

## LESSON 9

1. **Integrated rural development** - the broad spectrum of rural development activities, including small-farmer agricultural progress, the provision of physical and social infrastructure, the development of rural nonfarm industries, and the capacity of the rural sector to sustain and accelerate the pace of these improvements over time.
2. **Green Revolution** -the boost in grain production associated with the scientific discovery of new hybrid seed varieties of wheat, rice, and corn that have resulted in high farm yields in many developing countries.
3. **Agrarian system** - the pattern of land distribution, ownership, and management, and also the social and institutional structure of the agrarian economy
4. **Latifundio** - a very large landholding found particularly in the Latin American agrarian system, capable of providing employment for more than 12 people, owned by a small number of landlords, and comprising a disproportionate share of total agricultural land.
5. **Minifundio** - a landholding found particularly in the Latin American agrarian system considered too small to provide adequate employment for a single family.
6. **Family farm** - a farm plot owned and operated by a single household.
7. **Medium-size farm** - a farm employing up to 12 workers
8. **Transaction costs** - costs of doing business related to gathering information, monitoring, establishing reliable suppliers, formulating contracts, obtaining credit, and so on.
9. **Landlord** - the proprietor of a freehold interest in land with rights to lease out to tenants in return for some form of compensation for the use of the land.
10. **Sharecropper** - a tenant farmer whose crop has to be shared with the landlord, as the basis for the rental contract.
11. **Tenant farmer** - one who farms on land held by a landlord and therefore lacks ownership rights and has to pay for the use of that land, for example, by giving a share of output to the owner.
12. **Moneylender** - a person who lends money at high rates of interest, for example to peasant farmers to meet their needs for seeds, fertilizers, and other inputs.
13. **Subsistence farming** - farming in which crop production, stock rearing, and other activities are conducted mainly for personal consumption.
14. **Shifting cultivation** - tilling land until it has been exhausted of fertility and then moving to a new parcel of land, leaving the former one to regain fertility until it can be cultivated again.
15. **Cash crops** - crops produced entirely for the market.
16. **Staple food** - a main food consumed by a large portion of a country's population.
17. **Interlocking factor markets** - factor markets whose supply functions are interdependent, frequently because different inputs are provided by the same suppliers who exercise monopolistic or oligopolistic control over resources.
18. **Diversified (mixed) farming** The production of both staple crops and cash crops and simple animal husbandry typical of the first stage in the transition from subsistence to specialized farming
19. **Specialized farming** - the final and most advanced stage of the evolution of agricultural production in which farm output is produced wholly for the market.
20. **Scale-neutral** - unaffected by size; applied to technological progress that can lead to the achievement of higher output levels irrespective of the size (scale) of a firm or farm.
21. **Land reform** - a deliberate attempt to reorganize and transform agrarian systems with the intention of fostering a more equal distribution of agricultural incomes and facilitating rural development.

## LESSON 10:

1. **Global warming** - increasing average air and ocean temperatures. Used in reference to the trend that began in the mid-twentieth century and attributed largely to human industrial, forestry, and agricultural activities emitting greenhouse gases.
2. **Climate change** - nontransient altering of underlying climate, such as increased average temperature, decreased annual precipitation, or greater average intensity of droughts or storms. Used in reference to the impact of the global warming phenomenon. Note the distinction between changes in weather (which varies within a climate) and changes in climate that alter underlying probabilities of weather outcomes.
3. **Environmental accounting** - the incorporation of environmental benefits and costs into the quantitative analysis of economic activities.
4. **Environmental capital** - the portion of a country's overall capital assets that directly relate to the environment—for example, forests, soil quality, and ground water.
5. **Sustainable development** - a pattern of development that permits future generations to live at least as well as the current generation, generally requiring at least a minimum environmental protection
6. **Sustainable net national income (NNI\*)** - an environmental accounting measure of the total annual income that can be consumed without diminishing the overall capital assets of a nation (including environmental capital).
7. **Environmental Kuznets curve** - a graph reflecting the concept that pollution and other environmental degradation first rises and then falls with increases in income per capita. There is evidence that this holds for some pollutants, such as sulfur dioxide and particulate matter in the air, but not for others, such as emissions of greenhouse gases.
8. **Biomass fuels** - any combustible organic matter that may be used as fuel, such as firewood, dung, or agricultural residues.
9. **Desertification** - the transformation of a region into dry, barren land with little or no capacity to sustain life without an artificial source of water.
10. **Soil erosion** - loss of valuable topsoils resulting from overuse of farmland, and deforestation and consequent flooding of farmland.
11. **Deforestation** - the clearing of forested land either for agricultural purposes or for logging and for use as firewood.
12. **Total net benefit** - the sum of net benefits to all consumers.
13. **Marginal cost** - the addition to total cost incurred by the producer as a result of increasing output by one more unit.
14. **Producer surplus** - excess of what a producer of a good receives and the minimum amount the producer would be willing to accept because of a positive-sloping marginal cost curve.
15. **Consumer surplus** - excess utility over price derived by consumers because of a negative-sloping demand curve.
16. **Scarcity rent** - the premium or additional rent charged for the use of a resource or good that is in fixed or limited supply
17. **Present value** - the discounted value at the present time of a sum of money to be received in the future.
18. **Marginal net benefit** - the benefit derived from the last unit of a good minus its cost.
19. **Property rights** - the acknowledged right to use and benefit from a tangible (e.g., land) or intangible (e.g., intellectual) entity that may include owning, using, deriving income from, selling, and disposing.
20. **Common property resource** - a resource that is collectively or publicly owned and allocated under a system of unrestricted access, or as self-regulated by users.
21. **Externality** - any benefit or cost borne by an individual economic unit that is a direct consequence of another's behavior.

22. **Internalization** - the process whereby external environmental or other costs are borne by the producers or consumers who generate them, usually through the imposition of pollution or consumption taxes.
23. **Public good** - an entity that provides benefits to all individuals simultaneously and whose enjoyment by one person in no way diminishes that of another.
24. **Public bad** - an entity that imposes costs on groups of individuals simultaneously. Compare with public good.
25. **Free-rider problem** - the situation in which people can secure benefits that someone else pays for.
26. **Clean technologies** - technologies that by design produce less pollution and waste and use resources more efficiently
27. **Private costs** The direct monetary outlays or costs of an individual economic unit.
28. **Pollution tax** A tax levied on the quantity of pollutants released into the physical environment.
29. **Social cost** The full cost of an economic decision, whether private or public, to society as a whole
30. **Absorptive capacity** The capacity of an ecosystem to assimilate potential pollutants.
31. **Greenhouse gases** Gases that trap heat within the earth's atmosphere and can thus contribute to global warming.
32. **Biodiversity** The variety of life forms within an ecosystem
33. **Global public good** A public good, whose benefits reach across national borders and population groups.
34. **Debt-for-nature swap** The exchange of foreign debt held by an organization for a larger quantity of domestic debt that is used to finance the preservation of a natural resource or environment in the debtor country.

#### LESSON 11:

1. **Economic planning** A deliberate and conscious attempt by the state to formulate decisions on how the factors of production will be allocated among different uses or industries, thereby determining how much of total goods and services will be produced in one or more ensuing periods.
2. **Economic plan** A written document containing government policy decisions on how resources will be allocated among various uses so as to attain a targeted rate of economic growth or other goals over a certain period of time.
3. **Comprehensive plan** An economic plan that sets targets to cover all the major sectors of the national economy.
4. **Partial plan** A plan that covers only a part of the national economy (e.g., agriculture, industry, tourism).
5. **Planning process** The procedure for drawing up and carrying out a formal economic plan.
6. **Economic infrastructure** The capital embodied in roads, railways, waterways, airways, and other forms of transportation and communication plus water supplies, electricity, and public services such as health and education.
7. **Market failure** A phenomenon that results from the existence of market imperfections (e.g., monopoly power, lack of factor mobility, significant externalities, lack of knowledge) that weaken the functioning of a market economy
8. **Aggregate growth model** A formal economic model describing growth of an economy in one or a few sectors using a limited number of variables.
9. **Input-output model (interindustry model)** A formal model dividing the economy into sectors and tracing the flow of interindustry purchases (inputs) and sales (outputs).

10. **Project appraisal** The quantitative analysis of the relative desirability (profitability) of investing a given sum of public or private funds in alternative projects.
11. **Cost-benefit analysis** A tool of economic analysis in which the actual and potential private and social costs of various economic decisions are weighed against actual and potential private and social benefits.
12. **Social profit** The difference between social benefits and social costs, both direct and indirect.
13. **Shadow prices (or accounting prices)** Prices that reflect the true opportunity costs of resources.
14. **Market prices** Prices established by demand and supply in markets.
15. **Exchange rate** Rate at which the domestic currency may be converted into (sold for) a foreign currency such as the U.S. dollar.
16. **Rent seeking Efforts** by individuals and businesses to capture the economic rent arising from price distortions and physical controls caused by excessive government intervention, such as licenses, quotas, interest rate ceilings, and exchange control.
17. **Social rate of discount** The rate at which a society discounts potential future social benefits to find out whether such benefits are worth their present social cost.
18. **Net present value** The value of a future stream of net benefits discounted to the present by means of an appropriate discount (interest) rate.
19. **Internal rate of return** The discount rate that causes a project to have a net present value of zero, used to rank projects in comparison with market rates of interest.
20. **Government failure** A situation in which government intervention in an economy worsens outcomes.
21. **Political will** A determined effort by persons in political authority to achieve certain economic objectives through various reforms.
22. **Path dependency** A condition in which the past condition of an individual or economy, measured by the level of one or more variables, affects future conditions.
23. **Nongovernmental organizations (NGOs)** Nonprofit organizations often involved in providing financial and technical assistance in developing countries.
24. **Voluntary failure** The inability of nongovernmental organizations and the citizen sector more broadly to efficiently achieve social objectives in their areas of supposed comparative advantage.
25. **Corruption** The appropriation of public resources for private profit and other private purposes through the use and abuse of official power or influence.

## LESSON 12:

1. **Globalization** The increasing integration of national economies into expanding international markets.
2. **World Trade Organization (WTO)** Geneva-based watchdog and enforcer of international trade agreements since 1995; replaced the General Agreement on Tariffs and Trade (GATT).
3. **General Agreement on Tariffs and Trade (GATT)** An international body set up in 1947 to explore ways and means of reducing tariffs on internationally traded goods and services; replaced in 1995 by the World Trade Organization.
4. **Rent** In macroeconomics, the share of national income going to the owners of the productive resource, land (i.e., landlords). In everyday usage, the price paid for the use of property (e.g., buildings, housing). In microeconomics, economic rent is the payment to a factor of production over and above its highest opportunity cost. In public choice theory, rent refers to those excess payments that are gained as a result of government laws, policies, or regulations.

5. **Primary products** Products derived from all extractive occupations—farming, lumbering, fishing, mining, and quarrying, foodstuffs, and raw materials.
6. **Export dependence** A country's reliance on exports as the major source of financing for development activities.
7. **Current account** The portion of a country's balance of payments that reflects the market value of the country's "visible" (e.g., commodity trade) and "invisible" (e.g., shipping services) exports and imports.
8. **Capital account** The portion of a country's balance of payments that shows the volume of private foreign investment and public grants and loans that flow into and out of the country.
9. **Free trade** The importation and exportation of goods without any barriers in the form of tariffs, quotas, or other restrictions.
10. **Income elasticity of demand** The responsiveness of the quantity of a commodity demanded to changes in the consumer's income, measured by the proportionate change in quantity divided by the proportionate change in income.
11. **Price elasticity of demand** The responsiveness of the quantity of a commodity demanded to a change in its price, expressed as the percentage change in quantity demanded divided by the percentage change in price.
12. **Export earnings instability** Wide fluctuations in developing country earnings on commodity exports resulting from low price and income elasticities of demand leading to erratic movements in export prices.
13. **Commodity terms of trade** The ratio of a country's average export price to its average import price.
14. **Prebisch-Singer hypothesis** The argument that the commodity terms of trade for primary-product exports of developing countries tends to decline over time.
15. **Barter transactions** The trading of goods directly for other goods in economies not fully monetized.
16. **Comparative advantage** Production of a commodity at a lower opportunity cost than any of the alternative commodities that could be produced.
17. **Specialization** Concentration of resources in the production of relatively few commodities.
18. **Absolute advantage** Production of a commodity with the same amount of real resources as another producer but at a lower absolute unit cost.
19. **Factor endowment trade theory** The neoclassical model of free trade, which postulates that countries will tend to specialize in the production of the commodities that make use of their abundant factors of production (land, labor, capital, etc.).
20. **Factor price equalization** In factor endowment trade theory, the proposition that because countries trade at a common international price ratio, factor prices among trading partners will tend to equalize.
21. **North-South trade models** Trade and development theories that focus on the unequal exchange between the North developed countries and the South developing countries in an attempt to explain why the South gains less from trade than the North.
22. **Vent-for-surplus theory of international trade** The contention that opening world markets to developing countries through international trade allows those countries to make better use of formerly underutilized land and labor resources so as to produce larger primary-product outputs, the surpluses of which can be exported.
23. **Synthetic substitutes** Commodities that are artificially produced but can be substituted for the natural commodities (e.g., manufactured rubber, cotton, wool, camphor, and pyrethrum).

24. **Product cycle** In international trade, the progressive replacement of more developed countries by less developed countries in the production of manufactures of increasing complexity.
25. **Returns to scale** How much output expands when all inputs are proportionately increased.
26. **Monopolistic market control** A situation in which the output of an industry is controlled by a single producer (or seller) or by a group of producers who make joint decisions.
27. **Oligopolistic market control** A situation in which a small number of rival but not necessarily competing firms dominate an industry.
28. **Increasing returns** A disproportionate increase in output that results from a change in the scale of production.
29. **Product differentiation** Attempts by producers to distinguish their product from similar ones through advertising or minor design changes.
30. **Risk** A situation in which the probabilities of the various possible outcomes are known, but the actual outcome is not known
31. **Uncertainty** A situation in which neither the actual outcome nor even the precise probabilities of the various possible outcomes are known.
32. **Growth poles** Regions that are more economically and socially advanced than others around them, such as urban centers versus rural areas or highway corridors in developing countries.
33. **Industrial policy** Deliberate effort by governments to guide the market by coordinating and supporting specific industrial activities.
34. **Tariff** A fixed-percentage tax on the value of an imported commodity levied at the point of entry into the importing country.
35. **Quota** In international trade, a physical limitation on the quantity of any item that can be imported into a country
36. **Subsidy** A payment by the government to producers or distributors in an industry for such purposes as preventing the decline of that industry, expanding employment, increasing exports, or reducing selected prices paid by consumers.
37. **Gains from trade** The increase in output and consumption resulting from specialization in production and free trade with other economic units, including persons, regions, or countries.
38. **Balanced trade** A situation in which the value of a country's exports and the value of its imports are equal.
39. **Enclave economies** Small, economically developed regions in developing countries in which the remaining areas have experienced much less progress.
40. **Foreign-exchange earnings** The sum total of all foreign currency receipts less expenditures during a given fiscal year.
41. **Outward-looking development policies** Policies that encourage exports, often through the free movement of capital, workers, enterprises, and students; a welcome to multinational corporations; and open communications.
42. **Inward-looking development policies** Policies that stress economic self-reliance on the part of developing countries, including domestic development of technology, the imposition of barriers to imports, and the discouragement of private foreign investment.
43. **Import substitution** A deliberate effort to replace consumer imports by promoting the emergence and expansion of domestic industries.
44. **Export promotion** Governmental efforts to expand the volume of a country's exports through increasing export incentives, decreasing disincentives, and other means in order to generate more foreign exchange and improve the current account of its balance of payments or achieve other objectives.

45. **International commodity agreement** A formal agreement by sellers of a common internationally traded commodity (e.g., coffee, sugar) to coordinate supply to maintain price stability
46. **Multifiber Arrangement (MFA)** A set of nontariff quotas established by developed countries on imports of cotton, wool, synthetic textiles, and clothing from individual developing countries.
47. **Trade deficit** An excess of import expenditures over export receipts measured on the current account.
48. **Infant industry** A newly established industry, usually protected by a tariff barrier as part of a policy of import substitution.
49. **Official exchange rate** Rate at which the central bank will buy and sell the domestic currency in terms of a foreign currency such as the U.S. dollar.
50. **Free-market exchange rate** Rate determined solely by international supply and demand for domestic currency expressed in terms of, say, U.S. dollars.
51. **Overvalued exchange rate** An official exchange rate set at a level higher than its real or shadow value.
52. **Nontariff trade barrier** A barrier to free trade that takes a form other than a tariff, such as quotas or (possibly arbitrary) sanitary requirements.
53. **Nominal rate of protection** An ad valorem percentage tariff levied on imports.
54. **Effective rate of protection** The degree of protection on value added as opposed to the final price of an imported product—usually higher than the nominal rate of protection.
55. **Value added** Amount of a product's final value that is added at each stage of production.
56. **Exchange control** A governmental policy designed to restrict the outflow of domestic currency and prevent a worsened balance of payments position by controlling the amount of foreign exchange that can be obtained or held by domestic citizens.
57. **Dual exchange rate (parallel exchange rate)** Foreign exchange-rate system with a highly overvalued and legally fixed rate applied to capital and intermediate-goods imports and a second, illegal (or freely floating) rate for imported consumption goods
58. **Devaluation** A lowering of the official exchange rate between one country's currency and all other currencies.
59. **Depreciation (of currency)** The decline over time in the value or price of one currency in terms of another as a result of market forces of supply and demand.
60. **Flexible exchange rate** The exchange value of a national currency that is free to move up and down in response to shifts in demand and supply arising from international trade and finance.
61. **Managed float** A fluctuating exchange rate that allows central bank intervention to reduce erratic currency fluctuations.
62. **Wage-price spiral** A vicious cycle in which higher consumer prices (e.g., as a result of devaluation) cause workers to demand higher wages, which in turn cause producers to raise prices and worsen inflationary forces.
63. **Undervalued exchange rate** An official exchange rate set at a level lower than its real or shadow value.
64. **Trade optimists** Theorists who believe in the benefits of free trade, open economies, and outward-looking development policies.
65. **Trade pessimists** Theorists who argue that without tariff protection or quantitative restrictions on trade, developing countries gain little or nothing from an export-oriented, open-economy posture.
66. **New protectionism** The erection of various nontariff trade barriers by developed countries against the manufactured exports of developing nations.
67. **Trade liberalization** Removal of obstacles to free trade, such as quotas, nominal and effective rates of protection, and exchange controls.

68. **Industrialization strategy approach** A school of thought in trade and development that emphasizes the importance of overcoming market failures through government policy to encourage technology transfer and exports of progressively more advanced products.
69. **Economic integration** The merging to various degrees of the economies and economic policies of two or more countries in a region
70. **Economic union** The full integration of two or more economies into a single economic entity.
71. **Regional trading bloc** An economic coalition among countries within a geographic region, usually characterized by liberalized internal trade and uniform restrictions on external trade, designed to promote regional economic integration and growth.
72. **Customs union** A form of economic integration in which two or more nations agree to free all internal trade while levying a common external tariff on all nonmember countries.
73. **Free-trade area** A form of economic integration in which free trade exists among member countries, but members are free to levy tariffs on nonmember countries.
74. **Common market** A form of economic integration in which there is free internal trade, a common tariff, and the free movement of labor and capital among partner states.
75. **Autarky** A closed economy that attempts to be completely self-reliant.
76. **Trade creation** Shift, upon formation of a customs union, in the location of production from higher-cost to lower-cost member states.
77. **Trade diversion** Shift, upon formation of a customs union, of the location of production of formerly imported goods from a lower-cost nonmember state to a higher-cost member nation.
78. **Uruguay Round** A round of the General Agreement on Tariffs and Trade negotiations, started in Uruguay in 1986 and signed in 1994, designed to promote international free trade.

### LESSON 13:

1. **Amortization** Gradual payoff of a loan principal.
2. **Balance of payments** A summary statement of a nation's financial transactions with the outside world.
3. **Basic transfer** Net foreign exchange inflow or outflow related to a country's international borrowing; the quantitative difference between the net capital inflow (gross inflow minus amortization on past debt) and interest payments on existing accumulated debt.
4. **Brady Plan** A program launched in 1989 designed to reduce the size of outstanding developing-country commercial debt through private debt forgiveness procured in exchange for IMF and World Bank debt guarantees and greater adherence to the terms of conditionality.
5. **Capital account** The portion of a country's balance of payments that shows the volume of private foreign investment and public grants and loans that flow into and out of a country over a given period, usually one year.
6. **Capital flight** The transfer of funds to a foreign country by a citizen or business to avoid conditions in the source country.
7. **Cash account (international reserve account)** The balancing portion of a country's balance of payments, showing how cash balances (foreign reserves) and short-term financial claims have changed in response to current account and capital account transactions.
8. **Conditionality** The requirement imposed by the International Monetary Fund that a borrowing country undertake fiscal, monetary, and international commercial reforms as a condition for receiving a loan to resolve balance of payments difficulties.

9. **Current account** The portion of a balance of payments that states the market value of a country's "visible" (e.g., commodity trade) and "invisible" (e.g., shipping services) exports and imports.
10. **Debt-for-equity swap** A mechanism used by indebted developing countries to reduce the real value of external debt by exchanging equity in domestic companies (stocks) or fixed-interest obligations of the government (bonds) for private foreign debt at large discounts.
11. **Debt-for-nature swap** The exchange of foreign debt held by an organization for a larger quantity of domestic debt that is used to finance the preservation of a natural resource or environment in the debtor country
12. **Debtors' cartel** A group of developing-country debtors who join together to bargain as a group with creditors.
13. **Debt repudiation** The 1980s fear in the developed world that developing countries would stop paying their debt obligations.
14. **Debt service** The sum of interest payments and repayments of principal on external public and publicly guaranteed debt.
15. **Deficit** An excess of expenditures over revenues
16. **Euro** A common European currency adopted by some of the countries of the European Union.
17. **External debt** Total private and public foreign debt owed by a country.
18. **Hard currency** The currency of a major industrial country or currency area, such as the U.S. dollar, the euro, or the Japanese yen, that is freely convertible into other currencies.
19. **Highly indebted poor countries (HIPCs)** The group of the world's poorest and most heavily indebted countries as defined by the World Bank and the IMF, which status may make them eligible for special debt relief.
20. **International reserves** A country's balance of gold, hard currencies, and special drawing rights used to settle international transactions.
21. **Macroeconomic instability** Situation in which a country has high inflation accompanied by rising budget and trade deficits and a rapidly expanding money supply
22. **Odious debt** Sovereign debt used by an undemocratic government in a manner contrary to the interests of its people should be deemed invalid
23. **Restructuring** Altering the terms and conditions of debt repayment, usually by lowering interest rates or extending the repayment period.
24. **Special drawing rights (SDRs)** An international financial asset created by the International Monetary Fund in 1970 to supplement gold and dollars in settling international balance of payments accounts
25. **Stabilization policies** A coordinated set of mostly restrictive fiscal and monetary policies aimed at reducing inflation, cutting budget deficits, and improving the balance of payments.
26. **Structural adjustment loans** Loans by the World Bank to developing countries in support of measures to remove excessive governmental controls, make factor and product prices reflect scarcity values, and promote market competition.
27. **Surplus** An excess of revenues over expenditures.

#### LESSON 14:

1. **Portfolio investment** Financial investments by private individuals, corporations, pension funds, and mutual funds in stocks, bonds, certificates of deposit, and notes issued by private companies and the public agencies.
2. **Multinational corporation (MNC)** A corporation with production activities in more than one country.

3. **Foreign direct investment (FDI)** Overseas equity investments by private multinational corporations.
4. **Global factories** Production facilities whose various operations are distributed across a number of countries to take advantage of existing price differentials.
5. **Transfer pricing** An accounting procedure often used to lower total taxes paid by multinational corporations in which intracorporate sales and purchases of goods and services are artificially invoiced so that profits accrue to the branch offices located in low-tax countries (tax havens) while offices in high-tax countries show little or no taxable profits.
6. **Corporate social responsibility** Nongovernmental self-regulation by corporations or consortia of corporations (possibly with consumer group representation), to attempt to ensure compliance with acceptable international norms of ethical practice such as avoidance of cruel, coercive, or deceptive labor practices.
7. **Foreign aid** The international transfer of public funds in the form of loans or grants either directly from one government to another (bilateral assistance) or indirectly through the vehicle of a multilateral assistance agency such as the World Bank.
8. **Concessional terms** Terms for the extension of credit that are more favorable to the borrower than those available through standard financial markets.
9. **Official development assistance (ODA)** Net disbursements of loans or grants made on concessional terms by official agencies, historically by high-income member countries of the Organization for Economic Cooperation and Development (OECD).
10. **Two-gap model** A model of foreign aid comparing savings and foreign-exchange gaps to determine which is the binding constraint on economic growth.
11. **Savings gap** The excess of domestic investment opportunities over domestic savings, causing investments to be limited by the available foreign exchange.
12. **Foreign-exchange gap** The shortfall that results when the planned trade deficit exceeds the value of capital inflows, causing output growth to be limited by the available foreign exchange for capital goods imports.
13. **Fiscal gap** Deficiencies of government investments including infrastructure and human capital that are complementary to—raise the rate of return from—private investment.
14. **Technical assistance** Foreign aid (either bilateral or multilateral) that takes the form of the transfer of expert personnel, technicians, scientists, educators, and economic advisers, and particularly their use in training local personnel, rather than a simple transfer of funds.
15. **Absorptive capacity** The ability of a country to absorb foreign private or public financial assistance (to use the funds in a productive manner).
16. **Tied aid** Foreign aid in the form of bilateral loans or grants that require the recipient country to use the funds to purchase goods or services from the donor country.
17. **Nongovernmental organizations (NGOs)** Nonprofit organizations that are often involved in providing financial and technical assistance to developing countries.

## LESSON 15

1. **Monetary policy** Activities of a central bank designed to influence financial variables such as the money supply and interest rates.
2. **Money supply** The sum total of currency in circulation plus commercial bank demand deposits and sometimes savings bank time deposits.
3. **Currency substitution** The use of foreign currency (e.g., U.S. dollars) as a medium of exchange in place of or along with the local currency (e.g., Mexican pesos).
4. **Transparency (financial)** In finance, full disclosure by public and private banks of the quality and status of their loan and investment portfolios so that domestic and foreign investors can make informed decisions.
5. **Organized money market** The formal banking system in which loanable funds are channeled through recognized and licensed financial intermediaries.
6. **Unorganized money market** The informal and often usurious credit system that exists in most developing countries (especially in rural areas) where low-income farms and firms with little collateral borrow from moneylenders at exorbitant rates of interest.
7. **Financial liberalization** Eliminating various forms of government intervention in financial markets, thereby allowing supply and demand to determine the level of interest rates, for example.
8. **Central bank** The major financial institution responsible for issuing a nation's currency, managing foreign reserves, implementing monetary policy, and providing banking services to the government and commercial banks.
9. **Currency board** A form of central bank that issues domestic currency for foreign exchange at a fixed exchange rate.
10. **Development banks** Specialized public and private financial intermediaries that provide medium- and long-term credit for development projects.
11. **Informal finance** Loans not passed through the formal banking system—for example, loans between family members.
12. **Rotating savings and credit association (ROSCA)** A group formed by formal agreement among 40 to 50 individuals to pool their savings and allocate loans on a rotating basis to each member.
13. **Microfinance** Financial services, including credit, supplied in small allotments to people who might otherwise have no access to them or have access only on very unfavorable terms. Includes microsavings and microinsurance as well as microcredit.
14. **Group lending scheme** A formal arrangement among a group of potential borrowers to borrow money from commercial or government banks and other sources as a single entity and then allocate funds and repay loans as a group, thereby lowering borrowing costs.
15. **Commercialization** A process whereby an NGO (a not-for-profit organization) providing microfinance is converted into a for-profit bank.
16. **Rationing** A system of distribution employed to restrict the quantities of goods and services that consumers or producers can purchase or be allocated freely in the face of excess demand and inflexible prices; can be accomplished with coupons, points, limits on who can borrow, administrative decisions with regard to commodities, industrial licenses for the importation of capital goods, and the like.
17. **Financial repression** Constraints on investment resulting from the rationing of credit, usually to a few large borrowers, in financial markets where interest rates and hence the supply of savings are below market-determined levels.
18. **Direct taxes** Taxes levied directly on individuals or businesses—for example, income taxes.

19. **Indirect taxes** Taxes— including customs duties (tariffs), excise taxes, sales taxes, value added taxes (VATs), and export duties— levied on goods purchased by consumers and exported by producers.
20. **Value added tax** Levy on value added at each stage of the production process.
21. **State-owned enterprises (SOEs)** Public corporations and parastatal agencies (e.g., agricultural marketing boards) owned and operated by the government.
22. **Privatization** Selling public assets (corporations) to individuals or private business interests.