

Module

01

# Economic Terms from A to B

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Edisi 2

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## Pendahuluan

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### APA YANG DIMAKSUD DENGAN *ECONOMIC TERMS*?

*Economic terms* adalah istilah ekonomi yang dipakai dalam bidang ekonomi. Istilah yang berupa kata atau frasa itu dapat memiliki arti yang berbeda dari arti yang dikenal secara umum karena merujuk pada suatu kekhususan. Dengan kata lain, istilah ekonomi tidak dapat diartikan secara harfiah, penelusuran kamus istilah, ensiklopedia, atau artikel yang berkaitan dengan bidang itu sangat dianjurkan. Untuk melatih pemahaman serta meluaskan pengetahuan tentang istilah ekonomi, Modul 1–6 ini sangat berguna. Untuk memudahkan Anda, maka istilah ekonomi itu disusun secara alfabetis, dimulai dengan huruf A dan diakhiri dengan huruf R.

Setelah mempelajari BMP (Buku Materi Pokok) ini Anda diharapkan dapat:

1. memahami istilah ekonomi yang dimulai dengan huruf A sampai huruf R;
2. mengerti istilah ekonomi yang dimulai dengan huruf A sampai dengan huruf B.

Modul ini terdiri dari 2 *learning activity*, yaitu sebagai berikut.

*Learning Activity 1*: membahas istilah ekonomi yang dimulai dengan huruf A.

*Learning Activity 2*: membahas istilah ekonomi yang dimulai dengan huruf B.

Untuk menjawab pertanyaan yang ada, Anda harus memahami dahulu isi setiap bacaan. Jika belum mengerti, ulangi kembali hingga Anda mengerti. Bila mengalami kesulitan dalam memahaminya, kamus dwibahasa (Inggris-Indonesia) dapat membantu Anda.

## Economic Terms Started with A

**S**audara mahasiswa, silakan Anda pelajari istilah ekonomi berikut ini dan pilihlah jawaban yang tepat atas pertanyaan yang ada. Pertanyaan Nomor 1 sudah dikerjakan untuk Anda sebagai contoh!

### A. ADAPTIVE EXPECTATIONS

In economics, adaptive expectations means that people form their expectations about what will happen in the future based on what has happened in the past. For example, if inflation has been higher than expected in the past, people would revise expectations for the future.

A theory of how people form their views about the future that assumes they do so using past trends and the errors in their own earlier predictions. Contrast with rational expectations.

### B. ADVERSE SELECTION

This can be defined as:

1. the tendency of those in dangerous jobs or high risk lifestyles to get life insurance;
2. a situation where sellers have information that buyers don't (or vice versa) about some aspect of product quality.

When you do business with people you would be better off avoiding. This is one of two main sorts of market failure often associated with insurance. The other is moral hazard. Adverse selection can be a problem when there is asymmetric information between the seller of insurance and the buyer; in particular, insurance will often not be profitable when buyers have better information about their risk of claiming than does the seller. Ideally, insurance premiums should be set according to the risk of a randomly selected person in the insured slice of the population (55-year-old male smokers, say). In practice, this means the average risk of that group. when there is adverse selection, people who know they have a higher risk of claiming than the average of the group will buy the insurance, whereas those who have a below-average risk may decide it is too expensive to be worth buying. in this case, premiums set according to the average risk

will not be sufficient to cover the claims that eventually arise, because among the people who have bought the policy more will have above-average risk than below-average risk. putting up the premium will not solve this problem, for as the premium rises the insurance policy will become unattractive to more of the people who know they have a lower risk of claiming. One way to reduce adverse selection is to make the purchase of insurance compulsory, so that those for whom insurance priced for average risk is unattractive are not able to opt out.



### Exercise 1

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 1) Adverse selection can be caused by ....
  - A. market failure
  - B. moral hazard
  - C. asymmetric information
  - D. average risk
  
- 2) What do people use when they form their views about the future that assumes they do?
  - A. Past trends
  - B. Insurance
  - C. Symmetric information
  - D. Average risk

#### *Petunjuk Jawaban Latihan*

- 1) Jawaban yang tepat untuk soal No. 1 adalah C karena pernyataan itu terdapat berikut ini yang terdapat dalam istilah ekonomi yang berjudul "Adverse selection", yaitu *adverse selection can be a problem when there is asymmetric information between the seller of insurance and the buyer*.  
Jadi, jelas bahwa *adverse selection* timbul bila ada *asymmetric information*.
- 2) A.

### C. ADVERTISING

It is:

1. the activity of attracting public attention to a product or business, as by paid announcements in the print, broadcast, or electronic media;
2. the business of designing and writing advertisements;
3. advertisements considered as a group: *This paper takes no advertising*.

Many firms advertise their goods or services, but are they wasting economic resources? Some economists reckon that advertising merely manipulates consumer tastes and creates desires that would not otherwise exist. By increasing product differentiation and encouraging brand loyalty advertising may make consumers less price sensitive, moving the market further from perfect competition towards imperfect competition (see monopolistic competition) and increasing the ability of firms to charge more than marginal cost. Heavy spending on advertising may also create a barrier to entry, as a firm entering the market would have to spend a lot on advertising too. However, some economists argue that advertising is economically valuable because it increases the flow of information in the economy and reduces the asymmetric information between the seller and the consumer. This intensifies competition, as consumers can be made aware quickly when there is a better deal on offer.



### Exercise 2

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 3) What does advertising manipulate?
  - A. Consumer desire.
  - B. Consumer taste.
  - C. Consumer sensitivity.
  - D. Consumer loyalty.
  
- 4) What does advertising intensify?
  - A. Asymmetric information.
  - B. A better deal.
  - C. Competition.
  - D. Flow of information.

*Petunjuk Jawaban Latihan*

- 3) B
- 4) C

### D. AGENCY COSTS

A type of internal cost that arises from, or must be paid to, an agent acting on behalf of a principal. Agency costs arise because of core problems such as conflicts of interest between shareholders and management. Shareholders wish for management to run the company in a way that increases shareholder value. But management may wish to grow the company in ways that maximize their personal power and wealth that may not be in the best interests of shareholders.

These can arise when somebody (the principal) hires somebody else (the agent) to carry out a task and the interests of the agent conflict with the interests of the principal. An example of such principal-agent problems comes from the relationship between the shareholders who own a public company and the managers who run it. The owners would like managers to run the firm in ways that maximize the value of their shares, whereas the managers' priority may be, say, to build a business empire through rapid expansion and mergers and acquisitions, which may not increase their firm's share price.

One way to reduce agency costs is for the principal to monitor what the agent does to make sure it is what s/he has been hired to do. But this can be costly, too. It may be impossible to define the agent's job in a way that can be monitored effectively. For instance, it is hard to know whether a manager who has expanded a firm through an acquisition that reduced its share price was pursuing his own empire-building interests or, say, was trying to maximize shareholder value but was unlucky.

Another way to lower agency costs, especially when monitoring is too expensive or too difficult, is to make the interests of the agent more like those of the principal. For instance, an increasingly common solution to the agency costs arising from the separation of ownership and management of public companies is to pay managers partly with shares and share options in the company. This gives the managers a powerful incentive to act in the interests of the owners by maximizing shareholder value. But even this is not a perfect solution. Some managers with lots of share options have engaged in accounting fraud in order to increase the value of those options long enough for them to cash some of them in, but to the detriment of their firm and its other shareholders. See, for example, Enron.



### Exercise 3

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 5) What does the principal want the managers do?
  - A. To build a business empire
  - B. To expand the firm through an acquisition
  - C. To pursue his/her own empire building interests
  - D. To maximize the value of their shares
  
- 6) What is too expensive or too difficult to do in reducing agency costs?
  - A. To pay managers partly with shares
  - B. To make the interests of the agent more like those of the principal
  - C. To give the managers a powerful incentive to act in the interests of the owners
  - D. To monitor what the agent does

*Petunjuk Jawaban Latihan*

- 5) D
- 6) D

**E. AGRICULTURAL POLICY**

The EEC (European Economic Community), now the EU (European Union), devised a policy designed to make its member states self-sufficient in foodstuffs, to secure farmers' living standards, to increase productivity, and to ensure reasonable prices for consumers. This has been achieved by the setting of intervention prices; when the market price for a commodity falls to this level the EU will buy the entire production at the intervention price. It is this policy which led to the accumulation of the notorious 'wine lakes' and 'butter mountains', and to high food prices within the Community.

Countries often provide support for their farmers using trade barriers and subsidy because:

1. domestic agriculture, even if it is inefficient by world standards, can be an insurance policy in case it becomes difficult (as it does, for example, in wartime) to buy agricultural produce from abroad;
2. farmers groups have proved adept at lobbying;
3. politicians have sought to slow the depopulation of rural areas;
4. agricultural prices can be volatile, as a result of unpredictable weather, among other things; and
5. financial support can provide a safety net in unexpectedly severe market conditions.

Broadly speaking, governments have tried two methods of subsidizing agriculture. The first, used in the United States during the 1930s and in the United Kingdom (UK) before it joined the EU, is to top up farmers' incomes if they fall below a level deemed acceptable. Farmers may be required to set aside some of their land in return for this support. The second is to guarantee a minimum level of farm prices by buying up surplus supply and storing or destroying it if prices would otherwise fall below the guaranteed levels. This was the approach adopted by the EU when it set up its Common Agricultural Policy. To keep down the direct cost of this subsidy the EU used trade barriers, including import levies, to minimize competition among EU farmers, to produce available more cheaply on world agriculture markets. Recent American farm-support policy has combined income top-ups and some guaranteed prices.

As most governments have become more committed to international trade, such agricultural policies have come under increasing attack, although the free trade rhetoric has often run far ahead of genuine reform. In 2003, rich countries together spent over \$300 billion a year supporting their farmers, more than six times what they spent on foreign AID. Finding a way to end agricultural support had become by far the biggest remaining challenge for those trying to negotiate global free trade.



## F. AGRICULTURE

Farming around the world continues to become more productive while generally accounting for a smaller share of employment and national income, although in some poor countries it remains the sector on which the country and its people depend. Farming, forestry and fishing in 1913 accounted for 28% of employment in the United States, 41% in France and 60% in Japan, but only 12% in the UK. Now the proportion of the workforce employed in such activities has dropped below 6% in these and most other industrialized countries.

The total value of international trade in agriculture has risen steadily. But the global agriculture market remains severely distorted by trade barriers and government subsidy, such as the European Union's common agricultural policy.



### Exercise 4

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 7) How does the government do to guarantee a minimum level of farm prices? By ....
  - A. minimizing competition to EU farmers
  - B. destroying it if prices would fall
  - C. joining the EU
  - D. subsidizing agriculture
  
- 8) What makes global agriculture market remain severely distorted?
  - A. Government subsidy
  - B. Smaller national income
  - C. Free trade
  - D. Smaller share of employment

*Petunjuk Jawaban Latihan*

- 7) B
- 8) A

## G. ALTRUISM

It is unselfish concern for the welfare of others; selflessness

It is often alleged that altruism is inconsistent with economic rationality, which assumes that people behave selfishly. Certainly, much economic analysis is concerned with how individuals behave, and *homo economicus* (economic man) is usually

assumed to act in his or her self-interest. However, self-interest does not necessarily mean selfish. Some economic models in the field of behavioral economics assume that self-interested individuals behave altruistically because they get some benefit, or utility, from doing so. For instance, it may make them feel better about themselves, or be a useful insurance policy against social unrest, say. Some economic models go further and relax the traditional assumption of fully rational behavior by simply assuming that people sometimes behave altruistically, even if this may be against their self-interest. Either way, there is much economic literature about charity, international aid, public spending and redistributive taxation.



### Exercise 5

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 9) What assumes that self-interested individuals behave altruistically?
- Behavioural economics.
  - Economic man.
  - Economic rationality.
  - Economic analysis.
- 10) What assumes that people behave selfishly?
- Behavioural economics.
  - Economic analysis.
  - Economic man.
  - Economic rationality.

*Petunjuk Jawaban Latihan*

- 9) A  
10) D

## H. AMORTISATION

It is the running down or payment of a loan by instalments.

An example is a repayment mortgage on a house, which is amortized by making monthly payments that over a pre-agreed period of time cover the value of the loan plus interest. With loans that are not amortized, the borrower pays only the interest during the period of the loan and then repays the sum borrowed in full.

## I. ANIMAL SPIRITS

It is the colourful name that Keynes<sup>1</sup> gave to one of the essential ingredients of economic prosperity: confidence. According to Keynes, animal spirits are a particular sort of confidence, “naive optimism”.

He meant this in the sense that, for entrepreneurs in particular, “the thought of ultimate loss which often overtakes pioneers, as experience undoubtedly tells us and them, is put aside as a healthy man puts aside the expectation of death”. Where these animal spirits come from is something of a mystery. Certainly, attempts by politicians and others to talk up confidence by making optimistic noises about economic prospects have rarely done much good.



### Exercise 6

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 11) What does the borrower pay when loans are not amortized?
  - A. the sum borrowed in full
  - B. instalments
  - C. only interest
  - D. mortgage
  
- 12) What is the other name of confidence?
  - A. Expectation of death
  - B. Naive optimism
  - C. Animal spirits
  - D. Economic prospects

### *Petunjuk Jawaban Latihan*

- 11) C
- 12) B

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1 Keynes : John Maynard Keynes (pronounced /'keinz/ “cains”) (June 5, 1883 – April 21, 1946) was a British economist whose ideas, called Keynesian economics, had a major impact on modern economic and political theory as well as on many governments’ fiscal policies. He is one of the fathers of modern theoretical macroeconomics and considered by some to be the most influential economist of the 20th century.

## J. ANTITRUST

Opposing or intended to regulate business monopolies, such as trusts or cartels, especially in the interest of promoting competition: *antitrust legislation*.

Antitrust is government policy for dealing with monopoly. Antitrust laws aim to stop abuses of market power by big companies and, sometimes, to prevent corporate mergers and acquisitions that would create or strengthen a monopolist. There have been big differences in antitrust policies both among countries and within the same country over time. This has reflected different ideas about what constitutes a monopoly and, where there is one, what sorts of behaviour are abusive.

In the United States, monopoly policy has been built on the Sherman Antitrust Act of 1890. This prohibited contracts or conspiracies to restrain trade or, in the words of a later act, to monopolize commerce. In the early 20th century this law was used to reduce the economic power wielded by so-called “robber barons”, such as JP Morgan and John D. Rockefeller, who dominated much of American industry through huge trusts that controlled companies’ voting shares. Du Pont chemicals, the railroad companies and Rockefeller’s Standard Oil, among others, were broken up. In the 1970s the Sherman Act was turned (ultimately without success) against IBM, and in 1982 it secured the break-up of AT&T’s nationwide telecoms monopoly.

In the 1980s a more laissez-faire approach was adopted, underpinned by economic theories from the Chicago School. These theories said that the only justification for antitrust intervention should be that a lack of competition harmed consumers, and not that a firm had become, in some ill-defined sense, too big. Some monopolistic activities previously targeted by antitrust authorities, such as predatory pricing and exclusive marketing agreements, were much less harmful to consumers than had been thought in the past. They also criticized the traditional method of identifying a monopoly, which was based on looking at what percentage of a market was served by the biggest firm or firms, using a measure known as the herfindahl-hirschman index. Instead, they argued that even a market dominated by one firm need not be a matter of antitrust concern, provided it was a contestable market.

In the 1990s American antitrust policy became somewhat more interventionist. A high-profile lawsuit was launched against Microsoft in 1998. The giant software company was found guilty of anti-competitive behaviour, which was said to slow the pace of innovation. However, fears that the firm would be broken up, signalling a far more interventionist American antitrust policy, proved misplaced. The firm was not severely punished.

In the UK, antitrust policy was long judged according to what policymakers decided was in the public interest. At times this approach was comparatively permissive of mergers and acquisitions; at others it was less so. However, in the mid-1980s the UK followed the American lead in basing antitrust policy on whether changes in competition harmed consumers. Within the rest of the European Union several big countries pursued policies of building up national champions, allowing chosen firms to enjoy some

monopoly power at home which could be used to make them more effective competitors abroad. However, during the 1990s the European Commission became increasingly active in antitrust policy, mostly seeking to promote competition within the EU.

In 2000, the EU controversially blocked a merger between two American firms, GE (General Electric) and Honeywell; the deal had already been approved by America's antitrust regulators. The controversy highlighted an important issue. As globalization increases, the relevant market for judging whether market power exists or is being abused will increasingly cover far more territory than any one single economy. Indeed, there may be a need to establish a global antitrust watchdog, perhaps under the auspices of the world trade organization.



### Exercise 7

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 13) In the United States, monopoly policy is based on ....
  - A. Sherman Antitrust Act of 1890
  - B. Economic theories from the Chicago School
  - C. American Antitrust policy
  - D. Laissez-faire approach
  
- 14) Who includes "robber baron"?
  - A. AT & T
  - B. JP Morgan
  - C. GE
  - D. Honeywell
  
- 15) What is the guilty of Microsoft?
  - A. Nationwide software monopoly
  - B. Predatory pricing
  - C. Anti-competitive behaviour
  - D. Exclusive marketing agreement

*Petunjuk Jawaban Latihan*

- 13) A
- 14) B
- 15) C

## K. APPRECIATION

Appreciation is a rise in the value of an asset and the opposite of depreciation. When the value of a currency rises relative to another, it appreciates.

## L. ARBITRAGE

It is buying an asset in one market and simultaneously selling an identical asset in another market at a higher price. Sometimes these will be identical assets in different markets, for instance, shares in a company listed on both the London Stock Exchange and New York Stock Exchange. Often the assets being arbitrated will be identical in a more complicated way, for example, they will be different sorts of financial securities that are each exposed to identical risks.

Some kinds of arbitrage are completely risk-free? This is pure arbitrage. For instance, if euros are available more cheaply in dollars in London than in New York, arbitrageurs (also known as arbs) can make a risk-free profit by buying euros in London and selling an identical amount of them in New York. Opportunities for pure arbitrage have become rare in recent years, partly because of the globalization of financial markets. Today, a lot of so called arbitrage, much of it done by hedge funds, involves assets that have some similarities but are not identical. This is not pure arbitrage and can be far from risk free.

## M. ARBITRAGE PRICING THEORY

**Arbitrage pricing theory (APT)**, in finance, is a general theory of asset pricing, that has become influential in the pricing of stocks.

APT holds that the expected return of a financial asset can be modelled as a linear function of various macro-economic factors or theoretical market indices, where sensitivity to changes in each factor is represented by a factor-specific beta coefficient. The model-derived rate of return will then be used to price the asset correctly - the asset price should equal the expected end of period price discounted at the rate implied by model. If the price diverges, arbitrage should bring it back into line.

The theory was initiated by the economist Stephen Ross in 1976.

This is one of two influential economic theories of how assets are priced in the financial markets. The other is the capital asset pricing model. The arbitrage pricing theory says that the price of a financial asset reflects a few key risk factors, such as the expected rate of interest, and how the price of the asset changes relative to the price of a portfolio of assets. If the price of an asset happens to diverge from what the theory says it should be, arbitrage by investors should bring it back into line.

## N. ASIAN CRISIS

During 1997–98, many of the East Asian tiger economies suffered a severe financial and economic crisis. This had big consequences for the global financial markets, which had become increasingly exposed to the promise that Asia had seemed to offer. The crisis destroyed wealth on a massive scale and sent absolute poverty shooting up. In the banking system alone, corporate loans equivalent to around half of one year's GDP (Gross Development Product) went bad – a destruction of savings on a scale more usually associated with a full-scale war. The precise cause of the crisis remains a matter of debate. Fingers have been pointed at the currency peg adopted by some countries, and a reduction of capital controls in the years before the crisis. Some blamed economic contagion. The crisis brought an end to a then widespread belief that there was a distinct “asian way” of capitalism that might prove just as successful as capitalism in America or Europe. Instead, critics turned their fire on Asian cronyism, ill-disciplined banking and lack of transparency. In the years following the crisis, most of the countries involved have introduced reforms designed to increase transparency and improve the health of the banking system, although some (such as South Korea) went much further than others (such as Indonesia).



### Exercise 8

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 16) Pure arbitrage has become rare in recent years partly because of ....
  - A. hedge funds
  - B. globalization of financial markets
  - C. financial securities
  - D. risk profit
  
- 17) What is one of the few key risk factors?
  - A. Expected rate of asset
  - B. Capital asset pricing model
  - C. Financial asset
  - D. Arbitrage pricing theory
  
- 18) What causes the Asian crisis precisely?
  - A. Currency peg
  - B. Economic contagion
  - C. debatable
  - D. lack of transparency

- 19) What did the Asian crisis bring to an end?
- Reduction of capital control
  - 'Asian way' of capitalism
  - Corporate loans
  - Ill-disciplined banking

*Petunjuk Jawaban Latihan*

- 16) B  
17) A  
18) C  
19) B

## O. ASSETS

Assets are things that have earning power or some other value to their owner.

## P. ASYMMETRIC INFORMATION

It is when somebody knows more than somebody else.

Such asymmetric information can make it difficult for the two people to do business together, which is why economists, especially those practicing game theory, are interested in it. Transactions involving asymmetric (or private) information are everywhere. A government selling broadcasting licenses does not know what buyers are prepared to pay for them; a lender does not know how likely a borrower is to repay; a used-car seller knows more about the quality of the car being sold than do potential buyers. This kind of asymmetry can distort people's incentives and result in significant inefficiencies.



### Exercise 9

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 20) What can asymmetric information account for?
- Distortion.
  - The low quality of the car being sold.
  - Cheap broadcasting licenses.
  - Significant inefficiencies.

*Petunjuk Jawaban Latihan*

- 20) D



## Q. ASYMMETRIC SHOCK

It is when something unexpected happens that affects one economy (or part of an economy) more than the rest.

This can create big problems for policymakers if they are trying to set a macroeconomic policy that works for both the area affected by the shock and the unaffected area. For instance, some economic areas may be oil exporters and thus highly dependent on the price of oil, but other areas are not. If the oil price plunges, the oil-dependent area would benefit from policies designed to boost demand that might be unsuited to the needs of the rest of the economy. This may be a constant problem for those responsible for setting the interest rate for the euro given the big differences--and different potential exposures to shocks--among the economies within the euro zone.



### Exercise 10

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 21) Asymmetric shock could be a constant problem for those responsible for?
- A. Setting a macroeconomic policy.
  - B. Deciding the interest rate for a country's currency.
  - C. Boosting demand that might be unsuited to the needs of the rest of the economy.
  - D. Exporting oil.

*Petunjuk Jawaban Latihan*

- 21) B

## R. AUCTIONS

An auction in which an item is initially offered at a high price that is progressively lowered until a bid is made and the item sold.

Going, going, gone. Holding an auction can be an extremely efficient way for a seller to set the price of its products, especially if it does not have much information about how much people may be willing to pay for them. Auctions fascinate economists, especially those who specialize in game theory. They have long been a feature of the sale of art and antiques in the rooms of firms such as Sotheby's and Christie's. But in recent years they have played a growing role in other parts of the economy, ranging from the allocation of government-controlled broadcasting bandwidth to the awarding of work to subcontractors by governments and big firms using competitive tendering, and even more recently the sale of goods over the Internet.

An English auction is the most familiar. Bidders compete to offer higher prices and drop out until only one remains. In a Dutch auction, the auctioneer calls out a high price then keeps lowering it until there is a buyer. There are various forms of sealed bid auctions. In a first price sealed bid, each buyer submits a price in a sealed envelope and all bids are opened simultaneously, with the highest offer winning. In a second (or third, fourth, and so on) price sealed bid, the highest bidder wins but pays only the second (third, fourth) highest price bid.

An English or Dutch auction will work well for a seller if there is more than one serious bidder, as competition will ensure that the price is set at the level at which it is not worth more to any other bidder but the winner. Indeed, in a competitive auction the successful bidder may end up offering more than what is being auctioned is actually worth. This is known as the winner's curse.

Which method will generate the best price for the seller depends on how many bidders take part and how well informed they are. Unfortunately for the seller, this information is not always available before the auction takes place.

Adapted from "Essential Economics" published by Profile Books.



### Exercise 11

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 22) In Dutch auction, who calls out a high price?
- The auctioneer
  - The winner
  - The bidder
  - The buyer

### *Petunjuk Jawaban Latihan*

- 22) A



### Summary

Karena berada dalam bidang khusus, dalam hal ini bidang ekonomi, kata atau frasa yang biasa dipakai secara umum menjadi khusus. Dengan kata lain, artinya menjadi khusus. Karena kekhususannya itu, kamus dwibahasa (Inggris-Indonesia) tidak cukup. Pastikan Anda melengkapi diri dengan kamus khusus, ensiklopedia dan sumber lain seperti internet, narasumber, dan praktisi yang bergerak dalam bidang ekonomi.



## Formative Test 1

### A. AUSTRIAN ECONOMICS

It is a brand of neo-classical economics established in Vienna during the late 19th century and the first half of the 20th century. It was strongly opposed to Marxism and, more broadly, to the use of economic theories to justify government intervention in the economy.

Prominent members included Friedrich Hayek, Joseph Schumpeter, and Ludwig von Mises. It gave birth to the definition of economics as the science of studying human behaviour as a relationship between ends and scarce means that have alternative uses. Austrian economic thinking was characterized by attributing all economic activity, including the behaviour of apparently impersonal institutions, to the wishes and actions of individuals. It did this by examining choices in terms of their opportunity cost (that is, what is the next best use of resources to that which is being considered?) and by analyzing the impact of timing on decision making.

Hayek correctly predicted the failure of Soviet-style central planning. His ideas are said to have inspired many of the free-market reforms carried out during the 1980s in the United States under Ronald Reagan and in the UK under Margaret Thatcher. Schumpeter developed a theory of innovation and economic change characterized by the phrase creative destruction.

### B. AUTARKY

Autarky is the idea that a country should be self-sufficient and not take part in international trade.

The experience of countries that have pursued this Utopian ideal by substituting domestic production for imports is an unhappy one. No country has been able to produce the full range of goods demanded by its population at competitive prices. Indeed, those that have tried to do so have condemned themselves to inefficiency and comparative poverty, compared with countries that engage in international trade.

### C. AVERAGE

Average is a number that is calculated to summarize a group of numbers. The most commonly used average is the mean, the sum of the numbers divided by however many numbers there are in the group. The median is the middle value in a group of numbers ranked in order of size. The mode is the number that occurs most often in a group of numbers. Take the following group of numbers: 1, 2, 2, 9, 12, 13, 17

The mean is  $56/7 = 8$

The median is 9

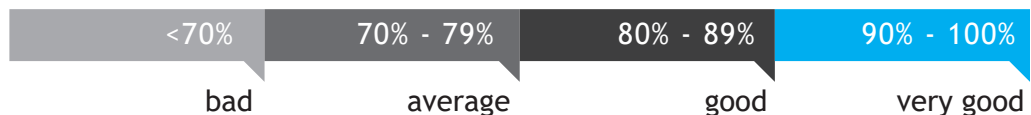
The mode is 2

- 1) Who predicted the failure of Soviet-style central planning?
  - A. Joseph Schumpeter.
  - B. Ronald Reagan.
  - C. Margaret Thatcher.
  - D. Friedrich Hayek.
  
- 2) In Dutch auction, who calls out a high price?
  - A. Friedrich Hayek.
  - B. Ludwig von Mises.
  - C. Joseph Schumpeter.
  - D. Ronald Reagan.
  
- 3) What is the median of the following group of numbers: 6,7,8,17,32?
  - A. 6
  - B. 7
  - C. 8
  - D. 14

Check your answers with the Key which is provided at the end of this module, and score your right answers. Then use the formula below to know your achievement level of the lesson in this module.

$$\text{Level of Achievement} = \frac{\text{Scores of the Right Answers}}{\text{Total Scores}} \times 100$$

Meanings of level of achievement:



If your level achievement reaches 80% or more, you can go on to the next learning activity. **Good!** But if your level of mastery is less than 80%, you have to study again this unit, especially parts which you haven't mastered.

# Economic Terms Started with B

## Learning Activity 2

Sama seperti Learning Activity 1, Learning Activity 2 ini berisi latihan untuk mengukur seberapa dalam Anda memahami istilah ekonomi yang ada. Selamat berlatih.

### A. BACKWARDATION

It is pricing structure in commodities or foreign-exchange trading in which deliveries in the near future have a higher price than those made later on. Backwardation occurs when demand is greater in the near future.

It is when a commodity is valued more highly in a spot market (that is, when it is for delivery today) than in a future's market (for delivery at some point in the future).

Normally, interest costs mean that futures prices are higher than spot prices, unless the markets expect the price of the commodity to fall over time, perhaps because there is a temporary bottleneck in supply. When spot prices are lower than futures prices it is known as contango.

### B. BALANCE OF PAYMENTS

It is the total of all the money coming into a country from abroad less all of the money going out of the country during the same period.

This is usually broken down into the current account and the capital account. The current account includes:

1. visible trade (known as merchandise trade in the united states), which is the value of exports and imports of physical goods;
2. invisible trade, which is receipts and payments for services, such as banking or advertising, and other intangible goods, such as copyrights, as well as cross-border dividend and interest payments;
3. private transfers, such as money sent home by expatriate workers;
4. official transfers, such as international aid.

The capital account includes:

1. long-term capital flows, such as money invested in foreign firms, and profits made by selling those investments and bringing the money home;
2. short-term capital flows, such as money invested in foreign currencies by international speculators, and funds moved around the world for business purposes by multinational companies. These short-term flows can lead to sharp movements in exchange rates, which bear little relation to what currencies should be worth judging by fundamental measures of value such as purchasing power parity.

As bills must be paid, ultimately a country's accounts must balance (although because real life is never that neat a balancing item is usually inserted to cover up the inconsistencies).

“Balance of payments crisis” is a politically charged phrase. But a country can often sustain a current account deficit for many years without its economy suffering, because any deficit is likely to be tiny compared with the country's national income and wealth. Indeed, if the deficit is due to firms importing technology and other capital goods from abroad, which will improve their productivity, the economy may benefit. A deficit that has to be financed by the public sector may be more problematic, particularly if the public sector faces limits on how much it can raise taxes or borrow or has few financial reserves. For instance, when the Russian government failed to pay the interest on its foreign debt in August 1998 it found it impossible to borrow any more money in the international financial markets. Nor was it able to increase taxes in its collapsing economy or to find anybody within Russia willing to lend it money. That truly was a balance of payments crisis.

In the early years of the 21st century, economists started to worry that the United States would find itself in a balance of payments crisis. Its current account deficit grew to over 5% of its GDP (Gross Domestic Product), making its economy increasingly reliant on foreign credit.



### Exercise 1

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 1) When future prices are higher than spot prices it is called ....
  - A. interest
  - B. contango
  - C. backwardation
  - D. temporary bottleneck

- 2) What includes current account?
  - A. Money invested in foreign currency.
  - B. Money invested in foreign firms.
  - C. Profits made by selling those investments.
  - D. Copyrights.
  
- 3) What kind of crisis the Russian Government faced in 1998?
  - A. Balance of payment crisis.
  - B. Financial crisis.
  - C. Current account deficit.
  - D. Public sector crisis.

*Petunjuk Jawaban Latihan*

- 1) C adalah yang paling tepat karena memang demikianlah definisi dari backwardation: When a COMMODITY is valued more highly in a spot market (that is, when it is for delivery today) than in a futures market (for delivery at some point in the future).
- 2) D
- 3) A

**C. BALANCED BUDGET**

It is when total public-sector spending equals total government income during the same period from taxes and charges for public services.

Politicians in some countries, such as the United States, have argued that government should be required to run a balanced budget in order to have sound public finances. However, there is no economic reason why public borrowing need necessarily be bad. for instance, if the debt is used to invest in things that will increase the growth rate of the economy--infrastructure, say, or education--it may be justified. it may also make more economic sense to try to balance the budget on average over an entire economic cycle, with public-sector deficits boosting the economy during recession and surpluses stopping it overheating during booms, than to balance it every year.

**D. BANK**

Starting out as places that would guard your money, banks became the main source of credit creation. Increasingly, however, borrowers are turning to the financial markets and to non-savings institutions, such as credit-card companies and consumer-finance firms, when they need a loan. this is reducing the profitability of traditional bank lending and has led many banks to enter new areas of business, such as selling insurance policies and mutual funds. Increasingly, too, traditional banks are selling off parcels of their loans in the financial markets by a process called securitization.

What the most efficient split is between bank lending and other sorts of lending is debatable. Economists argue endlessly about whether an economy such as the United States, in which firms rely more heavily on the equity and debt markets than on banks to fund their investment, is better than one such as, say, Germany, in which banks have traditionally been the main source of corporate finance.

Banks come in many different forms. Commercial banks, also known as retail banks, cater directly for the general public and lend to (mostly small and medium-sized) firms. In the past, they did so largely through a network of bank branches, although increasingly these are giving way to atm machines, the telephone and the Internet. Wholesale banks largely transact with other banks and financial institutions. Investment banks, also known as merchant banks, concentrate on raising money for companies from private investors or in the financial markets, by finding buyers for their equity and corporate bonds. Universal banks do most or all of the above including, through bancassurance, selling insurance. These banks have long been a feature of continental European economies. However, in the United States financial laws such as the Glass-Steagall Act have separated different forms of banking from each other and kept banks out of the insurance business. These laws were abolished in 1999, although during the preceding couple of decades regulators effectively dismantled them by changing the way they were applied. Even so, because of these and other laws, which for many years stopped banks from operating across state borders, the United States has far more lending institutions than other countries. In 2003, there were over four lending institutions per 100,000 people in the United States, compared with fewer than one per 100,000 in the UK and France.

## **E. BANKRUPTCY**

It is when a court judges that a debtor is unable to make the payments owed to a creditor.

How bankrupts are treated can affect economic growth. If bankrupts are punished too severely, would-be entrepreneurs may be discouraged from taking the financial risks needed to make the most of their ideas. However, letting off defaulting debtors too readily may discourage potential creditors because of moral hazard.

America's bankruptcy code, in particular its Chapter 11 protection for firms from their creditors, is particularly friendly to troubled borrowers, allowing them to borrow more money and giving them time to work out their problems. Some other countries quickly close down a bankrupt firm, and try to repay its debts by selling off any assets it has.





## Exercise 2

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 4) A process in which traditional banks are selling off their loans in the financial markets is called...
  - A. recession
  - B. securitization
  - C. credit creation
  - D. investment
  
- 5) One of the financial bias that has separated different forms of banking from each other and kept banks out of insurance business is called ...
  - A. securitization
  - B. corporate bonds
  - C. glass-steagall act
  - D. credit creation
  
- 6) Banks that concentrate on raising money for companies from private investors by finding buyers for their equity and corporate bonds are called ...
  - A. merchant banks
  - B. retail banks
  - C. universal banks
  - D. wholesale banks
  
- 7) What will banks in America do with a bankrupt firm?
  - A. They will close it down
  - B. They will give it some more time to solve its problems
  - C. They will try to repay its debts by selling off any assets it has
  - D. They will allow it to borrow more money

*Petunjuk Jawaban Latihan*

- 4) B
- 5) C
- 6) A
- 7) D

## F. BARRIERS TO ENTRY (OR EXIT)

It is the existence of high start-up costs or other obstacles that prevent new competitors from easily entering an industry or area of business. Barriers to entry benefit existing companies already operating in an industry because they protect an established company's revenues and profits from being whittled away by new competitors.

How firms keep out competition-an important source of incumbent advantage. There are four main sorts of barriers.

1. A firm may own a crucial resource, such as an oil well, or it may have an exclusive operating license, for instance, to broadcast on a particular radio wavelength.
2. A big firm with economies of scale may have a significant competitive advantage because it can produce a large output at lower costs than can a smaller potential rival.
3. An incumbent firm may make it hard for a would-be entrant by incurring huge sunk costs, spending lots of money on things such as advertising, which any rival must match to compete effectively but which have no value if the attempt to compete should fail.
4. Powerful firms can discourage entry by raising exit costs, for example, by making it an industry norm to hire workers on long-term contracts, which make firing an expensive process.

## G. BARTER

Barter is paying for goods or services with other goods or services, instead of with money.

It is often popular when the quality of money is low or uncertain, perhaps because of high inflation or counterfeiting, or when people are asset-rich but cash-poor, or when taxation or extortion by criminals is high. Little wonder, then, that barter became popular in Russia during the late 1990s.

## H. BASEL 1 AND 2

It is an attempt to reduce the number of bank failures by tying a bank's capital adequacy ratio to the riskiness of the loans it makes.

For instance, there is less chance of a loan to a government going bad than a loan to, say, an internet business, so the bank should not have to hold as much capital in reserve against the first loan as against the second. The first attempt to do this worldwide was by the Basel committee for international banking supervision in 1988. However, its system of judging the relative riskiness of different loans was crude. For instance, it penalized banks no more for making loans to a fly-by-night software company in Thailand than to Microsoft; no more for loans to South Korea, bailed out by the IMF in 1998, than to Switzerland. In 1998, "Basel 2" was proposed, using much more

sophisticated risk classifications. However, controversy over these new classifications, and the cost to banks of administering the new approach, led to the introduction of Basel 2 being delayed until (at least) 2005.



### Exercise 3

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 8) Barter is popular when ....
  - A. taxation is low
  - B. people are not asset-rich
  - C. inflation is low
  - D. quality of money is certain
  
- 9) How can powerful firms discourage entry? By ....
  - A. producing a large output at lower costs
  - B. spending lots of money on things such as advertising
  - C. incurring huge sunk costs
  - D. making firing an expensive process
  
- 10) Basel 2 was delayed until 2005 as ....
  - A. it was bailed out by the IMF in 1998
  - B. there was controversy over these more sophisticated risk classifications
  - C. it ties a bank's capital adequacy ratio to the riskiness of the loans it makes
  - D. it penalized banks no more for making loans to South Korea

*Petunjuk Jawaban Latihan*

- 8) B
- 9) D
- 10) B

### I. BASIS POINT

It is one one-hundredth of a percentage point (1/100th).

Small movements in the interest rate, the exchange rate and bond yields are often described in terms of basis points. If a bond yield moves from 5.25% to 5.45%, it has risen by 20 basis points.

**J. BEAR**

Bear is an investor who thinks that the price of a particular security or class of securities (shares, say) is going to fall; the opposite of a bull.

**K. BEHAVIOURAL ECONOMICS**

It is a branch of economics that concentrates on explaining the economic decisions people make in practice, especially when these conflicts with what conventional economic theory predicts they will do.

Behaviourists try to augment or replace traditional ideas of economic rationality (*homo economicus*) with decision-making models borrowed from psychology. According to psychologists, people are disproportionately influenced by a fear of feeling regret and will often forgo benefits even to avoid only a small risk of feeling they have failed. They are also prone to cognitive dissonance, often holding on to a belief plainly at odds with new evidence, usually because the belief has been held and cherished for a long time. Then there is anchoring: people are often overly influenced by outside suggestion. People apparently also suffer from status quo bias: they are willing to take bigger gambles to maintain the status quo than they would be to acquire it in the first place.

Traditional utility theory assumes that people make individual decisions in the context of the big picture. But psychologists have found that they generally compartmentalize, often on superficial grounds. They then make choices about things in one particular mental compartment without taking account of the implications for things in other compartments.

There are lots of evidence that people are persistently and irrationally overconfident. They are also vulnerable to hindsight bias: once something happens they overestimate the extent to which they could have predicted it. Many of these traits are captured in prospect theory, which is at the heart of much of behavioural economics.

**Exercise 4**

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 11) How many basis points did the exchange rate fall if it moved from 6.85% to 6.50%?
- A. 35
  - B. 30
  - C. 25
  - D. 20

- 12) What do traditionalists try to show?
- A. people are influenced by outside suggestion
  - B. people are prone to cognitive dissonance
  - C. people are persistently and irrationally overconfident
  - D. people make individual decisions in the context of the big picture

*Petunjuk Jawaban Latihan*

- 11) A  
12) D

## L. BETA

It is a mathematical measure of the sensitivity of rates of return on a portfolio or a given stock compared with rates of return on the market as a whole. A beta of 1.0 indicates that an asset closely follows the market; a beta greater than 1.0 indicates greater volatility than the market.

Part of an economic theory for valuing financial securities and calculating the cost of capital, known as the capital asset pricing model, beta measures the sensitivity of the price of a particular asset to changes in the market as a whole. If a company's shares have a beta of 0.8 it implies that on average the share price will change by 0.8% if there is a 1% change in the market. There is a long-running debate about whether a beta calculated from a security's past relationship with the market actually predicts how that relationship will behave in future, leading some doubting economists to claim that beta is "dead".

## M. BIG MAC INDEX

The Big Mac Index is an informal way of measuring the purchasing power parity (PPP) between two currencies and provides a test of the extent to which market exchange rates result in goods costing the same in different countries.

The Big Mac index was devised by Pam Woodall of *The Economist* in 1986, as a light-hearted guide to whether currencies are at their "correct" level. It is based on one of the oldest concepts in international economics, purchasing power parity (PPP), the notion that a dollar, say, should buy the same amount in all countries. In the long run, argue PPP fans, currencies should move towards the exchange rate, which equalizes the prices of an identical basket of goods and services in each country. In this case, the basket is a McDonald's big Mac, which is produced in more than 100 countries. The Big Mac PPP is the exchange rate that would leave hamburgers costing the same in the United States as elsewhere. Comparing actual exchange rates with PPP signals whether a currency is undervalued or overvalued. Some studies have found that the Big Mac index is often a better predictor of currency movements than more theoretically rigorous models.

## N. BLACK ECONOMY

It is the part of the job market which is not reported, for example, to the tax authorities and does not appear in official statistics. A slang term is ‘moonlighting’, but in many less developed countries the similar term ‘informal economy’ is used.

If you pay your cleaner or builder in cash, or for some reason neglect to tell the taxman that you were paid for a service rendered, you participate in the black or underground economy. Such transactions do not normally show up in the figures for GDP, so the black economy may mean that a country is much richer than the official data suggest. In the United States and the UK, the black economy adds an estimated 5—10% to GDP; in Italy, it may add 30%. As for Russia, in the late 1990s estimates of the black economy ranged as high as 50% of GDP.

## O. BLACK-SCHOLES

It is a formula for pricing financial options.

Its invention allowed a previously undreamed of precision in the pricing of options (which had hitherto been done using crude rules of thumb), and probably made possible the explosive growth in the markets for options and other derivatives that took place after the formula became widely used in the early 1970s. Myron Scholes and Robert Merton were awarded the Nobel Prize for economics for their part in devising the formula; their co-inventor, Fischer Black (1938—95), was ineligible, having died.



### Exercise 5

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 13) How many percents does the black economy add to GDP in UK and United States?
  - A. 50%
  - B. 30%
  - C. 10%
  - D. 5–10%
  
- 14) How many percents of change in the market if a company’s shares have a beta of 0.7 % and on average the share price will change by 0.7 %?
  - A. 1%
  - B. 0.7%
  - C. 7%
  - D. 0.1%

- 15) A notion that a dollar should buy the same amount in all countries is called the...
- A. big mac index
  - B. black economy
  - C. purchasing power parity
  - D. exchange rate
- 16) Who invented the Big Mac Index ?
- A. Fisher Black
  - B. Pam Woodall
  - C. Myron Scholes
  - D. Robert Merton

*Petunjuk Jawaban Latihan*

- 13) D  
14) A  
15) C  
16) B

**P. BONDS**

“Gentlemen prefer bonds,” punned Andrew Mellon, an American tycoon. A bond is an interest-bearing security issued by governments, companies and some other organizations. Bonds are an alternative way for the issuer to raise capital to selling shares or taking out a bank loan.

Like shares in listed companies, once they have been issued bonds may be traded on the open market. A bond’s yield is the interest rate (or coupon) paid on the bond divided by the bond’s market price. Bonds are regarded as a lower risk investment. Government bonds, in particular, are highly unlikely to miss their promised payments. Corporate bonds issued by blue-chip “investment grade” companies are also unlikely to default; this might not be the case with high-yield “junk” bonds issued by firms with less healthy financials.

**Q. BOUNDED RATIONALITY**

Bounded rationality is a theory of human decision making that assumes that people behave rationally, but only within the limits of the information available to them. Because their information may be inadequate (bounded) they make take decisions that appear to be irrational according to traditional theories about *homo economicus* (economic man).

**R. BRAND**

Once a brand has created positive sentiment among its target audience, the firm is said to have built brand equity. Some examples of firms with brand equity - possessing very recognizable brands of products - are Microsoft, Coca-Cola, Ferrari, Sony, The Gap and Nokia.

The stalking-horse for international capitalism. a focus for all the worries about environmental damage, human-rights abuses and sweated labour that opponents of globalization like to put on their placards. A symbol of America's corporate power, since most of the world's best-known brands, from Coca Cola to Nike, are American. That is the case against.

Many economists regard brands as a good thing, however. A brand provides a guarantee of reliability and quality. Consumer trust is the basis of all brand values. So companies that own the brands have an immense incentive to work to retain that trust. Brands have value only where consumers have choice. The arrival of foreign brands, and the emergence of domestic brands, in former communist and other poorer countries points to an increase in competition from which consumers gain. Because a strong brand often requires expensive advertising and good marketing, it can raise both price and barriers to entry. But not to insuperable levels: brands fade as tastes change; if quality is not maintained, neither is the brand.

**Exercise 6**

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 17) Bands are regarded as a lower risk investment because ....
- they are almost unlikely to miss their promised payments
  - they can raise capital
  - they can sell shares
  - they can take out a bank loan
- 18) What is the basis of all brand values?
- Consumer's choice.
  - Consumer's preference.
  - Consumers' gain.
  - Consumer trust.

*Petunjuk Jawaban Latihan*

- 17) A  
18) D



## S. BRETTON WOODS

It is a New Hampshire resort where a forty-four-country agreement was signed to establish a post-war international monetary and payments system. Hence 'Bretton Woods system' refers to the institutions and their workings thus established. This process had begun as Anglo-American wartime collaboration.

A conference held at Bretton Woods, New Hampshire, in 1944, which designed the structure of the international monetary system after the second World War and set up the IMF (International Monetary Fund) and the world bank. It was agreed that the exchange rates of IMF members would be pegged to the dollar, with a maximum variation of 1% either side of the agreed rate. Rates could be adjusted more sharply only if a country's balance of payments was in fundamental disequilibrium. In August 1971 economic troubles and the cost of financing the Vietnam war led the American president, Richard Nixon, to devalue the dollar. This shattered confidence in the fixed exchange rate system and by 1973 all of the main currencies were floating freely, at rates set mostly by market forces rather than government fiat.

## T. BUBBLE

Bubbles form in economies, securities, stock markets and business sectors because of a change in the way players conduct business. This can be a real change, as occurred in the bubble economy of Japan in the 1980s when banks were partially deregulated, or a paradigm shift, as happened during the dotcom boom in the late '90s and early 2000s. During the boom people bought tech stocks at high prices, believing they could sell them at a higher price until confidence was lost and a large market correction, or crash, occurs. Bubbles in equities markets and economies cause resources to be transferred to areas of rapid growth. At the end of a bubble, resources are moved again, causing prices to deflate. Thus, there is little long-term return on those assets.

When the price of an asset rises far higher than can be explained by fundamentals, such as the income likely to derive from holding the asset. *The Chicago Tribune* of April 13th 1890, writing about the then mania in real-estate prices, described "men who bought property at prices they knew perfectly well were fictitious, but who were prepared to pay such prices simply because they knew that some still greater fool could be depended on to take the property off their hands and leave them with a profit". Such behaviour is a feature of all bubbles.

Famous bubbles include tulip mania in Holland during the 17th century, when the prices of tulip bulbs reached unheard of levels, and the South Sea Bubble in Britain a century later, although there have been many others since, including the dotcom bubble in internet company shares that burst in 2000. Economists argue about whether bubbles are the result of irrational crowd behaviour (perhaps coupled with exploitation of the gullible masses by some savvy speculators) or, instead, are the result of rational decisions by people who have only limited information about the fundamental value of

an asset and thus for whom it may be quite sensible to assume the market price is sound. Whatever their cause, bubbles do not last forever and often end not with a pop but with a crash.

## U. BUDGET

Budget is an annual procedure to decide how much public spending there should be in the year ahead and what mix of taxation, charging for services and borrowing should finance it.

The budgeting process differs enormously from one country to another. In the United States, for example, the president proposes a budget in February for the fiscal year starting the following October, but this has to be approved by Congress. By the time a final decision has to be made, ideally, no later than September, there are often three competing versions: the president's latest proposal, one from the senate and another from the house of representatives. What finally emerges is the result of last-minute negotiations. Occasionally, delays in agreeing the budget have led to the temporary closure of some federal government offices. Contrast this with the UK, where most of what the government proposes is usually approved by parliament, and some changes take effect as soon as they are announced (subject to subsequent parliamentary vote).



### Exercise 7

Untuk memperdalam pemahaman Anda mengenai materi di atas, kerjakanlah latihan berikut!

- 19) What sets rates mostly? By ....
  - A. exchange rates
  - B. balance of payments
  - C. disequilibrium
  - D. market forces
  
- 20) What is the name of bubble in Britain during the 18th century?
  - A. Real estate
  - B. South Sea
  - C. Tulip
  - D. dotcom

*Petunjuk Jawaban Latihan*

- 19) D
- 20) B



## Summary

Karena berada dalam bidang khusus, dalam hal ini bidang ekonomi, kata atau frasa yang biasa dipakai secara umum menjadi khusus. Dengan kata lain, artinya menjadi khusus. Karena kekhususannya itu, kamus dwibahasa (Inggris-Indonesia) tidak cukup. Pastikan Anda melengkapi diri dengan kamus khusus, ensiklopedia dan sumber lain seperti internet, narasumber, dan praktisi yang bergerak dalam bidang ekonomi.



## Formative Test 2

### A. BULL

It is an investor who expects the price of a particular security to rise; the opposite of a bear.

### B. BUSINESS CONFIDENCE

Business confidence is how the people who run companies feel about their organizations' prospects. In many countries, surveys measure average business confidence. These can provide useful signs about the current condition of the economy, because companies often have information about consumer demand sooner than government statisticians do.

### C. BUSINESS CYCLE

It is a sequence of economic activity typically characterized by recession, fiscal recovery, growth, and fiscal decline.

Boom and bust. The long-run pattern of economic growth and recession. According to the centre for international business cycle research at Columbia University, between 1854 and 1945 the average expansion lasted 29 months and the average contraction 21 months. Since the Second World War, however, expansions have lasted almost twice as long, an average of 50 months, and contractions have shortened to an average of only 11 months. Over the years, economists have produced numerous theories of why economic activity fluctuates so much, none of them particularly convincing. A Kitchin cycle supposedly lasted 39 months and was due to fluctuations in companies' inventories. The Juglar cycle would last 8–9 years as a result of changes in investment in plant and machinery. Then there was the 20-year Kuznets cycle, allegedly driven by house-building, and, perhaps the best-known theory of them all, the 50-year Kondratieff wave. Hayek tangled with Keynes over what caused the business cycle, and won the Nobel

prize for economics for his theory that variations in an economy's output depended on the sort of capital it had. Taking a quite different tack, in the late 1960s Arthur Okun, an economic adviser to Presidents Kennedy and Johnson, proclaimed that the business cycle was "obsolete". A year later, the American economy was in recession. Again, in the late 1990s, some economists claimed that technological innovation and globalization meant that the business cycle was a thing of the past. Alas, they were soon proved wrong.

#### D. BUYER'S MARKET

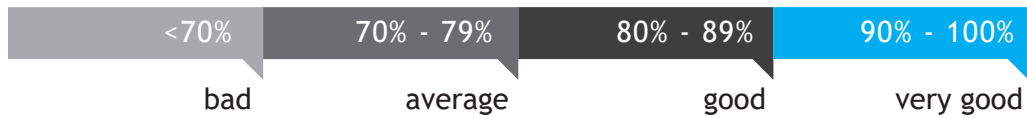
Buyer's market is a market in which supply seems plentiful and prices seem low; the opposite of a seller's market.

1. How long did the average expansion last?
  - A. 11
  - B. 21
  - C. 29
  - D. 39
  
2. How long did the average expansion last?
  - A. 8 years
  - B. 20 years
  - C. 50 years
  - D. More than 50 years
  
3. What is the cause of Kit chin cycle?
  - A. House building
  - B. Fluctuation in companies' inventories
  - C. Changes in investment in plant and machinery
  - D. Business cycle

Check your answers with the Key which is provided at the end of this module, and score your right answers. Then use the formula below to know your achievement level of the lesson in this module.

$$\text{Level of Achievement} = \frac{\text{Scores of the Right Answers}}{\text{Total Scores}} \times 100$$

Meanings of level of achievement:



If your level achievement reaches 80% or more, you can go on to the next learning activity. **Good!** But if your level of mastery is less than 80%, you have to study again this unit, especially parts which you haven't mastered.

## Key to the Formative Tests

*Tes Formatif 1*

- 1) D
- 2) A
- 3) C

*Tes Formatif 2*

- 1) C
- 2) A
- 3) B

## Daftar Pustaka

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<http://www.answers.com>

Diakses tanggal 13 Januari 2009

<http://www.economist.com/research/economics/alphabetic.cfm?letter=A>

Diakses tanggal 10 Oktober 2008

<http://www.economist.com/research/economics/alphabetic.cfm?letter=B>

Diakses tanggal 10 Oktober 2008