Glossary

Unit 1: Finance, the individual and society

This glossary is made up of key terms that you will also find at the end of the relevant Unit 1 topics.

A

Annual Budget – an outline, given by the Chancellor of the Exchequer, of planned government expenditure for the next financial year.

Annual equivalent rate (AER) – the interest rate that would be paid on a savings account if you were to leave the money in the account for a full year.

Annual percentage rate (APR) – the interest that would be charged on a sum borrowed over one full year; used to measure the interest rate on loans, mortgages and credit cards; the calculation includes the fees that lenders charge automatically on the product, so that it gives a clear picture of the cost.

Asset – anything that a person owns that has a monetary value, such as a house, car, stereo, jewellery and so on.

Austerity – a government measure to reduce the amount of money it spends (usually reduced wages and benefits), resulting in difficult financial conditions for a population.

B

Bad debt – debt that can never be paid off.

Bank rate – the official interest rate as set by the Bank of England.

Banking industry – banks, buildings societies and other businesses that offer financial products and services; part of the private sector.

Barter – the exchange of goods and services for payment of other goods and services without using money.

Basket of goods – the representative items that a household buys over a period of time on which inflation calculations are based.

Benefits – (1) money and other financial support (such as reduced bus and train fares or provision of housing) that the government provides for people who are unable to get any other income; (2) payments that the government makes to someone who is entitled to receive them (eg Jobseeker's Allowance).

Bill – a law that has been passed.

Birth rate – the numbers of children born in a year, compared to the population total.

Bonds – a certificate that shows you have bought the debt from a company or the government, in return for which the company or government pays a fixed amount of money in interest each year.

Budget – a plan for how you will use your income, including spending and saving.

Bureau de change – a business that deals in currency exchange.

C

Cabinet – a committee of senior government ministers who are responsible for setting government policy.

Capacity building – making local communities self-sustaining.

Capital – the money with which a business starts or the original amount of debt taken out.

Capital gains tax – a tax on the increase in value of an asset, such as land or shares.

Cash – banknotes and coins.

Cash flow – all of your money coming in and money going out.

Cashless society – a social system in which no cash is used to pay for goods and services.

Charity – (1) an organisation set up to help a particular group or issue; (2) the act of donating money or time to a cause.

Charity sector – charities and other non-government organisations that are run not for profit, but for the good of society.

Coalition – when two or more political parties join together to form a majority in Parliament because neither of them could do so by themselves.

Commission – an amount charged by currency exchange services as a flat fee for the service of buying or selling foreign currencies.

Communist economy – a type of market economy in which government makes all of the decisions.

Commuter belt – an area just outside a city, in which people live and from which they travel into the city to work each day.

Compound interest – interest that is calculated on the principal plus the interest that has been charged or paid so far.

Consequences – the outcome or result of a given event or action.
Constitutional monarchy – a system of government in which a king or queen is the head of state and an elected body makes the laws.

Consumer – someone who uses or buys goods and services.

Consumer Prices Index (CPI) – one of the main measures of inflation, calculated monthly by measuring the average cost of a 'basket' of goods less major household expenditure, such as mortgages and council tax.

Corporate social responsibility (CSR) – business self-regulation that drives a company to act in an ethical manner – ie to make socially responsible decisions, such as recycling or reducing its pollution.

Corporation tax – a tax that a business pays on its profits.

Cost of living – the amount that you need to spend to buy the goods and services necessary for living an average life.

Cost-push inflation – inflation that is driven by higher costs of production.

Counterfeiting – producing an imitation (fake) of a 'real' product, with the intention of gaining (usually financially) from people not knowing the difference.

Credit – (1) the ability to buy goods and services before you are able to pay for them, by using money borrowed from the bank, ie using more money than you currently have; (2) money put into your current or savings account.

Credit card – a small plastic card that allows the owner to use credit.

Credit history – a person's previous history of debt repayments.

Currency – the money used in a particular country.

Currency broker – a person or business who deals in all kinds of currency exchange.

Currency exchange – changing one currency for another; buying and selling foreign currency.

D

Debit – withdrawing money from your own account, from money that you already have; not using more money than you have.

Debit card – a small plastic card that allows someone to withdraw money that they already have available in an account.

Debt – (1) money owed to another person or organisation such as a bank; (2) the total amount of money that someone owes at a particular point in time.

Default – the situation in which a borrower is unable to repay a debt.

Deficit – more expenditure than income; more money paid out than coming in.

Demand-pull inflation – inflation that is driven by the numbers of people who want a particular item or service.

Democracy – a system of government in which the people rule through the power to vote for their representatives.

Demography – the study of the structure of a human population.

Denomination – the value of money, eg the amount written on a coin or a banknote.

Dependant – a child or other person who is financially dependent on you.

Depreciation – the situation in which an asset or money decreases in value.

Devaluation – the situation in which the value of something goes down.

Devolution – when particular political powers are given to a smaller subsection of the nation – for example, in the UK some powers have been transferred to Scotland, Wales and Northern Ireland.

Direct debit – an arrangement made with the bank to pay a company the amount of money they request from your bank account, in payment for goods or services; often used to pay bills.

Direct tax – tax that is taken directly from income or wealth.

Disposable income – the part of your income that you can choose to use in whatever way you want, after you have paid all of your essential expenses. There are technical definitions for ‘disposable’ and ‘discretionary’ income, but you do not need to know these distinctions at this level of study.

E

Earnings – the money that you make from your job.

Economic cycle – the regular up-and-down movement of the economy.

Economic downturn – a period during which economic activity slows down, potentially leading to a recession.

Economic growth – a situation in which the economy is expanding, as measured by increasing national income, low interest rates and low unemployment.

Economic indicators – statistics that tell us something about the economy, eg interest rates or unemployment rates.

Economy – the state of a country relating to the amount of money that is in the system and the production and consumption of goods and services.

Election – the formal system of voting.

Electoral register – the list of names of people who have registered to vote.

Emigrant – a person who leaves this country to move to another one.

Emigration – movement out of one country to another country.

Equivalent annual rate (EAR) – the interest that would be charged on an overdraft if you were to borrow the money for a full year.

Excise duty – a tax levied on the manufacture or sale of specific goods, such as tobacco and alcohol.

Expenditure – money that you spend.

Expenses – the things that you have to spend your income on.

Exports – goods or services that are sold outside a country.

F

Financial capability – an individual's ability to manage their money well.

Financial Conduct Authority (FCA) – an agency that regulates financial firms and services.

First past the post – the voting system used in UK general elections. The candidate with the most votes in each constituency is elected to Parliament, and the party with the most Members of Parliament then forms a government. Due to the way this system works, the party that ends up forming a government does not necessarily receive a majority of the votes cast.

Fiscal policy – the decisions a government makes about taxes and what to spend public money on.

Fixed rate – an interest rate that is set at a particular amount for a particular period of time and does not change for that period.

Flat pay structure – income that does not increase by very much over time and which can remain relatively stable.

Flat-rate tax – tax that is the same proportion at all levels of income.

Foreign currency – the money used in a country other than your own.

Foreign exchange rate – the price of exchanging one kind of currency into another.

Free-market economy – a type of market economy in which private individuals and companies make decisions, motivated by profit, without government interference.

Full employment – when everyone in a country who is willing and able to work in paid employment has a job (in practice, classed by the UK government as an unemployment rate of 2% or less).

G

Gilts – a high-interest, very secure government bond (see 'Bonds').

Gross domestic product (GDP) – the total value of all goods made and services provided by a country in a year.

Gross income – the income that you receive before any deductions (ie tax and National Insurance contributions) are made.

Gross interest – the interest paid on savings *before* income tax has been taken off.

Gross profit – profit before corporation tax is paid.

H

High credit risk – someone who may not be able to repay a loan.

Household – all of the people living in a single residence.

Hyperinflation – very high inflation.

I

Identity – the things that make a person who they are, the things that make us the same as or different from other people.

Immigrant – a person from another country who comes to this country to live.

Immigration – movement into one country from another country.

Imports – goods or services that are bought abroad and brought into a country.

Income – all of the money (or items worth money) that you receive, including through work, investments and government benefits.

Income tax – money that must be paid to the government from your income to pay for public services such as health and education.

Indigenous population – those people who are born in a country, also known as its 'native population'.

Indirect tax – tax that is charged on spending, or on goods and services (eg VAT in the UK).

Individual savings account (ISA) – a savings account on which interest is paid tax-free and about which there are rules, including limits on how much money you can save.

Inequality of income – a situation in which some people have much higher incomes than others.

Inflation – the increase in prices over time, as measured by how much a typical 'basket' of goods costs.

Inflation rate – the rate at which prices are increasing.

Informal economy (or cash economy) – those jobs and payments received that are not formally registered as 'working', and so are difficult to quantify.

Infrastructure – the physical and organisational structures and facilities that are needed for a society to run properly.

Inheritance tax – a tax levied on the value of property, or money, bequeathed after death.

Insurance – a system in which you regularly pay a company a particular amount of money, in return for which the company agrees to provide compensation for any loss or damage of possessions or property, or expenses as a result of illness or death.

Interdependency – the situation in which changes in one area affect changes in another area.

Interest – a charge made or paid for the use of someone else's money.

Interest rate – the money you pay as a charge for the service of using someone else's money – for example, if you borrow money to buy a car, you pay back the money you borrowed plus interest; or the bank pays you interest on money saved as it has access to your money.

Internal migration – movement between cities or towns within a country.

Investment – something that you buy because it is likely to make you money in the future – for example, property may increase in value so that you can sell it for more than you bought it and make a profit, or you can rent it out.

J

Jobseeker's Allowance – a state benefit paid to unemployed people who meet certain conditions, such as being actively looking for work. It will gradually be replaced by a new benefit, Universal Credit, which has a wider scope and aims to replace several existing benefits.

L

Life cycle – the age stages through which people pass.

Life expectancy – how many years the average person is expected to live.

Living wage – the national minimum rate of pay for workers aged 25 and older.

M

Migration – movement of people between places, generally between towns or cities and countries.

Minimum wage – the minimum rate of pay per hour that almost all workers are entitled to between school leaving age and age 24. An employer is breaking the law if they do not pay eligible workers the minimum wage.

Minister – a head of a government department – for example, Education or Health.

Mint – where coins are made (the Royal Mint produces coins for the UK and more than 60 other countries).

Mixed economy – an economy (of which the UK is an example, as are the economies of most countries in the world) that falls between the extremes of a communist economy and a free-market economy.

Money – a medium of exchange in the form of banknotes and coins (cash), or electronic balances (ie what you use to purchase goods and services).

Money management – making decisions about using your money.

Mortgage – a large loan to buy a house or property.

Multiplier effect – the impact of one financial decision on another, which in turn has an impact on someone or something else, and so on.

N

Needs – the things that we require to survive, such as food, water, shelter, warmth and essential clothing.

Net income – the money that is left over from your income after government tax and other charges have been deducted (also called take-home pay).

Net interest – the interest paid on savings *after* income tax has been taken off.

Net profit – profit after corporation tax is paid.

Niche market – a small section of the total market that focuses on a very specific section of the population, eg a holiday company that caters only to those over the age of 65.

Nominal interest rate – the interest rate as stated before taking inflation into account.

Non-governmental organisation – a type of organisation that is not run for profit, but also is not part of the government.

Non-professional career – a career in which the worker is usually paid hourly wages and for which they may not require any specific training.

O

Overdraft – a service provided by banks that allows a person to withdraw more money than they actually have in their bank account. The extra money is borrowed from the bank and must be repaid with interest.

P

Parliament – the highest law-making body consisting of head of state, the House of Commons and the House of Lords.

Payday loan – a short-term loan offered at a high interest rate that is designed to financially assist someone until they are next paid.

Payroll giving – making donations to a specific charity as deductions directly from a salary.

Pension – income received after you have retired, whether from the state (state pension) or from an employer (into which scheme you will pay while you are working).

Per annum – the words used after percentage rates to mean 'each year'.

Personal savings allowance – the amount of interest that someone can earn on their savings tax-free in a tax year. ISA interest is always tax-free.

Political party – an organisation that stands for election and has particular political ideas.

Premium – a sum of money paid to an insurance company, usually monthly or annually, so that the company will pay a specific sum of money if a risk event happens.

Price – the purchase price of a good or service.

Price stability – keeping inflation low and at the same rate for a period of time.

Principal (or capital) – the original amount of money put into something or borrowed.

Private sector – that part of the economy run by individuals or groups, rather than the government.

Probability – the likelihood of an event happening.

Professional career – a career in which the worker is usually a graduate (ie has a university degree) or has been trained for the job, and for which they are usually paid a monthly salary.

Profit – the difference between the price for which a product sells and the cost of making and selling it.

Public sector – that part of the economy that comprises national and local government, and the services provided by government, such as education, health care, the military and the police.

Public spending – how the government spends the money it makes (through taxes, for example).

Q

Quantitative easing – a government policy that allows the Bank of England to put more money into the economy by creating more electronically and then buying government bonds (see 'Bonds' and 'Gilts').

R

Rate of return – how much money you can make on savings or investments, or how much money you get back (ie your profit) compared with the amount that you put in.

Real interest – the amount of interest that you pay after taking inflation rates into account, eg if the interest rate is 5%, but prices have risen 10%, then the real interest rate is −5% (5% – 10%).

Recession – (1) a period of economic downturn which means less money moving around the economy; people spend less, wages decrease, unemployment increases, company profits decrease, and so on;
(2) technically defined as two successive periods of economic decline; a situation in which the economy has experienced a downturn twice in a row, rather than the up-and-down movement of the usual economic cycle.

Redistribution of income – a government policy aiming to reduce inequalities of income by increasing lower incomes and / or reducing higher incomes in some way.

Redundancy – the loss of a job when it is removed from the employment structure of an organisation.

Responsibility – a thing that a person is expected to do; a duty.

Retirement – the point at which a person can stop work and claim a pension from the government (if at state pension age) or their employer.

Revenue – the income of an organisation or government.

Rights – the things that a person is entitled to.

Risk – a situation involving a threat or danger.

Risk-averse – a characteristic describing someone who prefers not to take risks.

S

Salary – a regular fixed payment for work carried out, usually paid monthly and generally spoken of as an annual amount, such as ‘£24,000 a year’.

Shares – investments that represent part-ownership of a company.

Simple interest – interest that is calculated only on the principal (or what is left of it).

Social enterprise – an enterprise that aims to increase social well-being rather than to make money, but which can be either not for profit or for profit.

Social justice – the ideal that people should have equal opportunities and equal access to resources.

Social responsibility – the idea that individuals and organisations have a duty to act in a way that is best for society as a whole.

Stamp duty (or stamp duty land tax) – a tax paid when buying property or land.

Standing order – a regular sum of money that you instruct the bank to make out of your bank account to a company or person.

State pension – the money paid by the government to people over retirement age.

Subsidise – pay part of a bill or pay some money towards a big expense – for example, if your housing is subsidised, you will get money towards paying your rent.

Superannuation – a compulsory savings programme in countries such as Australia, New Zealand and Canada.

Surplus – more income than expenditure; more money coming in than being paid out.

T

Targeted benefit – a payment made by the government only to specific groups of people who fulfil certain criteria (eg Personal Independence Payment).

Tax – the contribution that is made by individuals and businesses to government revenue.

Third sector – that part of the economy that is made up of non-government, non-corporate bodies, such as charities, community groups and social enterprises.

Trade-off – the act of giving up something in order to have something else.

Transfer – move money from one account to another.

Turnover – the value of sales that a business makes in a year.

U

Unemployment rate – the percentage of the workforce that is of employment age and actively looking for a paid job.

Universal benefit – a payment made by the government to everyone in a certain circumstance (eg state pension to those over a certain age).

Urbanisation – the growth of cities as people move to them.

V

Value added tax (VAT) – a tax that is added to the price of goods and services.

Variable rate – an interest rate that follows Bank rate plus whatever charges the bank sets.

Variable tax – tax that varies in level depending on income, ie a greater proportion of tax is taken from higher incomes and a lower proportion from lower incomes.

W

Wage – a sum of money paid for work carried out, usually paid weekly or monthly at an hourly or daily rate, or paid as a fixed, agreed amount per task completed.

Wants – the things that we would like to have, but which we do not need to stay alive, such as a car or a mobile phone.

Windfall – a large amount of money that is won or otherwise received unexpectedly.

Winter Fuel Payment – a government benefit that assists older people in paying for their heating bills.