Key Terms of Economy

Activity Rate

The labour force of a country is known as the activity rate or participation rate. It is in percent and always a proportion of the total population of the country—the economically active population. This rate varies from one country to another depending upon several factors such as school leaving age, retirement age, popularity of higher education, social customs, opportunities,etc.

ADRS

ADR stands for American Depository Receipt, which enables investors based in the USA to invest in stocks of non-US companies trading on a non US stock exchange. ADRs are denominated in dollars. Simply put, US brokers purchase shares of a foreign company. ADRs are subsequently listed on US stock exchanges.

ADRs can be sponsored or unsponsored. Sponsored ADRs are those in which the company actively participates in the process. The ADRs were first offered in the US in the 1920s. A number of Indian companies have issued ADRs. Infosys Technologies was the first Indian company to use the ADR route.

Adverse Selection

One among the two kinds of the market failure often associated with insurance business which means doing business with the people one would have better avoided.

Adverse selection can be a problem when there is an asymmetry in information between the seller and the buyer of an insurance policy—as insurance will not be profitable when buyers have better information about their risk of claiming than does the seller of the insurance policy. In the ideal case, insurance premiums are set in accordance to the risk of a randomly selected person in the insured bracket of the population.

Agricultural Extension

Agricultural extension is a proper approach to motivate people to help themselves by applying agricultural research and development in their daily lives in farming, home making, and community living. It plays a vital role in community development. It is a two way channel that brings scientific information to rural people and takes their problems to scientific institutes for their solution.

Arbitrage

Earning profits out of the price differences of the same product in different markets at the same time.For example, buying and selling any product, financial securities (as bonds) or foreign currencies in different markets/economies. As globalisation is promoting liberalised cross-border movement of goods and services around the world, arbitrage is prevalent today. To avoid arbitrage the WTO member countries are under compulsion to chalk out homogenous economic policies and a level-playing field at the international level is emerging.

ARCs

Assets Reconstruction Companies (ARCs) acquire non-performing assets (NPAs) from banks or financial institutions along with the underlying securities mortgaged and/or hypothecated by the borrowers to the lenders. The ARCs then try and manage these NPAs acquired from banks. It can even infuse more funds in order to reconstruct the asset. If reconstruction is not possible and the borrower is unwilling to repay the loan, the ARCs even sell these cured assets.

While the basic principle of ARCs is the same every where i.e., to acquire bad loans to resolve them. The essential difference is in the ownership of ARCs, public or private. India has adopted the private sector model of asset resolution. Here, ARCs are setup as non governmental vehicles mostly with support from the banking sector and other investors.India has opted for multiple ARCs, which helps in better pricing of bad loans, as opposed to the single ARC model followed in many countries.

ARCs acquire NPAs by way of 'truesale', i.e., once an NPA has been sold, the seller has no further interest in that asset. ARCs are aproduct of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (**SARFAESI Act**).

Assigned Revenue

The term is used to refer to various tax/duty/cess/surcharge/levy etc., proceeds of which are collected by state government on behalf of local bodies (PRIs), and subsequently adjusted with/assigned to the PRIs. Collection of such revenue is governed by relevant Acts of the local bodies.

Some examples of assigned revenue in India, include, entertainment tax, surcharge on stamp duty, local cess/surcharge on land revenue, lease amount of mines and minerals, sale proceeds of social forestry plantations, etc. State Finance Commissions recommend devolution of assigned revenue to local bodies on objective criteria, which may be specified by them in specific context.

Back-To-Back Loan

A term of international banking, is an arrangement under which two firms (i.e., companies) in different economies (i.e., countries) borrow each other's currency and agree to repay such loans at a specified future date. Each company gets full amount of the loan on the repayment date in their domestic currency without any risk of losses due to exchange rate fluctuations. It has developed as a popular tool of minimising the exchange-rate exposure risk among the multi-national companies. This is also known as the parallel loan.

Bad Bank

A bank created specially to buy the bad debts or non-performing assets of the existing banks to clear such loans of the latter. This way the banks with NPAs clear their 'balance sheet' and again start lending to the customers. The bad bank now tries to recover the bad debts it has bought through available legal means.

Economic Survey 2016-17 suggested the Government of India to set such a body— public sector asset rehabilitation agency (PARA)—to solve the 'twin balance sheet' (TBS) problem the country is faced with. The PARA is supposed to clear the balance sheets of both banks as well the corporate sector.

Bad Debt

An accounting term to show the loans which are unlikely to be paid back by the borrower as the borrower has become insolvent/bankrupt. Banks might write off such bad debts against the profits of the trading as a business cost

Balanced Budget

The annual financial statement (i.e., the budget) of a government which has the total expenditures equal to the taxes and other receipts.

Most governments, in practice run unbalanced budgets, i.e., deficit budgets or surplus budgets– either the expenditures being higher or lower than the taxes and the other receipts, respectively. It isdone to regulate the economic activities.

Bond

An instrument of raising long-term debt on which the bond-issuer pays a periodic interest (known as 'coupon'). In theory, bonds could be issued by governments as well as private companies.

Bonds generally have a maturity period, however, some bonds might not have any definite maturity period (which are known as 'Perpetual Bonds').

Bonds are supported or secured by collateral in the form of immovable property i.e., fixed assets while debentures, also used to raise long term debt but are not supported by any collateral.

Broad Based Fund

This is a fund established or incorporated outside India, which has at least 20 investors with no single individual investor holding more than 49% of the shares or units of the fund. If the broad based fund has institutional investor (s), then it is not necessary for the fund to have 20 investors. Further, if the broad based fund has an institutional investor who holds more than 49% of the shares or units in the fund, then the institutional investor must it self be a broad based fund.