Unit 3 Economic Terms

- it's a pity more isn't don't with economy in the classroom as a lot of our financial future is dependant on our ability to understand the nature of money and finance
- our biggest life long investment is usually the mortgage we have on our house
- cars are a bad, bad investment, unless you hold on to them for fifty years

Here are some of the key terms from this unit

1. Stock- the stock certificate means you have bought a share in the company
    - the percentage that you own depends on how many shares have been issued
    - small company hundreds, big companies thousands
    - usually 51% ownership means you call the shots
    - you make your money when share price goes up, which is based on company performance or be careful hype
    - if company loses money, you lose

2. Bonds- an investment vehicle used by companies and governments to raise money
    - also known as a debenture
    - pays interest over time for example a five year 100.00 bond could pay 5 % per year and at the end you get your money back with the interest
    - not linked to company earnings and you have first call on assets if company goes broke

3. Banking regulations- a series of rules imposed by government to control the banking industry
    - did not exist in the 1930's and that is why many banks went bankrupt
    - for example specifies how much cash the bank must have on hand
    - specifies what percentage of the banks money can be put into risky investments
    - in Canada now your bank deposits are guaranteed up to $100,000.

4. Over speculation- this happens when people think the stock market will continue to grow for ever
    - people begin to invest in risky stocks and invest too large a share of their wealth in one type of investment
    - also during this type of activity people begin to invest on word of mouth, hype and dreams, which can meet with reality during market corrections

5. Protectionism- on the national scene this is when governments put up tariffs to protect their manufacturers or agricultural producers
    - in US Smoot-Hawley and Fordney-McCumber are examples of this
    - these tariffs make foreign goods more expensive

6. Laissez-faire- belief that government should not be involved in the economy
   - ironic that US sees themselves this way when the US government, sates and municipalities all offer financial incentives, tax breaks to business
   - tariffs are an intervention in the economy

7. Budget- this works on a number of levels from government to the individual
   - this is simply how much money one expects to spend in a year/monthly
   - tries to determine in advance how much will be earned and how much will be spent
   - you try at least to balance your budget which means you balance expenditure and income/revenue

8. Expenditure- the total amount of money a government –company or individual intends to spend in a time period.

9.Revenue- the total amount of money that is taken in during a specific time period.

10. Currency- the paper money used in the economy. Its value is determined by debt levels and economic performance, measure in GNP

11. Deficit Financing- this takes place when governments-individuals spend more than they make.
    - this is financed on the government levels through loans and bonds
    - on the personal level through use of vehicles like Master Card, which is a bad, bad idea –17% interest
    - Economist John Maynard Keynes argued that in times of economic crisis governments should spend more money than they take in, in order to stimulate the economy
    - This money can be paid back when the economy improves
    - The problem is that some governments, even our own has been doing this when times are good , which means that our national or provincial debt continues to climb
    - In the US their national debt is climbing big time in comparison to Canada's and this is why the value of the Canadian dollar is climbing
    - Of course our debt is lower because we are taxed so highly on so many levels