

# Understanding economy : E1 – E7

This chapter aims to give the student knowledge and skills within the field of general financial knowledge. The students will learn the meaning of different elementary terms within several specific fields of economy, such as employment, public and private sector, taxes, currency, banks, loans and labour. The students will develop their skill to read and understand economic reports and news. They will also understand more about how the economic system works and how all the parts are linked together in the economic system.

## E1 Employment and the economy

Employment is an agreement between an employer and an employee that the employee will provide certain services. In return, the employee is paid a salary or hourly wage. Although employees can negotiate certain items in an employment agreement, the terms and conditions are primarily determined by the employer

- Labour is the amount of physical, mental, and social effort used to produce goods and services in an economy. It supplies the expertise, manpower, and service needed to turn raw materials into finished products and services. Labour can be categorised by the level of education you need to have in order to work with different tasks.
- A wage is compensation paid to employees for work for a company during a period of time. Wages are always paid based on a certain amount of time. This is usually an hourly basis.
- An employee is someone that another person or company hires to perform a service
- The term unemployment refers to a situation when a person who is actively searching for employment is unable to find work.
- Labour productivity measures the amount of goods and services produced by each member of the labour force or the output per input of labour
- Wage rate is the amount of base wage paid to a worker per unit of time (as per hour or day) or per unit of output if on piecework
- The labour force measures the manpower currently available in the economy. It comprises people who are working or seeking work (i.e. the employed and the unemployed).

## E2 What is economy:

- Profit is a financial gain, especially the difference between the amount earned and the amount spent in buying, operating, or producing something
- Budget is an estimate of income and expenditure for a set period of time
- Market economy is an economic system in which production and prices are determined by unrestricted competition between privately owned businesses
- Planned economy is an economic system in which the elements of an economy (as labour, capital, and natural resources) are subject to government control

and regulation designed to achieve the objectives of a comprehensive plan of economic development

- Supply and demand is the amount of goods and services that are available for people to buy compared to the amount of goods and services that people want to buy. If less of a product than the public wants is produced, the law of supply and demand says that more can be charged for the product.
- economic growth is an increase in the amount of goods and services produced per head of the population over a period of time.
- Interest is the price you pay to borrow money or the cost you charge to lend money.
- A household consists of one or several persons who live in the same dwelling and share meals. It may also consist of a single family or another group of people.
- Trade refers to the voluntary exchange of goods or services between economic actors. Since transactions are consensual, trade is generally considered to benefit both parties.

### ● E3 Public and Private sector

- THE PUBLIC SECTOR – parts of the economy controlled by any level of government. This includes public schools (at any level), libraries or national parks etc. It would also include government run companies.
- THE PRIVATE SECTOR – parts of the economy not controlled by the government at any level. This includes companies that are not run by the government, non-profit organisations and individual households.
- Gross domestic product (GDP), generally GDP measures the monetary value of final goods and services—that is, those that are bought by the final user—produced in a country in a given period of time (say a quarter or a year). It counts all of the output generated within the borders of a country.
- Tax is what the government imposes on income generated by businesses and individuals. Progressive tax means higher income earners pay a higher rate of tax.
- Welfare is government support intended to ensure that the members of a society can meet basic human needs.
- Public service is a service intended to serve all members of a community.
- Subsidy is a form of financial aid or support extended to an economic sector.
- Fiscal Policy is the use of government spending and tax policies to influence economic conditions.
- Tariff is a tax imposed by a government of a country or of a supranational union on imports or exports of goods.
- Sales tax is a tax paid to the government for the sales of certain goods and services.
- Public works are a broad category of infrastructure projects financed and constructed by the government.

## ● E4 Taxes

The government requires people to pay a part of their income, value of property they own, etc. to the government. The main purpose of the collection is that the government can pay for different services and tasks that the government is doing for their citizens. The activities done by the government are financed by tax revenues. Different examples of activities are schools, roads and other public works.

Tax comes in many types of forms, and most of them are calculated as a percentage of a monetary exchange. Tax can also be based on a value of a held asset, that you or a company owns.

## ● E5 Currency

Currency works as a medium of exchange for services and goods. It is in the form of paper and coins, issued by the government and accepted by the public it works in the form of money. Its face value is decided by the government through central banking, and it works as a form of payment for the country. It is the money/currency the specific country uses. Currency is also the primary medium of exchange in the modern world.

## ● E6 Banks and Money

- A bank is an organisation where people and businesses can invest or borrow money, change it to foreign money etc – or a building where these services are offered
- Money: coins or notes (= special pieces of paper) that are used to buy things, or an amount of these that a person has.
- Currency is **a medium of exchange for goods and services**. In short, it's money, in the form of paper or coins, usually issued by a government and generally accepted at its face value as a method of payment. There are several currencies in the world. Some countries form a monetary union and have a single currency.

CD – Certificate of Deposit                      An account into which you deposit a sum into which you deposit a sum of money and agree to keep it there for a specified length of time. The account pays higher interest rates

Interest rate                                      The rate a bank or other lender charges to borrow its money

APR – Annual Percentage Rate              The amount of interest you gain from keeping money in an account in a year

Base rent	The minimum interest rate at which banks can lend money to their customers
Loan	A thing that is borrowed, especially a sum of money that is expected to be paid back with interest
Banc account	A financial account maintained by a bank in which the financial transactions between the bank and the customer are recorded. The bank creates (opens) an account in the name of the depositor
Currency	A medium of exchange for goods and services. In short it is money in the form of paper or coins issued by government and accepted as a method of payment
Credit card	A Payment card issued to users (card holders) to enable the card holder to pay a merchant for goods and services based on the cardholders accrued debt
Amortization	The porcess of writing down the value of a loan – paying back a certain sum of a loan
Cash Back	Form of cash incentivet hat banks or retail shops offer their credit card customers in return for spendings made on the credit card. Cashback is a small percentage, usually from 1 up to 5%.
Credit history	Your past record in terms of borrowing and repayment of loans

Fixed and floating rate	<p>A fixed rate is applied when the interest rate is kept constant for the entire loan tenure.</p> <p>A floating rate is one where the interest rate is reviewed periodically during the tenure</p>
Overdraft	Account holders withdraw amounts over the available account balance. Banks charge an overdraft fee to the account holder
Plastic money	Refers to plastic cards – either a debit card to pay bills, withdraw cash or perform other transactions – or a credit card , a pre-approved credit limit to make transactions
Mortgage	An agreement between you and the lender that gives the lender the right to take your property if you fail to repay the money you borrowed

## ● E7 Elementary terms

### **Labour**

#### **Two different angles:**

1. Labour is the amount of physical, mental, and social effort used to produce goods and services in an economy. It supplies the expertise, manpower, and service needed to turn raw materials into finished products and services.
2. Labour is the number of workers in the economy, and the effort they put into producing goods and services

### **Wages**

A wage is payment made by an employer to an employee for work done in a specific period of time.

Some examples of wage payments include compensatory payments such as minimum wage, prevailing wage, and yearly bonuses, and remunerative payments such as prizes and tip payouts

### **Employee**

An employee is a person employed for wages or salary, especially at nonexecutive level.

An employee is a worker who gets paid an hourly wage or annual salary for a set job. Not all hourly workers are employees. Employees are generally defined by the higher level of control that the employer has over the details of the employee's work

### **Unemployed**

The term unemployment refers to a situation when a person actively searches for employment but is unable to find work. Unemployment is considered to be a key measure of the health of the economy. The most frequent measure of unemployment is the unemployment rate, which is the number of unemployed people divided by the number of people in the labour force

### **Labour productivity**

Labour productivity measures the amount of goods and services produced by each member of the labour force or the output per input of labour

### **Wage rate**

the amount of base wage paid to a worker per unit of time (as per hour or day) or per unit of output if on piecework

### **Labour force**

The labour force measures the manpower currently available in the economy. It comprises people who are working or seeking work (i.e. the employed and the unemployed).

### **Gross domestic product**

Gross domestic product, generally GDP measures the monetary value of final goods and services— that is, those that are bought by the final user—produced in a country in a given period of time (say a quarter or a year). It counts all of the output generated within the borders of a country.