INDEX

Abnormal profit, 92
Absolute advantage, 415–422
Absolute convergence, 680–681
Absolute version of PPP, 557
Absorption approach, 512
Accounting costs, 91
Accounting loss, 91
Accounting profit, 91
Action lag, 390
Activity ratio, 304
Administrative regulation (administrative law), 705
Adverse selection, 708
Aggregate cyclical measures, 325–327
Aggregate demand, 217–230
balancing aggregate income and expenditure, 218–226
conclusions on, 253–256
curve, 218, 227–230
defined, 217
fiscal policy and, 374–375
foreign capital inflows and government deficits, 219
IS curve, 223–226
LM curve, 226–227
shifts in, 232–239
Aggregate demand curve, 218, 227–230, 233
Aggregate expenditure, 199
Aggregate income, 198
Aggregate output, 198
Aggregate price level, and money supply, 345
Aggregate supply, 230–232
conclusions on, 253–256
curve, 230–231
defined, 217
impact of factors shifting, 243
shifts in, 239–241
shifts in long-run, 241–245
unit labor cost and short-run, 240
Aggregate supply curve, 230–231
Antitrust laws, 718
Apparel manufacturing, 413
Arc elasticity, 43
Archer Daniels Midland (ADM), 188
Ascending price auction, 24
Asian currency and financial crisis of 1997–1998, 598
Ask price, 530
Assets, intangible, 440
AT&T, 188
Australia, Reserve Bank of, 352
Austrian school, 295–296
Autarkic price, 406, 417
Autarky, 406, 417
Automatic stabilizer, 222, 376
Automobile production, 202–203
Average cost, 160–162
Average fixed cost, 107
Average product, 128
Average revenue, 101
Average total cost, 108
Average variable cost, 107–108
Axiom of completeness, 61
Balanced budget, 377
Balanced budget multiplier, 387–388
Balance of payment flows, 573–585
current account trends, 574–577
Balance of payments, 436–450
accounts, 438
capital account, 440
commercial exports, 442–443
commercial imports, 444
components of, 438–440
financial account, 440
foreign investment income, 444
home-country currency purchases, 444
loans to borrowers abroad, 444
national economic accounts and, 445–450
nonfinancial asset purchases, 445
paired transactions in, 440–445
Balance of trade deficit, 211
Bank for International Settlements, 482
Bank of England, 370
Bank of Italy, 325
Bank of Japan, 362
Bank of Korea, 352
Barter economy, 336
Base currency, 467, 484–487
Basel Committee on Banking Supervision, 710, 724
Base rates, 355
Behavioral equations, 18
Beige Book, 325
Belgium, 725
Bernanke, Ben, 370
Bid price, 530–533
Bloomberg LP, 726
Bohr, Niels, 528
Bond market vigilantes, 369
Bond ratings, 726
Boom, in business cycle, 282
Brazil, 628, 642
labor and total factor productivity, 655
sources of output growth, 658
Brazil, Central Bank of, 352
Breakeven point, 110
Bretton Woods system, 502
Broad money, 341
Budget constraint, 60, 70–72
Budget surplus/deficit, 376
Bureau of Economic Analysis, 312
Bureau of Labor Statistics, 413
Business cycles:
capital spending and, 287–289
characteristics of, 282
consumer behavior and, 290–292
external trade sector and, 293–294
housing sector and, 292–293
inflation and, 307–319
inventory levels and, 289–290
overview, 280–294
phases of, 280–284
resource use through, 284–292
unemployment and inflation, 303–319
Business cycle theories, 294–303
Keynesian school, 296–298
Monetarist school, 299
neoclassical and Austrian schools, 295–296
new classical school, 299–303
Business sector, of GDP, 209
Buy side, 479
CAD/USD, 530
Canada, GDP for, 212–213, 215–217
Capital:
as factor of production, 102
required for financial institutions, 724
Capital account, 438, 440, 511
Capital consumption allowance, 214
Capital deepening, 638
Capital deepening investment, 258
Capital expenditure, 382
Capital flows, 512, 627–628
exchange rate determination and, 577–585
patterns and trends in, 407–411
Capital flow surges, 598–600
Capital markets, 4
Capital restrictions, 424
on international trade, 434–436
Capital spending, fluctuation in, 287–289
Capital stock, 260
Carnegie, Andrew, 178
Carry trade, 569–573, 580–582
risk in, 570–571
strategies, 572–573
Cartel, 175
Central Bank of Brazil, 352
Central banks, 307–308. See also
specific country
capital flow surges and, 600–601
credibility of, 360
effectiveness of, 364–365
Federal Reserve, 312
foreign exchange transactions and, 480
independence of, 359
inflation and, 312, 358–365
as lenders of last resort, 349
monetary policy and, 348–351
objectives of, 352
policy rate, 355–356
potential GDP and, 634
reserve requirements, 356
tools, 358
transmission mechanism, 356–358
transparency of, 360–364
Central government debt to GDP (2009), 334
Centre for Economic Policy Research, 325
Chamberlin, Edward H., 146
Change in demand, 8
Change in quantity demanded, 8
Change in quantity supplied, 12
Change in supply, 12
Chicago Fed National Activity Index, 325
Chicago Mercantile Exchange, 475
China:
economic growth of, 263
economic indicators, 325
Currency exchange rates (Continued)
    long-run equilibrium rates, 567–569
    long-term framework for, 547–569
    market concepts, 530–546
    order flow, sentiment, and positioning, 608–610
    real interest rate parity, 561–563
    shorter-term forecasting tools, 605–610
    trade balance and, 511–521
Currency options, 476, 608–609
Current account, 438, 439–440
    global imbalances since 1996, 448–450
    U.S. balance, 441–442
Current account deficits, U.S. and, 576
Current government spending, 382
Customs union, 430
Cyclical companies, 248
Defensive companies, 248
Demand, 4
    law of, 5
Demand analysis:
    in monopolistically competitive
    markets, 166
    in monopoly markets, 181–182
    in oligopoly markets, 169–176
    in perfectly competitive markets, 149–157
Demand and supply analysis, 2
Demand curve, 7, 8
    changes in demand versus movements
    along, 7–9
    in perfect competition, 160
Demand elasticities, 40–51, 515, 516
    impact on total expenditure, 46–47
    own-price elasticity of demand, 41–46
Demand function, 5, 8, 78–86
    aggregating, 13–17
    Demand-pull inflation, 314, 316–318
Demand shock, 368
Depression, in business cycle, 281
Derived demand, 423
Descending price auction, 25
Deutsche Bundesbank, 503

Developing countries. See also specific country
    exchange rate targeting, 365–367
    monetary policy in, 364–365
Dexia, 725
Diffusion index, 324–326
Diminishing marginal productivity, 258, 637
Diminishing returns, 130, 160–161
Diminishing returns, law of, 130, 160–161
Direct taxes, 383
Discount rate, 355
Discount window borrowing, 726
Discouraged worker, 305
Diseconomies of scale, 120
Disinflation, 308–309
Dodd-Frank Act, 709, 722, 727
Doha round, 455
Dollarization, 505
Domestic content provisions, 424
Domestic currency, 530
Dornbusch overshooting model, 589
Double coincidence of wants, 336
Douglas, Roger, 358
Dutch auction, 25–26
Dutch disease, 642
Dynamically stable equilibrium, 22
Dynamically unstable equilibrium, 22

East Asian financial crisis of late 1990s, 453
Economic cost, 92, 158
Economic growth, 256–270
    business investment and GDP, 651
    capital deepening versus technological progress, 637–640
    classical (Malthusian) theory of, 664
    convergence debate, 680–684, 688–689
    determinants of, 635–663
    developed versus developing countries, 622–630
    education and health care systems, 626–627
    endogenous growth theory, 677–680, 685
    exports and foreign direct investment, 687–688
    financial markets and intermediaries, 626
    free trade and capital flows, 627–628
    growth accounting, 640–641
    human capital, 260
    ICT and non-ICT capital, 641, 650–653
    information technology and, 652
    inward-oriented policies, 685–687
    key ingredients for, 626
    labor supply and, 260, 645–649
    limitations in developing countries, 628
    natural resources, 262, 642–643
neoclassical model of, 664–677, 685
in an open economy, 684–693
outward-oriented policies, 687
physical capital stock, 260–261
potential for, and investors, 631–635
production function, 635–637
public infrastructure, 637
real per capita GDP by country, 683–684
savings and investment, 665–666
sources of, 259–264
sources of output growth, 658
sustainability and, 264–270
tax and regulatory systems, 627
technology and, 261–262, 653–657
theories of, 663–684
Economic indicators, 319–327
defined, 319
diffusion index of, 324–325
popular, 320–325
Economic loss, 93
Economic profit, 91, 92–93, 159
Economic rent, 93–95
investment decision making and, 94–95
Economics, 2
Economic stabilization, 375
Economic union, 430
Economies of scale, 120
Education, economic growth and, 626–627
Elastic demand, 42
Elasticities approach, 512–517
Elasticity, 41
Elasticity of demand:
cross-price, 154
empirical price elasticities, 153
horizontal demand schedule, 152
income, 153–154
price, 151
vertical demand schedule, 153
Elasticity of demand and supply, 41
Elasticity of supply, 94
Electric utilities, 120
Employed, 304
Employee compensation, 199
Employment (overall payroll employment), 306
Endogenous growth theory, 677–680, 685
and neoclassical model compared, 679–680
Endogenous variables, 18
England, Bank of, 370
Environmental regulations, 727–728
Equilibrium condition, 18
Equilibrium GDP, prices and, 345–352
inflationary gap, 250–252
long-run equilibrium, 246
recessionary gap, 246–250
Equilibrium price, 24–28
Equity market trends, and exchange rates, 582–585
ERM crisis of 1992, 598, 602
EU law, 706
Euro:
  adoption of, 430
  creation of, 503
  EuroCOIN statistic, 325
  European Central Bank, 312, 352, 727
  European Commission, 706
  European Economic and Monetary Union (EMU), 505
  European Exchange Rate Mechanism, 503, 588
  European Financial Stability Facility, 434
  European Market Infrastructure Regulation (EMIR), 707
  European Union, 430, 434
  Eurostat, 312
  Eurozone, money measures in, 341
Ex ante version of PPP, 558, 563, 564
Excess demand, 20
Excess supply, 19–20
Exchange rate regimes, 500–511
crawling bands, 507
crawling pegs, 507
currency board system, 505–506
dollarization, 505
fixed parity, 506–507
historical perspective on, 501–503
ideal regime, 500–501
independently floating rates, 507–508
managed float, 507
target zone, 507
taxonomy of, 503–511
Exchange rates. See Currency exchange rates
Exchange rate surveillance, 566
Exchange rate targeting, in developing countries, 365–367
Exclusive dealings, 718
Exogenous variables, 18
Expansion, in business cycle, 280, 282
Expansionary fiscal policy, 375
Expansionary monetary policy, 592
Expansionary policy, 367
Expected inflation, 353–354
Explicit costs, 91
Exports, 405
Export subsidy, 424, 427–430
Externality, 32–33, 707
External sector, of GDP, 210–211
External sustainability approach, 566
External trade sector, in business cycles, 293–294
Factor abundance, 423
Factor markets, 3
Factor-proportions theory. See Heckscher-Ohlin model
Factors of production, 3
Federal Deposit Insurance Corporation, 723
Federal funds rate, 355–356
Federal Open Market Committee (FOMC), 356
Federal Reserve (the Fed), 312, 325, 352, 362
Fiat money, 348
Financial account, 438, 440, 511
Financial Accounting Standards Board (FASB), 705
Financial contagion, 711
Financial Industry Regulatory Authority (FINRA), 705–706
Financial markets, regulation of, 719–720
costs and benefits of, 721
disclosure framework, 719
Firm, theory of the, 2, 89–90
First-degree price discrimination, 185–186
First price sealed-bid auction, 24
Fiscal multiplier, 386
Fiscal policy, 234, 374–392
advantages of using tools of, 385
aggregate demand and, 374–375
credibility and commitment to, 395
deficits and the national debt, 378–382
defined, 334
disadvantages of using tools of, 385
evaluating, 391–392
exchange rate determination and, 595–597
execution difficulties, 390–392
expansionary, 586
fiscal multiplier, 386–387
goal of, 335
government receipts and expenditures, 375–378
implementation, 388–392
macroeconomy and, 382–383
Mundell-Fleming model, 585–588
quantitative easing and policy interaction, 394–395
relationship to monetary policy, 392–395
roles and objectives of, 374–382
types of, 381–382
Fisher effect, 345–348, 560–561, 563
Fisher index, 311
Fixed-income investments, OECD GDP forecast, 269
Flexible exchange rates, 502
Flow supply/demand channel, 574–575
Foreign currency, 530
Foreign currency reserves, 351
Foreign direct investment, 409
Foreign exchange carry trade, 529
Foreign exchange dealer order flow, 608
Foreign exchange (FX) swap, 541
Foreign exchange hours in major markets, 532
Foreign exchange market, 465, 467–484, 530.
See also Currency exchange rates
currency codes, 467
flexible exchange rates, 502
functions, 473–478
participants in, 478–481
turnover by currency, 483
turnover by instrument, 482
Foreign portfolio investment, 410
Forward contracts, 474
mark-to-market value of, 542–546
Forward discount, 492
Forward exchange rates, 474, 477–478
Forward markets, 538–546
calculating forward premium and discount, 540
points on the forward rate quote, 540
sample spot and forward quotes, 541
Forward points, 540, 542
Forward premium, 492
Forward rates, 474–475, 493–494, 496–500
Fractional reserve banking, 338
France, 725
Freedom of Information Act, 726
Free trade, 406, 627–628
opponents of, 412
Free trade areas (FTAs), 430
Frictional unemployment, 300, 304
Frictions, 707
Friedman, Milton, 315, 502
Friedman, Thomas L., 144
Fundamental theorem of welfare economics, 708
Funding currencies, 570
Futures contracts, on currencies, 475
FX carry trade, 569–573. See also Carry trade
FX dealer order flow, 608
FX swap, 475–476
and currency swap compared, 475
Game theory, 174
Gary, Elbert, 178
GDP deflator, 206–207
Index

General Agreement on Tariffs and Trade (GATT), 451, 454
General Agreement on Trade in Services (GATS), 454
General equilibrium analysis, 18
General Motors (GM), 121
General-purpose technologies, 653
Germany, 503, 647
building permits and GDP, 324
labor and total factor productivity, 654
policy mix shift and exchange rates, 587
sources of output growth, 658
Giffen goods, 83–85
Gilts, 370
Global financial crisis of 2008, 709, 719
Globalization, 406
Global warming, 709
Gold standard, 347
Goodhart, Charles, 607–608
Goods and services, in GDP, 203–204
Goods markets, 3
Government debt and deficits, 388, 634
fiscal stance and, 388–389
Government expenditure, 303
Governments, foreign exchange transactions and, 479
Government sector, of GDP, 209–210
Greece, 434, 452
Greenspan, Alan, 528
Gross, Bill, 528
Gross domestic product (GDP), 200–208, 404
actual versus potential, 270
after-tax corporate profits as percentage of, 631
automobile production in, 202–203
business investment as percentage of, 261, 651
for Canadian economy, 212–213, 215–217
central government debt to GDP (2009), 334
of China, 263
components of, 208–211
deflating, with price index, 312
equilibrium GDP and prices, 245
estimating rate of growth in potential, 267–268
external sector, 210–211
goods and services included in, 203–204
government sector of, 209–210
household and business sectors, 209
household final consumption expenditures, 220
implicit price deflator for, 206–207
net debt interest payments as percent of, 380
nominal and real GDP, 205–208
potential GDP, 241, 631–634
production function and potential GDP, 257–259
public-sector spending to (2009), 335
ratio of debt to, 379
real per capita GDP by country, 683–684
in study of economic growth, 622
trade as percentage of, 407, 408
trade openness and growth of, 408
underground economy in, 204
value of final product equals income created, 201–202
Gross national product (GNP), 200, 404
Growth accounting equation, 640–641
G-10 countries, banking supervision in, 350
G-20 policy makers, 565–566
Harmonized index of consumer prices, 312
Headline inflation, 313
Health care systems, economic growth and, 626–627
Heckscher-Ohlin model, 411, 422–424
Hedge funds, 531
Hedging, 473–474
Hedonic pricing, 311
Herfindahl-Hirschman index, 190–191
“Hicks neutral” technical change, 664
“Hit the bid,” 530
Hong Kong Monetary Authority, 506
Horizontal demand schedule, 152
Host country, 409
Households, and marginal propensity to consume, 387
Household sector, of GDP, 209
Housing sector, 292–293
Human capital, 649–650
Hyperinflation, 308
Immigration, 647
Impact lag, 390
Imperfect competition, 98–100, 167
Implicit price deflator for GDP, 206–207
Import license, 427
Imports, 405
Income:
consumer response to changes in, 76–77
national, 214
personal, 214
personal disposable, 215
Income constraint. See Budget constraint
Income effect, 515
Income elasticity of demand, 47–48, 153–154
Income receipts, 439
Increasing-cost industry, 125
Increasing marginal returns, 130
Increasing returns to scale, 120
Independently floating rates, 507–508
Independent regulators, 705
Index of leading economic indicators, 320, 321
India, 628
    in the global economy, 686
    information technology services, 422
    investment outlook for, 661–663
    labor and total factor productivity, 655
    sources of output growth, 658
India, Reserve Bank of, 312
Indifference curve, 63–66, 420
Indifference curve maps, 66, 67
Indirect taxes, 383
Inelastic demand, 42
Inelastic supply, 93, 94
Inferior goods, 48, 82–83
Inflation, 250, 307–319. See also Stagflation
    central banks and, 358–365
    core inflation, 313
    costs of, 353–354
    defined, 307
    deflation, 308
demand-pull, 314, 316–318
    disinflation, 308–309
    expectations, 318–319
    explanation of, 314–318
    headline inflation, 313
    hyperinflation, 308
    measuring, 309–311
    range of inflation targets, 361–362
    reports, 360
Inflationary gap, 250–252, 296
Inflation rate, 307
demand and supply shocks, 368
Inflation uncertainty, 354
Information, computer, and telecommunications
    (ICT) capital, 641, 650–653
Informational externalities, 708
Informational frictions, 708
Information technology, 422
Innovations, theory of, 296
Innovative performance, 653
Insider trading, 712, 719
Institute of Supply Management, 325
Institutional asset managers, 531
Intangible assets, 440
Intel, 410
Intellectual property, 717
Interbank market, 482, 531–533
Interest, 199
Interest rates:
    adjustment in deflationary environment,
        369–371
    differentials, 580
    money supply and, 346–347
    mortgage lending and, 292
    neutral rate of interest, 367–368
    real interest rate, 221
    Regulation Q, 723
Intermediate goods and services, 3
International Accounting Standards Board (IASB), 705
International Bank for Reconstruction and Development, 453
International Development Association, 453
International Fisher effect, 563
International Labour Organization (ILO), 305
International Monetary Fund (IMF), 434, 451–453, 503, 566
International Monetary Market, 475
International Organization for Standardization (ISO), 467
International Organization of Securities Commissions, 710, 715, 716
International parity conditions, 549–565
    covered interest rate parity, 549–550, 563
    future spot rate predictors, 552–556, 564
    purchasing power parity, 556–560
    relationships among, 564–565
    uncovered interest rate parity, 550–552, 563, 564, 569–570
International trade, 404–424
    agreements, 434
    basic terminology, 404–407
    benefits and costs of, 411–415
    blocs, common markets, and economic unions, 430–434
    capital restrictions, 434–436
    effects of alternative trade policies, 428
    export subsidies, 427–430
    liberalization of, 412
    patterns and trends, 407–411
    quotas, 427, 428
    regional integration, 430–433
    restrictions and agreements, 424–436
    specialization in, 411
    tariffs, 424–428
International Trade Organization (ITO), 451
Internet, globalization and, 717
Intertemporal trade, 446
Intrafirm trade, 410
Index

Intra-industry trade, 411
Inventory investment, 208
Inventory levels, fluctuation in, 289–290
Inverse demand function, 6–7
Inverse supply function, 10–11
Investment Company Act of 1940, 704
Investment opportunity set, 74
Investors:
   economic growth potential and, 631–635
   importance of growth potential
   estimates to, 633
Ireland, 725
economy of, 659–660
   labor and total factor productivity, 654
   sources of output growth, 658
   steady state rate of growth, 666–668
IS curve, 223–226
Italy, Bank of, 325
Japan:
   annual growth in real GDP, 656–657
   economic indicators, 325
   economic problems, 255–256
   exchange rate adjustment, 577, 578
   inflation and deflation, 372
   interest rate policy of 1990s, 592
   labor and total factor productivity, 654
   monetary policy limits and, 371–372
   money measures in, 341
   sources of output growth, 658
   steady state rate of growth, 666–668
U.S./Japan trade negotiations, 565–566
Japan, Bank of, 362
J-curve effect, 517
Judicial law, 705
Keynes, John Maynard, 296–297, 502
Keynesian school, 296–298, 300–301, 374
Korea, Bank of, 352
Labor:
   as factor of production, 102
   productivity, 242–245
   regulations, 727
   total factor productivity and, 654
Labor force, 260, 645
   average hours worked, 649, 650
   defined, 304
   quality of, 649–650
Labor force participation rate, 646
Labor markets, 3
   regulation and, 717
Labor productivity, 637
   growth rate of, 266–267
   level of, 265–266
Labor productivity growth accounting
   equation, 641
Labor supply, economic growth and, 260
Lagging economic indicators, 319, 326
Land, as factor of production, 102
Laspeyres index, 310
Law of demand, 5
Law of diminishing returns, 130, 160–161
Law of one price, 556
Law of supply, 11
Leading economic indicators, 319, 326
   building permits as, 323, 324
Legal tender, 348
Lehman Brothers collapse, 724
Lender of last resort, 349
Leveraged accounts, foreign exchange
   transactions and, 479
LIBOR (London Interbank Offered Rate), 539
Linear demand functions, 7
Liquidity trap, 236, 369
LM curve, 226–227
Local public goods, 708
London Interbank Offered Rate (LIBOR), 539
Long-run average total cost curve, 119, 121, 122
Long-run equilibrium exchange rates, 567–568
Long-run fair value, 566–568
Long-run industry supply curve, 125–127
Macroeconomic balance approach, 566
Macroeconomics, 2
Malaysia, 437
Malthus, Thomas, 664
Malthusian theory, 664
Managed float, 507
Marginal analysis, 115
Marginal cost, 30, 108, 161, 162
Marginal product (marginal return), 129–135
Marginal propensity to consume, 220, 386–387
Marginal propensity to save, 220, 386
Marginal rate of substitution, 64
Marginal revenue, 101, 160
Marginal revenue product, 133
Marginal value, 29
Marginal value curve, 29, 156
Market allocations, 707–708
Market equilibrium, 17–19
Market interference, 34–40
Market mechanism, 20
Market pricing distortion, 727
Index

National Income and Product Accounts (NIPA), 631
Natural rate of unemployment, 315
Natural resources, 262, 642–643
economic impact of, 643–644
Negative externality, 33, 707
Neo-classical growth model, 664–677, 685
absolute convergence and, 680–681
comparative statics and transitional growth in, 673–676
conditional convergence and, 681
critiques of, 677
dynamics in, 671
and endogenous growth theory compared, 679–680
extension of, 676–677
four groups of conclusions from, 672–676
steady state rate of growth, 665–671
Neo-classical school, 295–296
Neo-Keynesians (new Keynesians), 301
Net exports, 405
Net regulatory burden, 720–721
Net speculative positions, 609
Net tax rate, 386
Network externalities, 652
Network neutrality, 723
Neutral rate of interest, 367
New classical macroeconomics, 299–303
models with money, 301–303
models without money, 300–301
New product bias, 310
New York Stock Exchange (NYSE), 722–723
New Zealand, 363
New Zealand, Reserve Bank of, Act (1989), 358
Nigeria, 642
Nintendo, 410
Nominal exchange rates, 468, 470–473
Nominal GDP, 205
Non-accelerating inflation rate of unemployment, 315
Non-convergence trap, 681
Nonrenewable resources, 262, 642
Non-satiation, 61
Non-tariff barriers, 717
Normal good, 48, 79–82
Normal profit, 92–93
North American Free Trade Agreement (NAFTA), 430
Northern Rock Bank (UK), 349
Offer price, 530–533
Official interest rate, 355
Official policy rate, 355
Oligopoly market structure, 146, 169–179
demand analysis and pricing strategies in, 169–176
long-run equilibrium in, 178–179
optimal price and output in, 178
supply analysis in, 176–177
One price, law of, 556
Open economy, 406
Open market operations, 355
Operational independence, 358
Opportunity cost, 73, 158
Opportunity set, 70–74
budget constraint, 70–72
investment opportunity set, 74
production opportunity set, 72–74
Options:
on currencies, 476
delta of, 609
Organization for Economic Cooperation and Development (OECD), 375
Output optimization, 114–118
Over-the-counter (OTC) market:
forward contracts, 475
forward rates and, 474
Own-price variable, 6
Own-price elasticity of demand, 41–46
Paasche index, 311
"Paid the offer," 530
Pareto optimal market allocations, 708
Partial equilibrium analysis, 18
Payments system, 350
Payroll employment, 306
PCE index, 312
Peak, in business cycle, 280–282
Per capita real GDP, 205
Perfect competition, 97, 145, 149–163
consumer surplus, 156–157
demand analysis and, 149–157
demand curves in, 160
elasticity of demand, 151–153
innovation and, 164–165
long-run equilibrium and, 161–163
optimal price and output in, 159–161
supply analysis and, 158–159
Perfectly elastic, 44
Perfectly inelastic, 44
Perfect price elasticity, 153
Personal consumption expenditures, 312
Personal disposable income (PDI), 215
Personal income, 214
Per-unit tax, 39–40
Physical capital stock, 652
Planning horizon, 118
Plaza Accord, 508
Policy rate, 355
Political stability, economic growth and, 626
Pollution, 709, 711
Population growth: age distribution impact on, 647
labor supply and, 645–46
net migration, 647
Porter, Michael E., 148
Portfolio balance approach, 595
Portfolio balance channel, 575
Portfolio demand for money, 343
Portugal, 434
Positive externality, 33, 707
Potential GDP, 241, 631
Precautionary money balance, 342
Precious metals, 337, 338
Predatory pricing, 718
Preferences, axioms concerning, 62
Price, 101
Price ceiling, 34
Price currency, 467, 484, 486
Price elasticity of demand, 151
Price floor, 35, 36
Price indexes, 309–310
use of, 311–314
Price-specie-flow mechanism, 501
Price stability, 351
Price taker, 97, 147
Pricing discrimination, 718
Pricing strategies, in oligopoly markets, 169–176
Principal components analysis, 325
Privacy issues, 717
Private value auction, 24
Procedural law, 707
Producer price index, 312
Producer surplus, 30–32
Production, factors of, 101–103
Production function, 102, 257
extending, 641–642
Production opportunity frontier, 72–74
Production possibilities frontier, 418, 420
Productivity, 127–135
defined, 127, 242
labor productivity and technology, 242–245
marginal returns and, 129–135
total, average, and marginal product of labor, 127–129
Productivity indicators, 306–307
Profit, 199
Profit maximization, 97–127
costs, 103–114
economies and diseconomies of scale, 118–123
factors of production, 101–103, 111
under imperfect competition, 117
output optimization and, 114–118
under perfect competition, 115, 118, 123, 124
revenue, 97–101
Profit measures, 91–95
accounting profit, 91–92
comparison of, 95
economic profit and normal profit, 92–93
economic rent, 93–95
Promissory note, 338
Property rights:
economic growth and, 626
regulation, 727
Prudential supervision, 710, 720
Public Company Accounting Oversight Board, 706
Public goods, 708
Public infrastructure, 657
Pukthuanthong-Le, Kuntara, 606–607
Purchasing managers indexes, 325
Purchasing power parity (PPP), 468, 556–560, 623
absolute version of, 557
ex ante version of, 558, 563, 564
relative version of, 557–560
QE2, 370
Quality bias, 310
Quantitative easing (QE), 342, 370
Quantity equation of exchange, 342
Quantity (quantity demanded) variable, 101
Quantity theory of money, 341–342
Quasi-fixed cost, 107
Quota rents, 427
Quotas, 427
Quote currency, 486
Real business cycle theory, 300–301
Real exchange rates, 468, 470–473, 558–559
Real GDP, 205
Real income, 80
Real interest rate, 221
differentials, 578
Real interest rate parity, 561–563
Real money accounts, foreign exchange transactions and, 479
Recession, 247, 281, 283–284
output gap, 286
policy-triggered, 285
Recessionary gap, 246–250
Recognition lag, 390
Reduced-form econometric model, 566–567
Refinancing rate, 355
Regional integration, 430–433
Regional trading agreements (RTAs), 430
Regulation, 703–728
analysis of, 722–728
classification of, 704–707
of commerce, 715–719
cost-benefit analysis of, 720–722, 726
economic growth and, 627
economic rationale for, 707–710
effects of regulations, 724–728
enforcement of, 712
of financial markets, 719–720
interdependencies, 708–710
overview, 713–715
regulatory tools, 710–715
Regulation National Market System, 722
Regulation Q, 723
Regulatory arbitrage, 709
Regulatory burden, 720
Regulatory capture theory, 708
Regulatory competition, 709
Relative price, 312
Relative version of PPP, 557–560
Renewable resources, 262, 642
Rent, 199
Rental price of capital, 636
Repo rates, 355
Repurchase (repo) agreement, 355
Request for Stand-By Arrangement, 455
Research and development, 653, 654
endogenous growth theory and, 678
Reservation prices, 24
Reserve Bank of Australia, 352
Reserve Bank of India, 312
Reserve Bank of New Zealand Act (1989), 358
Reserve requirement, 338, 356
Resource curse, 642
Retail accounts, foreign exchange transactions and, 479
Retail quotes, 532
Return on assets, 725
Return on equity, 725
Ricardian equivalence, 388
Ricardian model, 411, 422
Ricardo, David, 388, 422
Risk premium, 346
Risk reversal, 608–609
Robinson, Joan, 146
Rule of law, economic growth and, 626
Sanctions, 712
Sarbanes-Oxley Act, 704, 719
Saudi Arabia, 642
Savings, 3–4, 625–626
Say, J. B., 295
Say’s law, 295
Schumpeter, Joseph A., 164–165, 296
Schwab, Charles M., 178
Sealed-bid auction, 24
Search costs, 40
Second-degree price discrimination, 186
Second price sealed-bid mechanism, 25
Securities Act of 1933, 704
Securities and Exchange Commission (SEC), 704, 705
proxy-access rules, 722
Regulation National Market System, 722
Securities Exchange Act of 1934, 704
Seigniorage, 506
Self-regulating organizations, 705
Sell side, 479
Services, 439
Services and goods, in GDP, 203–204
Shareholder wealth maximization, 90–91
Short-run average total cost curve, 119
Short-run supply curve, 108
Shutdown point, 109–110
Simple money multiplier, 339
Singapore, 706
Single price auction, 26–27
Small country, 424
Smithsonian Agreements, 502
“Snake,” currency fluctuation band, 503
Software bundling, 718
Solow, Robert, 664
Source country, 409
South Africa, 426
Southern Cone Common Market (MERCOSUR), 430
South Korea:
labor and total factor productivity, 655
sources of output growth, 658
International Monetary Fund, 451–453
World Bank, 453–454
World Trade Organization, 454–457
Trade protection, 406
Trade surplus, 406
Trading restrictions on insiders, 712
Transaction money balances, 342
Transfer payments, 382
Transitive preferences, 61
Treasury bills, 27–28
Treasury Inflation-Protected Security (TIPS), 312
Triangular arbitrage, 489, 533
Triennial Survey (2010), 482
Troubled Asset Relief Program (TARP), 726
Trough, in business cycle, 280
Two-sided price, 486
Two-week repo rate, 355
Uncovered interest rate parity, 550–553, 563, 564, 569
Underemployed, 304–305
Underground economy, 204
Unemployed, 304
Unemployment, 304–307
analyzing, 307
frictional, 300
natural rate of, 315
nonaccelerating inflation rate of, 315
Unemployment rate, 304, 305–306
Unexpected (unanticipated) inflation, 353
Unfair competition, 717
Unilateral transfers, 440
Union of South American Nations (UNASUR), 706
Unitary elastic, 32
United Kingdom:
budget, 448
government cash flows, 377–378
monetary experiment of 1970s, 347–348
money measures in, 341
national debt as percentage of GDP, 379
Northern Rock bank run, 349
self-regulating organizations in, 706
United States:
China trade negotiations, 566
labor and total factor productivity, 654
money measures in, 341
real interest rates and, 591
sources of output growth, 658
textile industry, 413–414
U.S./Japan trade negotiations, 565–566
United States Steel Corporation (U.S. Steel), 178
Unit elastic, 42
Unit labor cost indicator, 315
Unstable equilibrium, 22, 23
Unsterilized intervention, 600
Uruguay round, 454
U.S. Federal Reserve System. See Federal Reserve (the Fed)
Utility function, 62–63
indifference curve maps, 66, 67
indifference curves, 63–66
Utility theory, 60–70
theory of consumer choice, 60, 61–62
Variable costs, 30
Veblen goods, 85–86
Velocity of money, 317, 318–319
Venezuela, 642
Vertical demand schedule, 153
Vickery auction, 25
Voluntarily unemployed, 305
Voluntary exchange, 66–70
Voluntary export restraint, 427
Voluntary reserve requirement, 338
Von Hayek, Friedrich, 295
Von Mises, Ludwig, 295–296
Walras, Léon, 21
Walrasian tâtonnement, 21
Wealth effect, 234, 235
Welfare economics, fundamental theorem of, 708
White, Harry Dexter, 502
Wholesale price index, 312
Winner’s curse, 25
World Bank, 453–454
World Development Report (2009), 409, 432
World Is Flat, The (Friedman), 144
World price, 406
World Trade Organization (WTO), 430, 454–457
Yuan, 470
CFA Institute + Wiley = Success

John Wiley & Sons and CFA Institute are proud to present the CFA Institute Investment Series geared specifically for industry professionals and graduate-level students. This cutting-edge series focuses on the most important topics in the finance industry. The authors of these books are themselves leading industry professionals and academics who bring their wealth of knowledge and expertise to you.

The series provides clear, practitioner-driven coverage of the knowledge and skills critical to investment analysts, portfolio managers, and financial advisors.

Get these titles and companion Workbooks at wiley.com or cfainstitute.org.

Available in print and e-book format.

Wiley is a registered trademark of John Wiley & Sons, Inc.
CFA Institute logo is a registered trademark of CFA Institute.