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 mpany.

Active Market : This is a term used by stock exchange which specifies he p rticul stock or share that deals in frequent and regular transactions. It hel s the b yers to btain reasonably large amounts any time.

Administered Prices : When the prices of an item or a commodi y are decided by the central power, generally the government or any other age cy and no on the basis of demand and supply, such types of prices are called Adminis red Prices.

Ad-valorem Tax : Ad-valorem tax is a kind o ndirect ta in which goods are taxed by their values. In the case of ad-valorem tax the t amoun is calculated as the proportion of the price of the goods. Value Added x (VAT) is an ad-valorem tax. In other words when the tax is determined on the basis of lue of a commodity, it is known as Ad-valorem tax.

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

Americ n Dep sitary Re ipt (ADR) : A security issued by a U.S. bank in place of the for gn sha s h ld in trust by that bank, thereby facilitating the trading of foreign shares in U.S marke

Amortizatio : Accounting for expenses or charges as applicable rather than as paid. Includes such p ctices as depreciation, depletion, write-off of intangibles, prepaid expenses and def red 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 pric for example, ABC stock can be bought in New York for $10 a share and sol in Lo don at $10.50, an arbitrageur may simultaneously purchase ABC stock here an sell the sa e amount in London, making a profit of $.50 a share, less expenses A bitrag may a so involve the purchase of rights to subscribe to a security, or the purchas of a convertible security - and the sale at or about the same time of the secu y btainable rough exercise of the rights or of the security obtainable through conver on.

Arbitration : Where there is an industrial dispute Arbit tion comes to the force. The judgement is given by the Arbitrator. Both he parti have o accept and honour the Arbitration. Arbitration is the settlement of lab ur dispute that takes place between employer and the employees.

Assets : Everything a corporation o an org isation owns or that is due to it: cash, investments, money due it, mat ials and inven ries, which are called current assets; buildings and machinery, whi are know as fixed assets; and patents and goodwill, called intangible assets.

Auction : When a co modity is sold by auction, the bids are made by the buyers. Who so ever makes the high st bid, g s the commodity which is being sold. The buyers make the bid t ing in o consider on the quality and quantity of the commodity.

Auctio mark : The system of trading securities through brokers or agents on an exchange uch as e Bombay Stock Exchange. Buyers compete with other buyers while sellers comp e with other sellers for the most advantageous price.

Auditor's repor 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 exports 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 ind vid al wh sells shares in a hope that the stock's price would fall. 'Bull' is an individ al wh buys shares in a hope that the stock's price would rise.

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

Bid and Asked : Often referred to as a quotati n or quo The id is the highest price anyone wants to pay for a security at a given ti e, the ask d is the lowest price anyone will take at the same time.

Bill of Exchange : It is an unconditional or r in writing addressed by one person to another requiring the. addr ssee to pay n dem nd or at a fixed future time a certain sum of money to the order of the sp cified per n or to the bearer.

Birth Rate : Birth Ra e (or Curde B th Rate) is number of the births per thousand

of the population duri g a period usually a year. Only live births are included in the calculat on of b th rate.

Black Money : t is un ounted money which is concealed from tax authorities. All illegal e nomic ctivities are dealt with this black money. Howala market has deep roots with this bl k money. Black money creates parallel economy. It puts an adverse pressure on equitable d tribution 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 A)is believed to have originated when a judge ruled that a particular stock ha about he same value as a patch of blue sky.

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

Book value : An accounting term. Book value of ck is termined from a company's records, by adding all assets then deducting all ebts and ther l abilities, plus the liquidation price of any preferred issues. The s m arrived is divided by the number of common shares outstanding and the resul is boo value p r common share. Book value of the assets of a company or a security y have little relationship to market value.

Boom : The point at which pric and e ploym nt are the maximum. The trade is also at its highest point and beyond t no upwa d movement is possible.

Bounty : It is a subsid paid by the overnment to exporters. It reduces the price of exportable goods and hence act incentive to enhance exports.

Brain-D in : I means th ift of intellectuals of a country to another country. Sci ntists, d ct d technology experts generally go to other prominent countries of the wo d to be r their lot and earn huge sums of money. This Brain-Drain deprives a country o its gen s and capabilities.

Bridge loan : A oan made by a bank for a short period to make up for a temporary shortage of cash. n 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 th p hase of securities for customers who prefer to use the broker's credit when they buy sec rities.

Budget : It is a document containing a preliminary approved plan f publi revenu and public expenditure. It is a statement of the estimated receipt and expen s during a fixed period. It is a comparative table giving the accounts of the ts to be r lised and of the expenses to be incurred.

Budget Deficit : Budget deficit is the difference b en th stimated public expenditure and public revenue. The governme t meets e defi it by way of printing new currency or by borrowing. Budget may tak a shape o deficit when the public revenue falls short to public expenditure.

Buffer stocks : These are the stock (gener ly of primary goods) accumulated by a government agency when ppl is ple tiful. T ese stocks are released in case of shortage of supply. In India F d Corpora ion of India (FCI) accumulates foodgrains as buffer stocks.

Bullion : It is gold or silver hav g a spesific degree of purity. Generally it is in the form of gold or silver bars.

Bul Mark : I market where the speculators buy shares or commodities in anticip ion of sing prices. This market enables the speculators to resale such shares and make a pr fit. Th opposite is Bear Market.

Buoyancy : In e 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, th tion of the call money may be for a fortnight.

Capital : The stock of goods which are used in production and whi h them elves have been produced. It is one of the major factors of production, the ther b ng land, labour and entrepreneurship.

Capitalism : The economic system based on free enterpr e and priv te profit. Capitalism is an economic system in which all me f pro ction are owned by private individuals. Self-profit motive is the guiding fe ture for l the onomic activities under capitalism. Under pure capitalist system econo c conditio s are regulated solely by free market forces. This system is based on 'L issez- ire syst m' i.e, no state intervention. Sovereignty of consumer prevails in this ystem.

Capital Market : It is a m rket or lon term l ans. Capital market is the market which gives medium term and long m loans. I is different from money market which deals only in short term loans

Capital stock : All s ares repre nting ownership of a business, including preferred and common.

Cap talizat n T tal amount of the various securities issued by organisation or a compa y Cap ization may include bonds, debentures, preferred and common stock, and surpl Bond and debentures are usually carried on the books of the issuing company in rms of their par or face value. Preferred and common shares may be carried in terms of par stated value. Stated value may be an arbitrary figure decided upon by the director or ma 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 d y of the securities the same day. In "regular way" trade, the seller is to deliver on he thi d business day, except for bonds, which are the next day.

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

Certificate : The actual piece of paper that is evidence of wnership f stock in a company or an organisation. Watermarked paper i i ely en aved with delicate etchings to discourage forgery.

Certificate of deposit (CD) : A money market i strumen characterized by its set date of maturity and interest rate. There are two asic types of CDs: traditional and negotiable. Traditional bank CDs typically incur an ear withdrawal penalty, while negotiable CDs have secondary market liq dity with i vestors eceiving more or less than the original amount depending on market nditions.

Cheap Money : It ind cates a situa n when bank rate and other rates of interest are low.

Cheque : Cheque is an order in riting issued by the drawer to a bank. If the customer has suffi ent amount in hi ccount, the cheque is paid by the bank. Cheques are used in pla of cas m

Clearing House : Clearing house is an institution which helps to settle the mutual indebtedness hat 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 I the company has also issued preferred stock, both common and preferred ha e o nersh p rights. Common stockholders assume the greater risk, but generall xerci the gr ater control and may gain the greater award in the form of dividend and c ital appreciation. The terms common stock and capital stock are often used i angeably when the company has no preferred stock.

Competitive trader : A member of the exchange trade in stocks on the floor for an account in which there is an interest. Also known as a re stere trader.

Conglomerate : A company or an organ ation at has d versified its operations usually by acquiring enterprises in widely varie ndustries.

Consolidated balance she t : A balan shee howing the financial condition of a corporation and its subsidiari

Convertible : A bond debenture or referred share that may be exchanged by the owner for common stock or nother se rity, usually of the same company, in accordance with the terms of the issue.

Cor Indus rie Core Industries include strategic, basic and critical industries which remain general under state control, e.g. defence, iron and steel, fertilizers etc.

Core Sector Economy needs basic infrastructure for accelerating development. Development of nfrastructure industries like cement, iron and steel, petroleum, heavy machinery etc. ca 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 inflamation.

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

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

Credit Rating : It is the assessed credit worthiness of pr pective cu tomer.

Credit Rationing : Credit rationing takes plac when th banks discriminates between the borrowers. Credit rationing empowers the nk to lend to someone and refuse to lend others. In this way credit rationing restric s lendi g on the part of bank.

Credit Squeeze : Monetary authorities rest ct credit as and when required. This credit restriction is called credit uee e. In o her wo ds when the credit control is very tight and restrict, this situation is k wn as cre t squeeze.

Cumulative preferre : A stock h ing a provision that if one or more dividends are omitted, the omitted vidends must be paid before dividends may be paid on the company's common st k.

Cu ent as ts Those assets of a company that are reasonably expected to be realized in cash sold or onsumed during one year. These include cash, Government bonds, receivabl and m ney due usually within one year, as well as inventories.

Current liabili s : 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 occurance of the downward phase of the trade cycle. Such an employment is reducted 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 de confirmation must disclose to the customer that the principal has been a ed up n. The same individual or firm may function, at different times, either as a brok r o dealer

Death Rate : Death rate signifies the number of deaths in a yea per th usand of the population. It is mostly known as crude death rate. Life exp cy is imp rtant determinant of death rate. A country having high life exp ctancy ill have a high crude death rate.

Debentures : It is a document which enlists th terms or ondit ons of a loan. The debentures are used by corporate sector (comp nies). The ebenture holders are to be paid a fixed annual rate of interest and th y have he first laim on the assets of a company as creditors.

Debit balance : In a custo er's margin accoun that portion of the purchase price of stock, bonds or commodities t is cover d by credit extended by the broker to the margin customer.

Decentralisation : D centralisa on means the establishment of various units of the same industry at diffe ent pl es. Larg scale organisation or industry can not be run at one particula place r territory n order to increase the effeciency of the industry, various uni at diff en pl es are located.

Deed : It a writ n contract signed under legal seal.

Deflation : Def tion is a fall in the general price level over a particular period of time. It is opposite to infl ion.

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 we and t ar.

Depression : It is just opposite to "boom". It implies a state of ec my w en lack of demand result in heavy unemployment and stagnation in economy.

Devaluation : It is the reduction in the official rate of a currency terms of a foreign currency. Indian rupee has been devalued thrice in 1949, 966 and 1991.

Director : Person elected by shareholders to se ve on th board of directors. The directors appoint the president, vice presidents and all oth r operating officers. Directors decide, among other matters, if and when divide ds shall e paid.

Direct Tax : It is a tax whose burd n canno be shifted i.e. the burden of direct tax is borne by the person on wh m it s initi lly fixe e.g.- personal income tax, social security tax paid by employe death tax tc.

Discount : The amou t by which a p eferred stock or bond may sell below its par value. Also used as a verb t mean "tak s into account" as the price of the stock has discounted the expected div dend ut.

Dis retiona y a nt : An account in which the customer gives the broker or someone else di retion buy and sell securities or commodities, including selection, timing, amount, a d price o be paid or received.

Diversification Spreading investments among different types of securities and various companies in diff ent 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 mpany showing its earnings or losses over a given period. The earnings report li ts the income earned, expenses and the net result.

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

Embargo : It means prohibition of entry of goods from c tain coun ies into a particular country.

Engel's law : Ernest Engel, the 19th century G rman stati ician, analysed the budget data of working families and established relati ship be ween the families income and expenditure. According to the Law "Wh a family s income increases the percentage of its income spent on food decreases "

Equity : The ownership inter of comm n and preferred stockholders in a company. Also refers to excess of value of curities over the debit balance in a margin account.

Exchange Rate : Th rate at which c ntral banks will exchange one country's currency for another.

Excise Ta : T imposed on the manufacture, sale or the consumption of various commodities, u h as s on textiles, cloth, liquor etc.

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