Financial Sector

AP Macroeconomics · Vocabulary in context

Word	Example
financial asset /faɪˈnænʃl ˈæset/	A bond is a **financial asset**.
stocks /stɒks/	She owns **stocks** in a tech company.
bonds /bɒndz/	Governments sell **bonds** to borrow money.
liquidity /lɪˈkwɪdɪti/	Enough **liquidity** means a firm can pay its bills on time.
nominal interest rate /ˈnɒmɪnl ˈɪntrest reɪt/	The **nominal interest rate** is the rate before taking inflation away.
real interest rate /rɪəl ˈɪntrest reɪt/	The **real interest rate** is the interest rate minus inflation.
Money /ˈmʌni/	**Money** lets us buy things without trading goods.
medium of exchange /ˈmiːdɪəm ɒv eksˈtʃeɪndʒ/	Money is a **medium of exchange**: people accept it in return for goods.
unit of account /ˈjuːnɪt ɒv əˈkaʊnt/	Money is a **unit of account**: we use it to compare the prices of things.
store of value /stɔː ɒv ˈvæljuː/	Money is a **store of value**: you can keep it and spend it later.
fiat money /ˈfiːət ˈmʌni/	Paper notes are **fiat money**: their value comes from trust in the government.
monetary base /ˈmʌnɪtəri beɪs/	The **monetary base** is cash plus bank reserves at the central bank.

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fractional reserve /ˈfrækʃənl rɪˈzɜːv/	Under **fractional reserve** banking, banks lend out most of their deposits.
reserves /rɪˈzɜːvz/	Banks keep **reserves** to pay customers who take money out.
required reserve ratio /rɪˈkwaɪəd rɪˈzɜːv ˈreɪʃɪəʊ/	A **required reserve ratio** of 10% means banks keep $10 of every $100 deposited. 10% $100 $10
excess reserves /ekˈses rɪˈzɜːvz/	Banks can lend out their **excess reserves**.
money market /ˈmʌni ˈmɑːkɪt/	In the **money market**, the interest rate is set by money supply and demand.
Money demand /ˈmʌni dɪˈmænd/	**Money demand** rises when people buy more things.
Money supply /ˈmʌni səˈplaɪ/	The central bank can change the **money supply**.
Monetary policy /ˈmʌnɪtəri ˈpɒlɪsi/	**Monetary policy** changes interest rates to control inflation.
Expansionary (easy) /ekˈspænʃənəri/	**Expansionary (easy)** policy cuts interest rates to boost spending.
Contractionary (tight) /kənˈtrækʃənəri/	**Contractionary (tight)** policy raises interest rates to slow inflation.
open-market operations /ˈəʊpən ˈmɑːkɪt ˌɒpəˈreɪʃnz/	In **open-market operations**, the central bank buys or sells bonds.
discount rate /ˈdɪskaʊnt reɪt/	The **discount rate** is the interest the central bank charges banks.

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interest on reserves (IOR) /ˈɪntrest ɒn rɪˈzɜːvz/	Raising **interest on reserves (IOR)** makes banks keep more money at the central bank.
policy rate /ˈpɒlɪsi reɪt/	The central bank raised its **policy rate** to 5%. 5%
loanable funds market /ˈləʊnəbl fʌndz ˈmɑːkɪt/	In the **loanable funds market**, savers lend and borrowers borrow.
national savings /ˈnæʃənl ˈseɪvɪŋz/	**National savings** supply the money for investment.

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