A

A1 at Lloyd's. The highest class in Lloyd's Register of Shipping (*q.v.*). The higher the class the lower is the rate of premium.

AAR. Abbreviation of against all risks – the most comprehensive type of marine insurance policy.

Abandonment. Goods that have been insured may be abandoned *(a)* if their actual loss appears to be unavoidable; or *(b)* if the cost of repairing the damage will exceed their value. In such cases the insured will inform the insurers that he wishes to abandon the goods as a constructive total loss (*q.v.*).

Abbey National Building Society. Founded in 1849, it is the second largest building society in Great Britain, having been formed by the amalgamation of the Abbey and the National Societies. Like the Halifax it has branches (as distinct from agencies) throughout Great Britain. *See* **Building Societies.**

ABCC Abbreviation of Association of British Chambers of Commerce (*q.v.*).

ABC Code. *See* **Codes.**

Abecor Banks. A banking consortium comprising a number of European banks, including Barclays Bank, the Banque Nationale de Paris, the Dresdner Bank, the Östereichische Landbank, the Banca Nazionale del Lavaro and several others.

Ability to pay. A principle of taxation – that the amount of tax payable by a person should depend on his ability to pay. In practice the difficulty is to decide on what principal exactly is ability to pay to be determined. Both the proportional and the progressive systems of taxation are based in varying degrees on the ability to pay. *See* **Taxation.**

Able-bodied poor. The Poor Law made a distinction between the able-bodied poor and the aged poor. It was a recognised principle that, though the aged poor might be treated more generously, any assistance given to the able-bodied poor should not put them in a better position than "the independent labourer of the lowest class".

"Above-the-line". A term used during 1949-64 in the Financial Statement. Though the terms "above-the-line" and "below-the-line", did not precisely distinguish between current and capital expenditure and revenue, most current items appeared above the line and most capital items below. The term is still sometimes used to distinguish current from capital expenditure. *See* **Budget.**

Abrasion. The loss of weight suffered by coins resulting from wear while they are in circulation. When gold coins were in use making good abrasion was expensive.

Absenteeism. A term generally restricted to mean frequent voluntary absence from work for which no satisfactory reason is given, though sometimes it is also used of frequent absence as a result of sickness. If absenteeism is high it has a deleterious effect on the efficiency of a firm, and of course reduces output. Absenteeism occurs frequently where the work is of an unpleasant or boring nature, especially if wage-rates are relatively high. The "pay-as-you-earn" system of collecting income tax tends to encourage absenteeism since tax falls most heavily on marginal earnings, with the result that a half-day's absence from work reduces the tax payable for that week by an amount considerably above the average rate paid on a full week's earnings. Thus where work is disagreeable and where the risk of losing one's job is slight, a worker who has worked part of a week may feel that leisure is to be preferred to further income. In such circumstances to raise wages with a view to attracting more labour to an industry where there is a shortage may in fact result in *less* labour being supplied, that is, in fewer "manhours" being worked on account of an increase in absenteeism, thus providing an example of a regressive supply curve (*q.v.*)

Absentee landlord. A landowner who does not reside in the country in which he owns land; the term is applied particularly to English owners of land in Ireland.

Absolute monopoly. If the entire output of a commodity or service, for which there is no substitute of any kind, were in the hands of a single producer or supplier absolute monopoly would occur. This never occurs in actual conditions since there are alternatives for most things. The production of electricity in Great Britain, undertaken by the Central Electricity Generating Board, is often regarded as monopolistic, but the CEGB does not possess an absolute monopoly since coal, gas, and oil are all possible alternatives to electricity. *see* **Monopoly.**

Absorption. When a small company amalgamates with a large one it may completely lose its identity and become merely part of the larger company by which it has been absorbed. *see* **Amalgamation.**

Abstinence theory. Also known as the Agio theory of interest (*q.v.*), the abstinence theory asserts that interest is a payment for abstaining from current consumption. Some people prefer present to future consumption and they are willing to pay interest on a loan in order for this preference. Loanable funds become available to such borrowers because other people prefer future to present consumption, especially if they are paid interest as a reward for their abstinence.

Abstract of title. A summary of all matters affecting title to a piece of property. Before purchasing property it is of great importance, therefore, for the buyer to be sure that the seller has a good title to it and he is in fact entitled to sell it.

ACA. Designatory initials of an Associate of the Institute of Chartered Accountants in England and Wales, *see* **Chartered accountant.**

acard. An acronym for Advisory Council for Applied Research and Development, a government body.

ACAS. Abbreviation of Advisory Conciliation and Arbitration Service, set up under the Employment Protection Act (*q.v.*).

ACCA. Designatory initials of an Associate of the Chartered Association of Certified Accountants. *See* **Certified accountant.**

Accelerated depreciation. A practice whereby for tax purposes a firm is permitted to depreciate a new machine over a shorter period than that for which it is likely to be employed, with possibly a much larger allowance for the first year than for subsequent years.

Acceleration principle. Where the demand for one commodity is derived from another, as with capital goods, the demand for which is derived from the demand for consumers' goods, a change in the demand for one will bring about a change in the demand for the other, though not necessarily a proportionate change. Thus, changes in the demand for consumers' goods bring about even wider variations in the production of the appropriate capital goods. This is known as the acceleration principle. Suppose, for example, that the demand for commodity Y, a capital good, is derived from the demand for commodity X, a consumers' good. Let us further assume that when demand is steady an annual production of 20 units of Y will meet the requirements of producers of X. Let us also assume that Y has a life of seven years. Then, in any given year there will be in use 20 units of Y aged one year, 20 units aged two years, 20 units aged three years, and so on for each year up to seven, as shown under Year I in the table below. If now a temporary increase takes place in the demand for X this will be transmitted to Y, and an increase in the output of this commodity will be required, but only for one year. If demand for X returns to its previous level, then the production of Y will need to be curtailed until its supply has been reduced to its previous level. This can be seen more clearly from the table.

Age distribution of commodity Y

Year	Ages of Y							Total stock	No. produced annually
	1 year	2 years	3 years	4 years	5 years	6 years	7 years		
I	20	20	20	20	20	20	20	140	20
II	40	20	20	20	20	20	20	160	40
III	0	40	20	20	20	20	20	140	0
IV	20	0	40	20	20	20	20	140	20
V	20	20	0	40	20	20	20	140	20

From the table it can be seen that at first an annual ouput of 20 units of Y will maintain an even age-distribution of this type of capital, but the effect of the *temporary* increase in demand is to introduce a *permanent* cyclical irregularity into its annual output. It was formerly thought by some economists that in such fluctuations in the output of capital goods industries the trade cycle had its origin, the acceleration principle being responsible, therefore, for one of the real as distinct from monetary causes of the cycle. The acceleration principle shows that fluctuations are greater in capital-producing industries than in consumers' goods industries. Contrast the concept of the multiplier (*q.v.*), which indicates the effect of a given amount of investment on consumption and incomes.

Accelerator. *See* **Acceleration principle.**

Acceptance. After a bill of exchange has been drawn by the drawer (the creditor) it must be accepted by the drawee (the debtor), the bill being then known as an acceptance. For a fee an acceptance house will often add its own acceptance to a bill, thereby making it more negotiable. *See* **Bill of exchange.**

Acceptance credit. A method of payment in international trade. Accepting houses (*q.v.*) maintain agents in the chief commercial centres of the world, their business being to make themselves acquainted with the creditworthiness of foreign traders. If, for example, the credit standing of a Brazilian import merchant is regarded as satisfactory the accepting house will open an acceptance credit for him in London. A purchase from a British exporter will then be financed by a bill drawn on the accepting house, and such a bill will be easily discounted in the London money and discount market.

Acceptance for honour. When a bill of exchange has been dishonoured it may be accepted by someone who has no interest in the bill in order to safeguard the good name of the drawee. This is known as acceptance for honour.

Accepting houses. Also known as merchant bankers, these institutions specialised in accepting bills of exchange when they were the usual means of payment in foreign trade. Accepting foreign bills developed out of the business of merchants who specialised in trade with particular parts of the world where they maintained their own agents. On account of their special knowledge of the financial standing of traders in these areas they were able to guarantee payment of bills of exchange drawn on them. This was done by accepting these bills, for which a service fee had to be paid, and so making them more negotiable in the London money and discount markets where possibly few people knew much about the foreign traders on whom the bills were drawn. In course of time the financial business of the merchants outgrew their trading activities and they became primarily merchant bankers; London being the commercial and financial centre of the world, they transferred their head offices there. Merchant bankers who established themselves in London included such well known firms as the Rothschilds (who came from Frankfurt-am-Main), Barings, Schroder, Kleinwort, and Lazard. The decline of the bill of exchange as a means of payment, both in internal and in foreign trade, brought about a severe decline in acceptance business, with the result that the merchant bankers, most of whom still operate as partnerships or private companies, have had to develop other banking activities.

Acceptor. Before any value attaches to a bill of exchange it must be accepted by the person who is to make the payment, that is, the person on whom it is drawn. Thus the acceptor of a bill is also the drawee, that is, the debtor.

Access card. The credit card issued jointly by National Westminster, Lloyds, Midland and the Royal Bank of Scotland Group. Access is linked with the American Interbank Master Charge and the Eurocard *see* **Credit card.**

Accession tax. An alternative to death duties and capital transfer tax, it makes the transfer of assets taxable according to the wealth of recipient rather than the donor.

Accommodation bill. A bill of exchange to which a person known as an accommodation party has given his name, thereby accepting liability as drawer, acceptor, or endorser.

Accord and satisfaction. A term used of a contract which has been discharged by mutual agreement of the parties concerned. If neither party has carried out his undertaking under the original contract no further consideration is required, but if one party has done so the other will have to give some new consideration

Account. 1. A credit arrangement with a firm whereby a regular customer can pay perodically (monthly or quarterly). 2. A stock exchange period during which transactions take place, at the end of which settlement must be made. Ordinarily an account lasts a fortnight, except when it includes a Bank Holiday when it's extended to three weeks.

Accountant. A person qualified in bookkeeping and cognate subjects. In addition to specialist firms of accountants who act as auditors and tax consultants to other firms, many large companies employ their own accountants. Manufacturers also generally require the services of a cost accountant whose function is to calculate the cost of the firm's product. *See* **Certified accountant; Chartered accountant; Cost accountant.**

Accountant and Comptroller General. The head of the accounts department of the inland revenue or customs and excise.

Account day. A stock exchange term – Tuesday week after the end of an account (*q.v.*). It is the day on which settlement has to be made for transactions made during the previous account. Also known as settlement day or pay day (*q.v.*).

Account (or A/c) payee only. A cheque crossed in this way can be paid only into the account of the payee named on the cheque, and therefore cannot be transferred by endorsement to someone else as with a simple crossing. *See* **General crossing; Special crossing**

Account sales. A document supplied to his principal by an agent who has been engaged to sell a quantity of goods. It gives full details of the transaction – the amount sold, the price obtained, the expenses incurred, and the agent's commission.

Accrued interest. Interest on a security which has accumulated up to a certain time.

Accumulating society. A type of friendly society (*q.v.*) which offers a wider range of benefits than other friendly societies and resembles an insurance company. The Hearts of Oak Benefit Society is the largest friendly society of this kind.

Accumulation, capital. *See* **Capital formation.**

Accumulation units. A type of unit trust in which the interest is reinvested, the aim being to maximise capital growth.

ACGI. Designatory initials of an Associate of the City and Guilds Institute of London.

ACIB. Designatory initials of an Associate of the Corporation of Insurance Brokers (*q.v.*).

"Acid-test" ratio. A term used to describe the ability of a firm to meet its obligations in the short-run. The only items taken into account in calculating this ratio are easily realised assets such as cash in hand, payments due from customers, and current liabilities.

ACII. Designatory initials of an Associate of the Chartered Insurance Institute (*q.v.*)

ACIS. Designatory initials of an Associate of the Institute of Chartered Secretaries and Administrators (*q.v.*)

ACMA. Designatory initials of an associate of the Institute of Cost and Management Accountants. *See* **Cost accountant.**

ACP. Abbreviation of African, Caribbean and Pacific states, comprising mainly former colonies of European powers. In 1975 they entered into the Lomé Convention (*q.v.*) with the EEC.

Acronym. An artificial word formed from the initial letters of the works comprising the title of an organisation or notion, e.g. EFTA, UNESCO, BACIE and VAT.

Active balance of payments (or trade). An alternative term for *favourable balance of payments* or *trade.* (*q.v.*).

Active circulation. That part of the note issue of the Bank of England which is in circulation at a given time. It is shown in the weekly Bank Return for the Issue Department as "Notes in circulation", the remainder of the note issue being held in reserve in the Banking Department.

Active market. A stock exchange term for a particular stock or share in which there are frequent and regular dealings, so that reasonably large amounts can be bought or sold any time.

Act of God. A legal term denoting any occurrence that cannot be ascribed to human agency and, therefore, could not be foreseen, such as storms and floods.

Actual total loss. A term used in marine insurance to denote goods that have become a total loss, as when they are completely destroyed by fire or when a ship sinks after a collision, or have been rendered unusable, as for example by sea water, so that they are totally unfit for the purpose for which they were originally intended. *See also* **Constructive total loss.**

Actuary. One of the chief executive officials of an assurance company. His main responsibilities are the calculation of premiums and matters connected with pension funds. To qualify as an actuary in England it is necessary to pass the examinations of the Institute of Actuaries.

Addison scheme. A housing scheme introduced by an Act of 1919, Dr C. (later Lord) Addison (1869–1951) being Minister of Health at the time. Local authorities were to build houses to let at rents which the tenants could afford to pay. As a result ot the cessation of house building during the First World War there was a serious shortage of houses to rent.

Addressograph. A machine for printing addresses where regular communication has to be made with a large number of clients, etc.

Ademption. A clause in a will that becomes void when a bequest refers to something that no longer exists.

Adjudication order. A court order declaring the debtor to be a bankrupt and putting his property under the control of a trustee in bankruptcy. *See* **Bankruptcy.**

Adjustable peg. A type of flexible exchange rate where the rate is permitted to vary but only within very narrow limits.

Administered prices. A term used by Lord Keynes for prices charged by a monopolist and therefore determined by considerations other than marginal cost.

Administrator. A person appointed by the court when no testators have been appointed under a will or where those named are not prepared to administer the estate.

Adulterine gild. A medieval gild (or guild) that had not obtained a charter. Such gilds often continued to function by paying an annual fine to the king. *See* **Gild.**

Ad valorem. Taxes levied on commodities according to their value in contrast to specific tax where the amount of the tax to be paid depends on the *amount* of the commodity bought. Many stamp duties also are *ad valorem*.

Advancement. A legal term, it refers to money advanced to a beneficiary under a will or settlement to promote his interest as, for example, to enable him to set up in business for himself.

Advances to customers. Loans and overdrafts to industry and commerce and personal loans to appear under this heading in the balance sheet of a commercial or joint-stock bank. Together with investments, advances to customers form the two less liquid assets of a bank, in Great Britain forming approximately 75 per cent of a bank's total assets. Advances are generally loans to provide industry with its circulating capital, since it is unusual for British banks to provide fixed capital. Bank advances and investments generally vary inversely. When advances are in great demand, the banks sell some of their investments. Since bank advances create purchasing power the British monetary authorities often seek to influence their level to implement monetary policy. Thus in a time of inflation it may be thought necessary to restrict bank advances, whereas in a time of recession the aim might be to encourage their expansion.

Adverse balance. An excess of payments over receipts, that is, a debit in the balance of trade or the balance of payments. (*q.v.*) such a balance is sometimes described as an unfavourable or passive balance.

Advertising. Selling costs are those costs that a producer, wholesaler, or retailer incurs in order to stimulate sales. A certain amount of advertising is of an informative kind, the aim simply being to let consumers know what goods and services are available – "consumer education" as it is sometimes called. There is no economic objection to purely informative advertising. Most advertising, however, is of the persuasive or competitive kind, the aim of which is to persude people to buy one thing rather than another. Advertising is a selling cost associated particularly with imperfect competition, since under perfect competition there would be no advertising of a competitive kind, the products of all producers of a commodity being considered to be homogeneous in those conditions, although an industry as a whole might advertise. Advertising is particularly associated with oligopoly and to a lesser degree with monopolistic competition (*qq.v.*). In the sale of branded goods, a clear example of imperfect oligopoly, advertising is essential in order to try to impress on consumers that one maker's brand is superior to all others, although in fact the only differences between brands may sometimes be in their trade marks and labels. A producer with some degree of monopoly power, however slight, will generally find it more advantageous to advertise his product widely and at con-