



Glossary of Economic Terms

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Terms defined are in **bold** and cross-references to definitions elsewhere in the glossary are in *italics*

A

Additionality The proportion of the impact or change associated with policy or programme which would not have happened without the intervention. For example, if 100,000 visitors to a promotional website booked a holiday to the destination promoted but subsequent research found that 50,000 of them would have made the trip even if they had not visited the website then the degree of additionality is at most 50%

B

Balance of Payments A system of accounting which measures the transactions between one country and the rest of the world. It is divided into the **Current** account which measures inflows and outflows of income, mainly from exports (income inflow), imports (income outflow), investment earnings received or paid and transfers of money between individuals and organisations. A sub-set of the account is the **Balance of Trade** which is the difference between exports of goods and services and imports of the same. The expenditure of tourists whom come to Britain from abroad is an export while UK tourist spending abroad is an import. When people refer to a surplus or deficit in the Balance of Payments they are generally referring to the Current Account. The **Capital Account** measures money inflows and outflows associated with borrowing, lending and transactions in assets. If a British person buys a foreign asset (e.g. a house) that produces an outflow on the capital account. If a foreign bank lends money to British company that produces an inflow. An important point to note is that the overall balance of payments (current plus capital) must balance so that surpluses and deficits on the current and capital account offset one another. For example, if Britain has a current count deficit (buying more abroad than it sells) the gap has to be covered by borrowing from abroad or selling assets to foreigners: these actions produce an inflow of money (capital account surplus). A persistent current account deficit can be a problem if it requires ever more borrowing or selling off assets.

C

Consumer Price Index (CPI) A statistical measure of the average level of prices in the UK and changes in that level over time. It involves tracking prices of a “basket” of goods and services representative of the pattern of purchases of households. A base year is set and the cost of the basket is given a value of 100. If in the next year the price of the basket had risen by 5% then the index value for that year would be 105 and so on. It is also called the Harmonised Index of Consumer Prices (HICP). It replaced the *Retail Price Index* (RPI) in most government uses after 2007 on the grounds that the CPI was more in line with internationally agreed standards. Because the RPI and

CPI use different “baskets” they can produce divergent results in comparisons over time.

D

Debt In relation to governments, the total amounts outstanding to people and organisations from whom the government has borrowed. It is the sum of past *deficits* less repayments of past borrowing. Some government borrowing has to be repaid at fixed intervals and governments may have to borrow to “refinance” loans which are repaid. If the new loans are more expensive (higher interest rate) than the old loans then this can create problems but this is not a current issue for the UK as only a small proportion of debt requires to be refinanced at present and because interest rates are low.

Deficit Term used to describe the amount by which government spending in a period (e.g. a year) exceeds the amounts raised by taxes and other government income. A deficit has to be covered by government borrowing. Governments borrow money in various ways ranging from National Savings accounts and to the sale of government bonds to financial institutions. At present the UK government can borrow easily while paying lenders historically low interest payments. Countries where investors perceive a risk that they may not be repaid can find borrowing difficult and expensive.

Deflation A fall in the overall *Price Level* as measured by indicators such as *CPI* or *RPI*.

Demand The quantity of goods or services which purchasers are willing to buy at a given price. For example, if a hotel can sell 500 bed-nights a week at £100 then the demand for bed-nights at that hotel at that price is 500 per week. Demand is sometimes expressed in terms of the demand for the product of a specific business, demand for a type of product (e.g. hotel rooms in London) or in terms of demand for a group of products (e.g. goods and services bought by tourists). Demand can be affected by many influences: for example poor weather in an area may reduce demand for hotel rooms there, However, in general, demand for a product will fall if it becomes more expensive and rise if it becomes cheaper. Equally, an increase in demand will tend to push up prices and a fall in demand to push them down.

Direct Impacts A change in incomes or employment in an industry or sector which experiences a change in its output. A component of *multiplier* calculations.

E

Exchange Rate The price at which one currency can be bought or sold for another. Thus the exchange rate of the pound Sterling against the US dollar in February 2015 was £1 = \$1.54. A fall in the Sterling exchange rate against another currency makes the UK a cheaper place to visit for tourists from that country and a rise in the Sterling exchange rate makes the UK more expensive. Exchange rates can thus be an influence on the number of visitors to the UK.

Economic Growth – An increase over any given time period (e.g. one year) in the total output of an economy as measured by *GDP*.

F

Full Time Equivalent (FTE) The jobs created or supported by a project may involve a mix of full time jobs (i.e. standard weekly hours, year round), part-time jobs and seasonal jobs: the latter are common in tourism sectors. To enable comparisons to be made between projects or programmes it is useful to express job impacts using a common measure: Full Time Equivalent. In this approach a job with standard full time hours which will exist year round is treated as one job (1 FTE). A full year part time job is treated as a fraction of an FTE depending on the number of hours worked and a seasonal job can be similarly be expressed as a fraction of an FTE based on hours worked as a proportion of those worked by someone employed year round. FTE calculation are used in various HR contexts as well as in impact assessment.

G

Gross Domestic Product (GDP) GDP is a measure of the value of what is produced in a country in a given period (generally one year). It is Gross because it does not subtract or allow for the “using up” of capital assets which would be needed to sustain production. It is Domestic because it relates to what is produced in a county irrespective of who produces the output and who gains the income from the production; thus it includes the value of all the UK production of foreign owned businesses in the UK but not overseas production by UK business. It is Product because it is a measure of the value of what is produced. Government statisticians can estimate GDP in three ways. The income method involves adding up the incomes earned by persons and businesses in the production of goods and services; the output method adds the value of output from the different sectors of the economy; and the expenditure method adds up all spending on goods and services produced in the country including exports. These three methods should produce the same result because the expenditure on goods and services produced will equal the value of output and all output becomes someone’s income (wages, salaries, rent, and profits). Statistical errors mean that the results produced by the three methods may not match.

Gross National Product (GNP) GNP measure the value of the output produced by the residents of a country or by assets which they own. It differs from *GDP* because it excludes profits and income from domestic production which goes abroad to overseas owners but includes income which residents of the country receive from abroad (e.g. from overseas investments). In a country in which many businesses are foreign owned *GDP* is likely to be larger than *GNP* (e.g. Ireland) while in countries whose residents have substantial overseas assets *GNP* is likely to exceed *GDP* (e.g. UK)

Gross Value Added (GVA) GVA is a measure of the value of goods and services produced in a business, an area, an industry or a sector of an economy. It is the value of output from an activity minus the goods and services used up in producing the output (hence Value Added). It equates to the sum of incomes earned in the activity (Wages, Salaries, Profits and Rents). Adding up all the GVA of businesses and organisations in the economy is part of a calculation of *GDP*. The relationship is $\text{Total GVA} + \text{taxes on products} - \text{subsidies on products} = \text{GDP}$.

Index Number A number used to indicate a change in the average value of such economic magnitudes as prices, incomes, wages and costs. The usual procedure is to determine a base year and set the index as 100 for that year. If after, say, 2 years the average value of the item being measured has gone up 10% then the relevant index value will be 110. The *Consumer Price Index* is an example of an index numbers

Indirect Multiplier effects which result from a change in spending with suppliers by a sector or industry which experiences a change in demand.

Induced Multiplier effects which result from changed spending by people whose incomes are changed directly or indirectly by a change in demand in an industry of sector of the economy.

Inflation A rise in the overall *Price Level* as measured by indicators such as *CPI* or *RPI*.

Input – Output Table A framework for showing how all the households, sectors and industries in an economy are inter-connected in terms of sales and purchases to and from one another. Constructing an Input Output Table is a complex task which involves collecting a large amount on information on the value of goods and services purchased, the production of goods and services and the purchases which businesses make from one another in a year. When completed, the table will show, for example, how much the hotels industry

purchases from the food industry, energy suppliers, transport and so on. It is then possible to use a model based on the table to show that an increase of £x million in spending by tourists in hotels will lead to increased purchases of food, fuel, transport services and so on. Of course, as food producers increase their production so they will increase purchases from their suppliers. The Input Output framework enables this chain of sales and purchases to be traced through the economy. Input Output tables are used to produce *multipliers* which show how an increase in output in one industry affects the whole economy and are used to produce *Tourism Satellite Accounts*.

M

Macroeconomics The study or analysis of the working of the economy as a whole focussing on economy-wide topics such as *economic growth*, *inflation* and the *Balance of Payments*. An example of a macroeconomic issue would be analysing whether inflation would be expected to rise or fall in the coming year.

Microeconomics The study and analysis of the behaviour of and inter-action of consumers and producers of goods and services trading with each other in markets. Microeconomics is concerned with such issues as how prices are established, how changes in demand and supply affect prices and how price changes affect both the demand for goods and services and the supply of them. An example of a microeconomic issue would be analysing whether and by how much a fall in transatlantic air fares would increase in-bound tourism to the UK from North America.

Multiplier The multiplier measures the total change in employment or income in a country or area which results from an initial change in output in one industry or sector. For example, if an increase in tourists coming into a country leads to higher occupancy in hotels then those hotels will increase their purchases of food, drink, energy and a range of other services. The hotels may hire more staff. The purchases from suppliers will increase employment and incomes in those suppliers who will also make purchases from their own suppliers with similar effects and so on. At each step in the process some of the spending “leaks out” of the economy as imports, taxes and money which is saved not spent so that eventually the process comes to an end. This chain of purchases and sales can be measured through Input-Output Tables where available. In the example given here the *Direct* effect is the increase in employment/income in the hotels which accommodate the extra tourists, the *Indirect* effect is the increase in employment/income in the suppliers and the *Induced* effect is created as people who now have increased incomes as a result of the expansion of activity spend those incomes. The value of the multiplier is expressed as the total impact divided by the direct impact. Thus if the increase in visitor numbers led to an increase in employment in the hotels sector of 1,000 jobs while the multiplier effects added another 300 jobs, the multiplier would be calculated as $1,000+300/1,000 = 1.3$. In some multiplier calculations only the indirect effects

are included in the multiplier impact: these are called Type I multipliers. Where induced impacts are included we have Type II multipliers. It is important to note that while multipliers are widely used, they are often broad estimates which are not based on detailed Input Output Tables and may be unreliable. The example given related to an increase in demand but multipliers can also be used to assess the effects of reductions in demand.

N

National Income Accounts A set of accounting procedures through which government statisticians calculate the level of income and production in a country and specifically calculate *Gross Domestic Product* and *Gross National Product*

Nominal When a value, say average wage, *GDP* or tourist spending, is measured in nominal terms it is measured in the cash value at the relevant point in time (sometimes called money of the day). Thus we might find that the average earnings of an employed person in the UK were £4,500 in 1980 in nominal terms (i.e. the cash amount actually paid). By comparison the equivalent figure in 1990 was £10,600 in nominal terms. In nominal terms average income has more than doubled (increased by 135%). However, we cannot conclude that people were better off in 1990 unless we know what happened to the average prices of goods and services (the *Price Level*) over the period. To make a meaningful comparison we need to adjust the two income figures so that they are expressed in terms of prices of the same year. This enables us to establish the change in incomes in *real* terms. If we do that we find that earnings in 1990 were about 23% higher than in 1980 in *real* terms.

P

Price Level The average price of goods and services in the economy as measured by the RPI or CPI. A rise in the general price level is termed inflation and a fall is *deflation*.

R

Real A real change in an economic measure such as *GDP* or income or the cost of a product is a change which is not only the result of a change in the general *price level* but which represents, for example, a change in the amount produced or what an income will buy. A real change can be measured by comparing the change in the cash value of the item with a measure of price change such as *CPI*. For example if my income has gone up in cash (*nominal*) terms by 10% but average prices have risen by 5% then my real income (what I can buy with that income) has risen by just under 5%

Recession A fall in the output of an economy (as measured by *GDP*) which goes on for some time. By convention, a fall in output in two successive three month periods is termed a recession.

Retail Price Index (RPI) The RPI is a **long** established measure of the average level of prices in the UK and changes in that level over time. Although replaced by the CPI for many government purposes, because it goes back to 1947 it is still calculated and used. One of the main differences between the two measures is that the RPI includes mortgage interest as an item while the CPI does not.

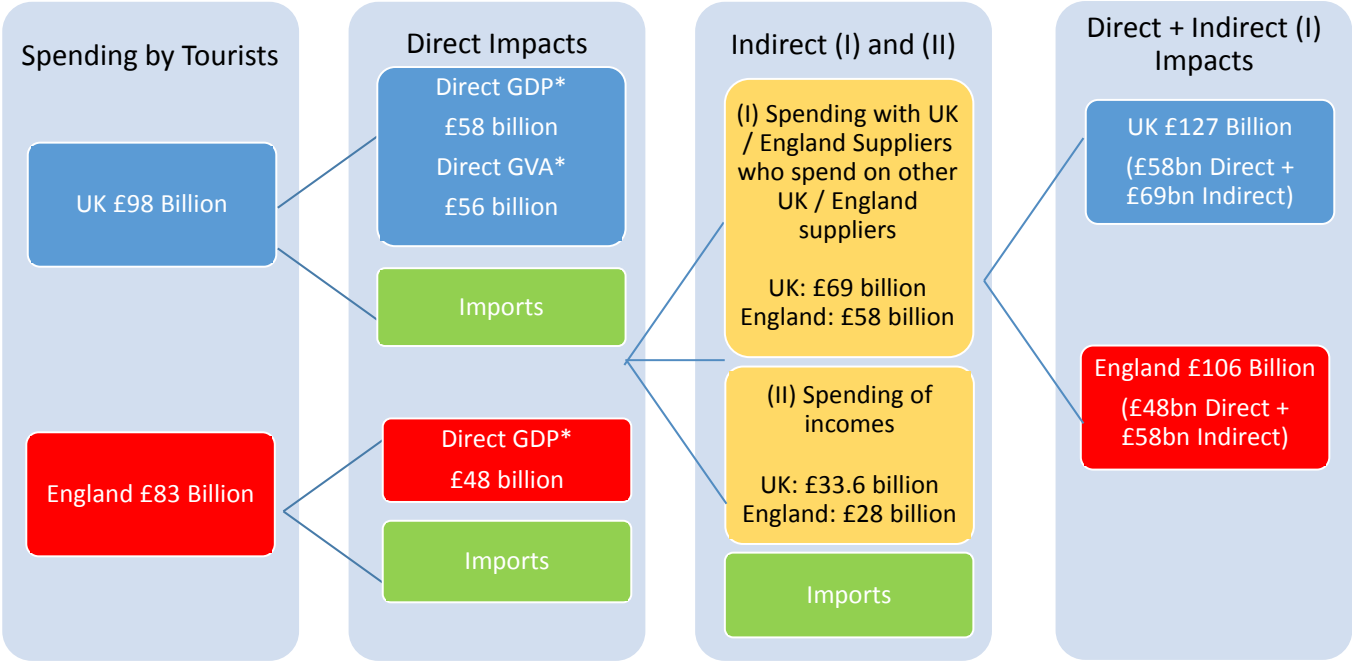
S

Supply The quantity of any good or service which people and organisations providing those goods and services will offer for sale at a given price. Normally an increase in price will lead to an increase in supply and a fall the reverse but this process can be slow for some goods and services. For example a rise in *demand* for hotel rooms in London may increase the prices hoteliers can charge. If the increase in prices is believed to be permanent, businesses will be encouraged to provide more hotels rooms and thus increase supply. However, organising the construction or extension of hotels takes time and supply may be slow to respond. When supply is eventually increased there will be some downward pressure on prices. If businesses miscalculate and, for example, increase supply of hotel rooms in an area by too much, prices (i.e. room rates) may then fall sharply

T

Tourism Satellite Accounts Because Tourism is not an industry in itself (like banking or vehicle manufacture) but rather a source of demand for activities which are dependent on *demand* from tourists to varying degrees (e.g. hotels, transport, restaurants) problems arise in measuring the importance of tourism to the economy in terms of jobs or income. The World Tourism Organisation and various national governments (including the UK) favour the use of Tourism Satellite Accounts or TSAs. The precise specification of TSAs vary but the basic concept involves defining and measuring tourism expenditure and identifying the sectors which *supply* the goods and services bought by tourists. At the most basic, the share of each industry's sales accounted for by tourist demand is identified. An account showing *supply* of and *demand* for tourism goods and services is created and the value of income created is estimated. The process is demanding and detailed *Input Output Tables* are essential to creation of an accurate TSA.

The UK Tourism Economy



*Direct GDP measured by Deloitte, Direct GVA measured by ONS Tourism Satellite Account (TSA)