

# Overview of Economic Terms

## Introduction

A variety of economic terms, concepts, and ideas present themselves daily in the press and business environments. Many people have had limited exposure to the study of economics but, nevertheless, find themselves encountering a variety of economic concepts. Although the study of economics can involve an intensive focus on detailed and sometimes abstract information and ideas, economic issues and concepts can be summarized at least to a significant extent in straightforward explanations. In fact, one probably should be somewhat suspicious of concepts that are not summarized in simple English. For example, Warren Buffet has stated that he never buys a stock he doesn't understand; this principle has helped him to avoid a variety of disastrous technology stocks. Similarly, if an economic idea is not explained in straightforward terminology, we probably need to beware: we could be missing something—or maybe we need to miss something!

The purpose of this overview is to present a variety of economic concepts in a form that emphasizes the key ideas—in simple graphs and English. The key concepts are some of the ideas needed to understand economic data released by NAR on the state of the housing market. In addition, the concepts may help to relate the general picture of the economy to specific questions about housing trends and values. The explanations are very limited and simplified in terms of details: the objective is to present the basic ideas in order to provide an initial background reference. The focus is on a brief presentation of a topic, followed by a brief comment on the business implications of the material.

The material is presented in three sections:

- The Economy and Economic Outlook
- Economic Concepts Relevant to Marketing and Business
- General Economic Concepts

The Overview is an ongoing working document. It is expected that a number of additional topics will be added (e.g., What are Mortgage Backed Securities, What are Derivatives, What Causes Interest Rates to Change, etc.). Comments and suggestions are welcome: please e-mail them to [data@realtors.org](mailto:data@realtors.org).

## Table of Contents

Topic	Page Number
<b>THE ECONOMY AND ECONOMIC OUTLOOK</b>	
How Does the GDP Rising or Falling Affect Me?	3
Where Are We in the Business Cycle?	4
Are We in a Recession?	5
How Does Inflation Distort Costs?	7
How Does the Government Measure Unemployment?	8
What is Consumer Confidence, and Why Should I Pay Attention to it?	9
What is the Importance of the Money Supply?	10
How Does Systemic Risk Occur?	11
Why are Government Sponsored Enterprises (GSE) Important?	12
What is the Federal Home Loan Bank System?	13
Who are the Major Banking Regulators?	14
<b>ECONOMIC CONCEPTS FOR MARKETING AND BUSINESS</b>	
Supply and Demand, and the Importance of Good Marketing	15
What is Price Elasticity, and Why is it Relevant?	16
Markets are Important...Here's Why	17
How Does Our Network Affect the Economy?	18
<b>GENERAL ECONOMIC CONCEPTS</b>	
Why Should We Care About Industrial Production and the Capacity Utilization Index?	19
What is the Usual Level of Economic Growth?	20
Scarcity--The Fundamental Concept of Economics	21
How Does International Trade Affect the Economy?	22
Factor Price Equalization—Can This Affect Wages?	24
Rationality is an Assumption, Not a Fact	25
Diversification: It Works	26
How Do Externalities Affect My Ability to Sell a House?	27
Forecasting--The Players: Leading, Coincident, and Lagging Indicators	28
The Leading Indicators	29
The Coincident Indicators	30
The Lagging Indicators	31