of Payment :** It is the difference between country's payments and receipts from other countries during a year. In other words the balance of payment shows the relationship between the one country's total payment to all other countries and its total receipts from them. Balance of payment not only includes visible export and imports but also invisible trade like shipping, banking, insurance, tourism, royalty, payments of interest on foreign debts.

**Balance of Trade :** It refers to the relationship between the values of country's imports and its export, i.e. the visible balance. Balance of trade refers to the total of country's export commodities and total value of imports commodities. Thus, balance of trade includes only visible trade i. e. movement of goods (exports and imports of goods). Balance of trade is part of Balance of Payment statement.

**Balance Sheet :** Balance sheet is a statement showing the assets and liabilities of a business at certain date. Balance sheet helps in estimating the real financial situation of a firm.

**Bank :** Bank is a financial institution. It accepts funds on current account and savings accounts. It also lends money. The bank pays the cheques drawn by customers against current or savings bank account. The bank is a trader that deals in money and credit.

**Bank Draft :** Banker's draft (Demand Draft) is a negotiable claim drawn upon a bank. Drafts are as good as cash. The drafts cannot be returned unpaid. Bank Draft is safer than a cheque.

**Bank Rate :** It is official rate of interest charged by Reserve Bank of India on loans to other banks. It is the rate at which R.B.I. discounts first class securities including bills of exchange. Thus, it is also known as discount rate.

**Bankruptcy :** It is a situation in which a person is unable to discharge his debt obligations.

**Basis point :** One gradation on a 100 point scale representing 1%; used especially in expressing variations in the yields of bonds. Fixed income yields vary often and slightly within one percent and the basis point scale easily expresses these changes in hundredths of 1%. For example, the difference between 12.83% and 12.88% is 5 basis points.

**Basket of Currency :** In this system the exchange value of a country's currency is fixed in terms of some major international currencies. Indian rupee is valued against US Dollar, British Pound, Japanese Yen, French Franc and German Deutsche Mark. India opted for this system in 1975.

**Bear and Bull :** These terms are used in stock exchange. 'Bear' is an individual who sells shares in a hope that the stock's price would fall. 'Bull' is an individual who buys shares in a hope that the stock's price would rise.

**Bearer bond :** A bond that does not have the owner's name registered on the books of the issuer. Interest and principal, when due, are payable to the holder.

**Bid and Asked :** Often referred to as a quotation or quote. The bid is the highest price anyone wants to pay for a security at a given time, the asked is the lowest price anyone will take at the same time.

**Bill of Exchange :** It is an unconditional order in writing addressed by one person to another requiring the addressee to pay on demand or at a fixed future time a certain sum of money to the order of the specified person or to the bearer.

**Birth Rate :** Birth Rate (or Curde Birth Rate) is number of the births per thousand of the population during a period, usually a year. Only live births are included in the calculation of birth rate.

**Black Money :** It is unaccounted money which is concealed from tax authorities. All illegal economic activities are dealt with this black money. Howala market has deep roots with this black money. Black money creates parallel economy. It puts an adverse pressure on equitable distribution of wealth and income in the economy.

**Block :** A large holding or transaction of stock – popularly considered to be 10,000 shares or more.

**Blue Chip :** It is the most reliable industrial shares on a stock exchange. It is concerned with such equity shares whose purchase is extremely safe. It is a safe investment. It does

not involve any risk.

**Blue Collar Jobs :** These Jobs are concerned with factory. Persons who are unskilled and depend upon manual jobs that require physical strain on human muscle are said to be engaged in Blue Collar Jobs. In the age of machinery, such Jobs are on the decline these days.

**Blue Sky Laws :** A popular name for laws various states have enacted to protect the public against securities frauds. The term (generally used in the context of U.S.A) is believed to have originated when a judge ruled that a particular stock had about the same value as a patch of blue sky.

**Bond :** A bond is evidence of a debt on which the issuing company usually promises to pay the bondholders a specified amount of interest for a specified length of time, and to repay the loan on the expiration date.

**Book value :** An accounting term. Book value of a stock is determined from a company's records, by adding all assets then deducting all debts and other liabilities, plus the liquidation price of any preferred issues. The sum arrived at is divided by the number of common shares outstanding and the result is book value per common share. Book value of the assets of a company or a security may have little relationship to market value.

**Boom :** The point at which price and employment are the maximum. The trade is also at its highest point and beyond this no upward movement is possible.

**Bounty :** It is a subsidy paid by the government to exporters. It reduces the price of exportable goods and hence act as incentive to enhance exports.

**Brain-Drain :** It means the drift of intellectuals of a country to another country. Scientists, doctors and technology experts generally go to other prominent countries of the world to better their lot and earn huge sums of money. This Brain-Drain deprives a country of its genius and capabilities.

**Bridge loan :** A loan made by a bank for a short period to make up for a temporary shortage of cash. On the part of borrower, mostly the companies, for example, a business organisation wants to install a new company with new equipments etc. While its present installed company or equipments etc. are not yet disposed off. Bridge loan covers this period between the buying the new and disposing of the old one.

**Broad Banding :** It means providing more flexibility to manufacturers to produce wider

variety of products with same raw material mix so as to ensure optimum capacity.

**Broker :** An agent who handles the public's orders to buy and sell securities, commodities or other property. A commission is charged for this service

**Brokers' loans :** Money borrowed by brokers from banks or other brokers for a variety of uses. It may be used by specialists to help finance inventories of stock they deal in; by brokerage firms to finance the underwriting of new issues of corporate and municipal securities; to help finance a firm's own investments; and to help finance the purchase of securities for customers who prefer to use the broker's credit when they buy securities.

**Budget :** It is a document containing a preliminary approved plan of public revenue and public expenditure. It is a statement of the estimated receipt and expenses during a fixed period. It is a comparative table giving the accounts of the receipts to be realised and of the expenses to be incurred.

**Budget Deficit :** Budget deficit is the difference between the estimated public expenditure and public revenue. The government meets the deficit by way of printing new currency or by borrowing. Budget may take a shape of deficit when the public revenue falls short to public expenditure.

**Buffer stocks :** These are the stocks (generally of primary goods) accumulated by a government agency when supply is plentiful. These stocks are released in case of shortage of supply. In India Food Corporation of India (FCI) accumulates foodgrains as buffer stocks.

**Bullion :** It is gold or silver having a specific degree of purity. Generally it is in the form of gold or silver bars.

**Bull Market :** It is a market where the speculators buy shares or commodities in anticipation of rising prices. This market enables the speculators to resale such shares and make a profit. The opposite is Bear Market.

**Buoyancy :** In the inflationary period, the increase in tax revenue is known as buoyancy. When the government fails to check inflation, it raises income tax and the corporate tax. Such a tax is called Buoyancy. It concerns with the revenue from taxation in the period of inflation.

**Buyer's market :** When the market is favourable to buyer's market. This situation occurs when there is a change from boom to recession i.e. demand is less than supply.

**Buy side :** The portion of the securities business in which institutional orders originate.

**Callable :** A bond issue, all or part of which may be redeemed by the issuing firm, institution or organisation under specified conditions before maturity. The term also applies to preferred shares that may be redeemed by the issuing organisation.

**Call Money :** It is a loan that is made for a very short period of a few days only or for a week. It carries a low rate of interest. In case of stock exchange market, the duration of the call money may be for a fortnight.

**Capital :** The stock of goods which are used in production and which themselves have been produced. It is one of the major factors of production, the other being land, labour and entrepreneurship.

**Capitalism :** The economic system based on free enterprise and private profit. Capitalism is an economic system in which all means of production are owned by private individuals. Self-profit motive is the guiding feature for all the economic activities under capitalism. Under pure capitalist system economic conditions are regulated solely by free market forces. This system is based on 'Laissez-faire system' i.e., no state intervention. Sovereignty of consumer prevails in this system.

**Capital Market :** It is a market for long term loans. Capital market is the market which gives medium term and long term loans. It is different from money market which deals only in short term loans.

**Capital stock :** All shares representing ownership of a business, including preferred and common.

**Capitalization :** Total amount of the various securities issued by organisation or a company. Capitalization may include bonds, debentures, preferred and common stock, and surplus. Bonds and debentures are usually carried on the books of the issuing company in terms of their par or face value. Preferred and common shares may be carried in terms of par or stated value. Stated value may be an arbitrary figure decided upon by the director or may represent the amount received by the company from the sale of the securities at the time of issuance.

**Cash flow :** Reported net income of a corporation plus amounts charged off for depreciation, depletion, amortization, and extraordinary charges to reserves, which are bookkeeping deductions and not paid out in actual rupees and paise or dollars and cents.



**Cash Reserve Ratio (CRR) :** It refers to that portion of banker's total cash reserves which they are statutorily required to hold with the R.B.I. The commercial banks are required to keep a certain amount of cash reserves at the central bank i.e. RBI. This percentage amount is called CRR. It influences the commercial bank's volume of credit because variation in CRR affects the liquidity position of the banks and hence their ability to lend.

**Cash sale :** A transaction on the floor of the stock exchange that calls for delivery of the securities the same day. In "regular way" trade, the seller is to deliver on the third business day, except for bonds, which are the next day.

**Ceiling Prices :** This is the maximum limit fixed generally by government or its agency. Beyond it the prices cannot rise.

**Certificate :** The actual piece of paper that is evidence of ownership of stock in a company or an organisation. Watermarked paper is finely engraved with delicate etchings to discourage forgery.

**Certificate of deposit (CD) :** A money market instrument characterized by its set date of maturity and interest rate. There are two basic types of CDs: traditional and negotiable. Traditional bank CDs typically incur an early-withdrawal penalty, while negotiable CDs have secondary market liquidity with investors receiving more or less than the original amount depending on market conditions.

**Cheap Money :** It indicates a situation when bank rate and other rates of interest are low.

**Cheque :** Cheque is an order in writing issued by the drawer to a bank. If the customer has sufficient amount in his account, the cheque is paid by the bank. Cheques are used in place of cash money.

**Clearing House :** Clearing house is an institution which helps to settle the mutual indebtedness that occurs among the members of its organisation.

**Closed Economy :** Closed economy refers to the economy having no foreign trade (i.e. export and import). Such economies depend exclusively on their own internal domestic resources and have no dependence on out side world.

**Collateral :** Securities or other property pledged by a borrower to secure repayment of a loan.

**Commercial paper :** Debt instruments issued by companies to meet short-term financing needs.

**Commission :** The broker's basic fee for purchasing or selling securities or property as an agent.

**Commission broker :** An agent who executes the public's orders for the purchase or sale of securities or commodities.

**Common stock :** Securities that represent an ownership interest in a company. If the company has also issued preferred stock, both common and preferred have ownership rights. Common stockholders assume the greater risk, but generally exercise the greater control and may gain the greater award in the form of dividends and capital appreciation. The terms common stock and capital stock are often used interchangeably when the company has no preferred stock.

**Competitive trader :** A member of the exchange who trades in stocks on the floor for an account in which there is an interest. Also known as a registered trader.

**Conglomerate :** A company or an organisation that has diversified its operations usually by acquiring enterprises in widely varied industries.

**Consolidated balance sheet :** A balance sheet showing the financial condition of a corporation and its subsidiaries.

**Convertible :** A bond, debenture or preferred share that may be exchanged by the owner for common stock or another security, usually of the same company, in accordance with the terms of the issue.

**Core Industries :** Core Industries include strategic, basic and critical industries which remain generally under state control, e.g. defence, iron and steel, fertilizers etc.

**Core Sector :** Economy needs basic infrastructure for accelerating development. Development of infrastructure industries like cement, iron and steel, petroleum, heavy machinery etc. can only ensure the development of the economy as a whole. Such industries are core sector industries.

**Corporate Tax :** It is a direct tax levied on company's profit. It is calculated on profits after interest and allowance (i.e. capital allowance) have been deducted.

**Correspondent :** A securities firm, bank or other financial organization that regularly performs services for another in a place or market to which the other does not have direct access. Securities firms may have correspondents in foreign countries or on exchanges of which they are not members. Correspondents are frequently linked by private wires.

**Cost Price Index (CPI) :** It is used for measuring cost of living and it covers large number of commodities than Wholesale Price Index (WPI) which is used for measuring rate of inflation.

**Coupon bond :** Bond with interest coupons attached. The coupons are clipped as they come due and presented by the holder for payment of interest.

**Credit Control :** It implies the measures employed by central bank of a country to control the volume of credit in the banks.

**Credit Rating :** It is the assessed credit worthiness of prospective customer.

**Credit Rationing :** Credit rationing takes place when the banks discriminates between the borrowers. Credit rationing empowers the bank to lend to someone and refuse to lend others. In this way credit rationing restricts lending on the part of bank.

**Credit Squeeze :** Monetary authorities restrict credit as and when required. This credit restriction is called credit squeeze. In other words when the credit control is very tight and restrict, this situation is known as credit squeeze.

**Cumulative preferred :** A stock having a provision that if one or more dividends are omitted, the omitted dividends must be paid before dividends may be paid on the company's common stock.

**Current assets :** Those assets of a company that are reasonably expected to be realized in cash, sold or consumed during one year. These include cash, Government bonds, receivables and money due usually within one year, as well as inventories.

**Current liabilities :** Money owed and payable by a company, usually within one year.

**Custom Duty :** It implies tax on imports. Custom duty is a duty that is imposed on the products received from exporting nations of the world. It is also called protective duty as it protects the home industries.

**Cyclical Unemployment :** It is that phase of unemployment which appears due to the

occurrence of the downward phase of the trade cycle. Such an employment is reduced or eliminated when the business cycle turns up again.

**Day order :** An order to buy or sell that, if not executed, expires at the end of trading day on which it was entered.

**Dealer :** An individual or firm in the securities business who buys and sells stocks and bonds as a principal rather than as an agent. The dealer's profit or loss is the difference between the price paid and the price received for the same security. The dealer's confirmation must disclose to the customer that the principal has been acted upon. The same individual or firm may function, at different times, either as a broker or dealer.

**Death Rate :** Death rate signifies the number of deaths in a year per thousand of the population. It is mostly known as crude death rate. Life expectancy is important determinant of death rate. A country having high life expectancy will have a high crude death rate.

**Debentures :** It is a document which enlists the terms or conditions of a loan. The debentures are used by corporate sector (companies). The debenture holders are to be paid a fixed annual rate of interest and they have the first claim on the assets of a company as creditors.

**Debit balance :** In a customer's margin account, that portion of the purchase price of stock, bonds or commodities that is covered by credit extended by the broker to the margin customer.

**Decentralisation :** Decentralisation means the establishment of various units of the same industry at different places. Large scale organisation or industry can not be run at one particular place or territory. In order to increase the efficiency of the industry, various units at different places are located.

**Deed :** It is a written contract signed under legal seal.

**Deflation :** Deflation is a fall in the general price level over a particular period of time. It is opposite to inflation.

**Demand Draft :** It is a bill of exchange payable at sight.

**Depletion accounting :** Natural resources, such as metals, oil, gas and timber, that conceivably can be reduced to zero over the years, present a special problem in capital

management. Depletion is an accounting practice consisting of charges against earnings based upon the amount of the asset taken out of the total reserves in the period for which accounting is made. A bookkeeping entry, it does not represent any cash outlay nor are any funds earmarked for the purpose.

**Depository Trust Company (DTC) :** A central securities certificate depository through which members effect security deliveries between each other via computerized bookkeeping entries thereby reducing the physical movement of stock certificates.

**Depreciation :** It is the reduction in the value of a fixed asset due to wear and tear.

**Depression :** It is just opposite to "boom". It implies a state of economy when lack of demand result in heavy unemployment and stagnation in economy.

**Devaluation :** It is the reduction in the official rate of a currency in terms of a foreign currency. Indian rupee has been devalued thrice in 1949, 1966 and 1991.

**Director :** Person elected by shareholders to serve on the board of directors. The directors appoint the president, vice presidents, and all other operating officers. Directors decide, among other matters, if and when dividends shall be paid.

**Direct Tax :** It is a tax whose burden cannot be shifted i.e. the burden of direct tax is borne by the person on whom it is initially fixed, e.g.- personal income tax, social security tax paid by employees, death tax etc.

**Discount :** The amount by which a preferred stock or bond may sell below its par value. Also used as a verb to mean "takes into account" as the price of the stock has discounted the expected dividend cut.

**Discretionary account :** An account in which the customer gives the broker or someone else discretion to buy and sell securities or commodities, including selection, timing, amount, and price to be paid or received.

**Diversification :** Spreading investments among different types of securities and various companies in different fields.

**Dividend :** It is earnings on stocks paid to shareholders.

**Dow theory :** A theory of market analysis based upon the performance of the Dow Jones Industrial Average and transportation stock price averages. The theory says that the



market is in a basic upward trend if one of these averages advances above a previous important high, accompanied or followed by a similar advance in the other. When both averages dip below previous important lows, this is regarded as confirmation of a downward trend. The Dow Jones is one type of market index.

**Dumping :** It means selling goods in international market at a price which is lower than that in domestic or home market.

**Earnings report :** A statement, also called an income Statement, issued by a company showing its earnings or losses over a given period. The earnings report lists the income earned, expenses and the net result.

**Elasticity of demand :** The responsiveness of demand of a commodity to the change in its price is known as elasticity of demand.

**Embargo :** It means prohibition of entry of goods from certain countries into a particular country.

**Engel's law :** Ernest Engel, the 19th century German statistician, analysed the budget data of working families and established a relationship between the families income and expenditure. According to the Law "When a family's income increases the percentage of its income spent on food decreases."

**Equity :** The ownership interest of common and preferred stockholders in a company. Also refers to excess of value of securities over the debit balance in a margin account.

**Exchange Rate :** The rate at which central banks will exchange one country's currency for another.

**Excise Tax :** Tax imposed on the manufacture, sale or the consumption of various commodities, such as taxes on textiles, cloth, liquor etc.

**Ex-dividend :** A synonym for "without dividend." The buyer of a stock selling ex-dividend does.





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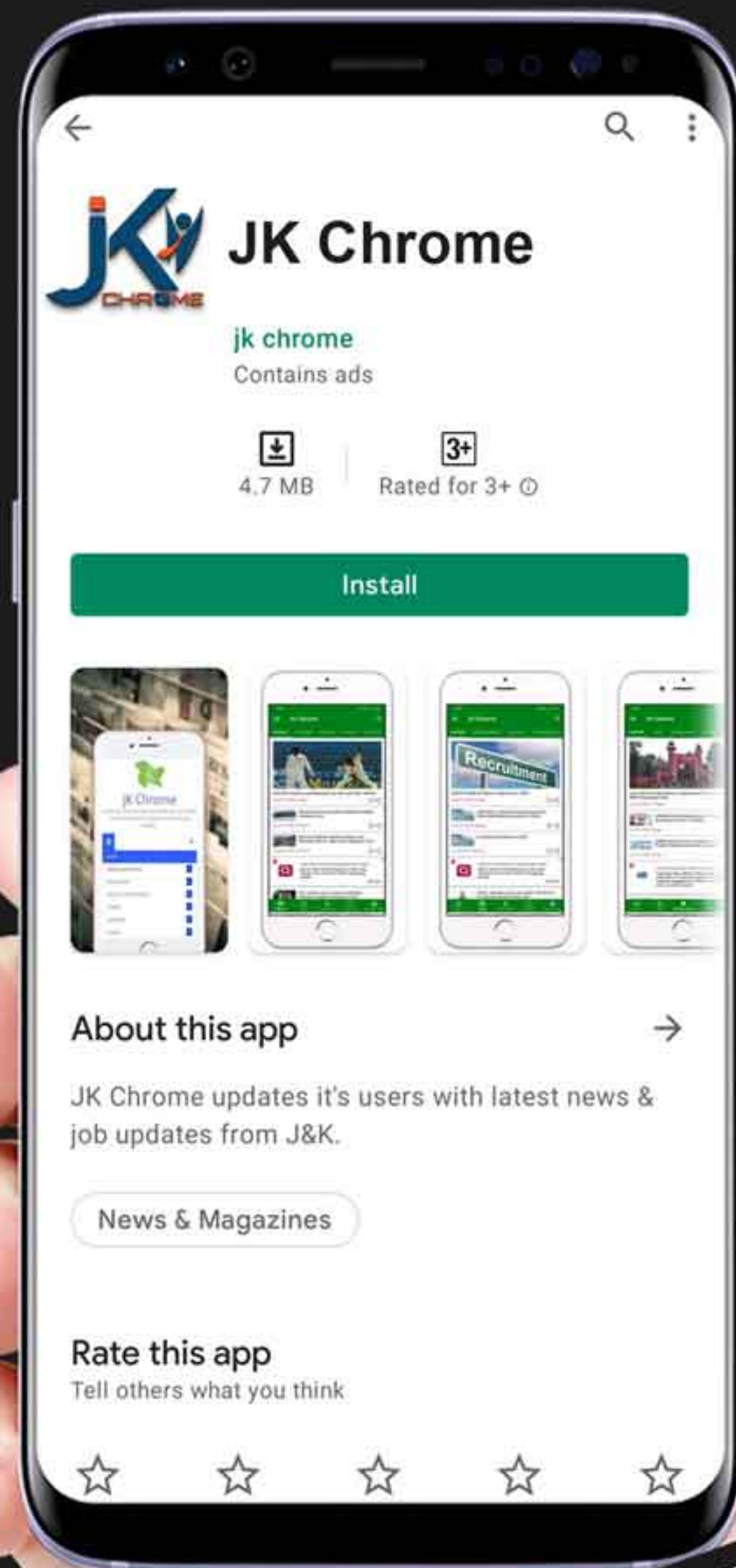
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