

Glossary

- Agglomeration:** The geographical clustering of economic activity.
- Agglomeration Externalities:** The benefits of clustering—such as the ready availability of a pool of skilled workers—for which firms do not pay.
- Budget deficit:** What results when a government spends more than it can raise in revenues.
- Capital Account:** Countries record their economic transactions with other nations in a national ledger called the balance of payments. The capital account is the part of this ledger where they record cross-border trade in assets—such as bonds or shares. It thus tracks the flow of capital into and out of the country.
- Catch-Up:** The process by which less developed economies tend to grow at faster rates than industrialized economies because they can replicate modern economies' production methods, institutions, and technologies rather than developing them from scratch.
- Clean Development Mechanism:** An arrangement under the Kyoto Protocol (which came into force in 2005) that allows industrialized countries to invest in reducing emissions in developing countries as an alternative to reducing them in their own countries.
- Creative Destruction:** A phrase popularized by the economist Joseph Schumpeter. In his vision of capitalism, entrepreneurs enter markets with new products and production techniques that create value even as they destroy the worth of existing companies.
- Current Account:** Like the capital account (see above), the current account is part of a country's balance of payments, recording its transactions with the rest of the world. The current account records earnings from exports; expenditures on imports; unilateral transfers, such as migrant remittances; and the net income the country earns from its net holdings of foreign assets. Thus, while the purchase of a foreign bond would be recorded in the capital account, the interest received on that bond would be recorded in the current account.
- Current-Account Deficit:** A country runs a current-account deficit when its current receipts from the rest of the world fall short of its current payments to it. In other words it receives less income from its exports of foreign assets than it must pay to other countries to import their goods, or to service its foreign debt. To run a current-account deficit, a country must borrow from the rest of the world, or must sell assets.

Economic Diversification: Creating a variety of new economic activities and industries—implying that the share of traditional sectors, typically agriculture, goes down.

Foreign Direct Investment: Capital inflows from outside the country that create or add to company assets, such as plant and equipment. An important feature of these flows is that they are not readily reversible, unlike some financial flows.

Gini Coefficient: A measure of income inequality, which ranges from zero (everyone has the same income) to one (one person receives all the income). Most countries for which there are estimates have Gini coefficients between 0.25 (Sweden in 2000) and 0.59 (Brazil in 2001).

Global Imbalances: The current worldwide pattern of saving and spending, which is marked by excess saving in Asia and the Middle East and excess spending in America. These patterns result in large current-account surpluses in Asia and the Middle East and a big current-account deficit in America.

Import Substitution: A government policy that attempts to replace imports with domestically produced goods.

Industrial Policies: Any government regulation or spending that aims to promote a particular industry or firm. In developing countries, industrial policies are often intended to encourage export diversification whereas in industrialized countries they are intended to push forward the technological frontier.

Inflation Targeting: An approach to central banking in which a target rate of inflation is announced, and the central bank then attempts to steer actual inflation toward the target using interest rates and other tools.

Labor surplus: Where the labor provided is in excess of the labor necessary to carry out an activity.

Market Incentives: The incentive to increase profitable activities and decrease unprofitable ones, based on the demand for goods and services and the cost of providing them.

Mitigation: Reduction in the severity of adverse conditions. In the context of global warming, mitigation refers to cuts in the emission of greenhouse gases, or to other, offsetting measures that reduce the amount of warming for a given concentration of greenhouse gases.

Resource Mobility: The ease with which labor and capital move from industry to industry, or region to region.

Resource Rents: The surplus value of natural resources, such as oil, after all costs have been accounted for.

Static Analysis: Investigating the properties of an economy or market “at rest,” when market forces are in a settled equilibrium. The analysis usually proceeds by changing one or more variables, while assuming that underlying parameters remain the same and ignoring the path taken from the initial situation to the amended one. For example, a static analysis

might compare the production costs of a small firm to those of a larger firm, assuming that tastes and technology remained the same.

Structural Diversification: A major change in a country's economy that involves extending economic activities into different fields. This may involve the reform or creation of new economic institutions.

Structural Transformation: A fundamental shift in a country's methods of economic organization, such as the reallocation of labor, physical, and human capital among agriculture, manufacturing, and services industries. This involves the addition of activities and the removal of other activities that are no longer economically viable or profitable.