CNN Student News - Financial Glossary

Introduction: Use this CNN Student News financial glossary to help students understand concepts about today's U.S. economy that are currently in the news.

Personal Finance

Bankruptcy: A legal procedure in which a court determines which debts must be paid and which debts are eliminated. While the bankrupt individual no longer has debt, he/she is unlikely to get new credit soon. Bankruptcy remains on your credit report for 10 years and has a negative effect on your credit score.

Budget: A plan that estimates income and expenses in order to achieve financial goals.

Certificate of deposit (CD): A bank deposit with a fixed term that pays interest and "matures" after the term is up. CDs pay a higher rate of interest than regular savings accounts. Withdrawing money before a CD's maturity date may result in significant fees.

Chapter 7: A U.S. bankruptcy law that allows an individual or corporation to sell assets in order to pay off debts.

Chapter 13: A U.S. bankruptcy law that allows an individual three to five years to pay off debts.

Check: A document tied to a checking account that can be used in place of money to purchase items from a vendor. The vendor then presents the check to a bank, essentially demanding payment from the original buyer's bank. The money is then withdrawn from the buyer's checking account.

Checking account: A bank account from which money can be withdrawn using checks. Some checking accounts return interest, and others are tied to a debit card for instant access to funds.

Credit: Money that a lender may extend to a borrower. The borrower generally promises future payment with interest.

Credit card: A card that allows a person to purchase goods and services by paying with money borrowed from a creditor. The borrower then repays the credit card company, often with interest. The borrower doesn't always have to pay interest, because paying the debt off on time might not result in interest being charged.

Credit counseling: Personal financial services including budget counseling and education, debt management plans, financial literacy courses and housing counseling.

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Credit score: A three-digit number that indicates a borrower's ability to repay a loan, indicating the level of risk a lender will have to accept. Credit scores, which are based on credit history, may be used along with credit reports to reject or accept a loan, or may determine the loan interest rate.

Currency: Government-issued coins and paper notes that may be used to exchange goods and services; essentially, the physical representation of money.

Debit card: A card that allows an individual to transfer funds instantly from a bank account.

Debt: The amount of goods, services or money that one owes to another.

Federal Insurance Contributions Act (FICA): Taxes that are paid into the Social Security system. Social Security provides funds for a variety of federal social programs primarily designed to provide for the health and welfare of the elderly.

Foreclosure: A legal action by which a borrower's rights to a mortgaged property are taken away when the terms of the loan have not been satisfactorily met. The property is then owned by the lender, typically a bank. Foreclosures are considered a last resort because banks are in the business of making money from a loan's interest, not from acquiring and selling houses.

401(k): An employer's retirement savings program into which individuals can put a portion of their pay. Taxes are not paid until the money is withdrawn.

Gross income: An individual's income before taxes, health insurance and other deductions are paid.

Interest: The cost of borrowing money, usually expressed as a fixed or variable percentage.

Interest rate: A percentage the borrower must pay in addition to the amount borrowed. For example, if $100 is borrowed, the borrower may need to pay the lender $110 over the course of a year, meaning the interest rate is 10 percent. Generally, the more risk for the lender, the higher the interest rate he will charge.

Money: A medium of exchange that allows goods and services to be bought and sold without bartering or using credit. Money often is exchanged as currency.

Mortgage: A form of debt in which one can own property by paying the entire price over time with interest. The borrower maintains all the rights, privileges and responsibilities of a property owner as long as the conditions of the mortgage, such as monthly payments of principal and interest, are met.

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Net pay: The amount of income after all deductions and taxes are paid. Often known as "take-home pay."

Progressive tax: A form of taxation in which individuals with higher incomes pay higher tax rates than individuals with lower income. One example is the U.S. federal income tax.

Proportional tax: A form of taxation in which everyone pays the same tax rate in proportion to his or her income.

Savings account: A bank account where money is stored and generally returns a relatively low rate of interest.

Tax: Money paid to a government. Taxes paid by individuals may include income tax, property tax and sales tax.

Taxable income: The income that remains after nontaxable deductions are paid. Deductions that are applied "pre-tax" instead of "post-tax" will lower the overall income tax paid.

Markets

Bear market: A declining stock market, where stock prices are dropping over a continuous period of time.

Bull market: A rising market, where stock values are increasing over a continuous period of time.

Bond: A loan taken out by a local, state or federal government, or by a corporation. Bond certificates can be bought by individuals, who are essentially lending money to the bond issuer.

Bond rating: A measure of a bond issuer's ability to repay a bond as well as the repayment risks. Bonds that are rated AAA to BBB are considered investment-grade. Bonds with lower ratings are "junk bonds" that pay a higher interest rate but have an increased risk of default. Bonds that are in default are rated D.

Commodity: A raw material, such as wheat, corn, gold or oil, that can be sold.

Dow Jones Industrial Average ("Dow Jones"): The average price of 30 selected industrial stocks, often used as a measure of general market trends.

Index fund: An investment whose performance is designed to mirror a particular stock or bond market.

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Insider trading: Illegal trading by an individual or individuals who have private information about a corporation that helps them benefit financially from a stock trade made based on that information.

National Association of Securities Dealers Automated Quotations (NASDAQ): America's largest electronic stock market. Many technology stocks such as Apple, Microsoft and Yahoo are traded on NASDAQ.

New York Stock Exchange (NYSE): Established in 1792 on Wall Street in New York City, this securities market is one of the world's largest. America's 10 largest corporations, including Exxon, Ford, General Electric and Wal-Mart, are traded on the NYSE.

Ponzi scheme: A type of fraud that uses money from new investors to pay off earlier investors, while promising high rates of return. Ponzi schemes generally unravel when the pool of new investors dries up.

Securities and Exchange Commission (SEC): A federal commission that regulates and supervises U.S. financial markets to protect investors.

Security: A certificate issued by a corporation or government that has a value. Stocks and bonds are the most common securities.

Service: The supplying of information or performance of an activity, rather than supplying physical goods.

Stock: A share of ownership in a corporation.

Stock market: A place where shares, stocks and bonds are bought and sold.

Economics

Agrarian economy: An economy dominated by agricultural products; a pre-industrial economy.

Bank: An institution that provides money-related services, such as loans and savings accounts. Bank profits are based on the difference between borrowers' and depositors' interest rates.

Balanced budget: Occurs when the government spends as much money as it generates in revenue.

Bank run: A loss of confidence in a bank that leads to large withdrawals. The bank cannot pay all its depositors at once, and fails. During the Great Depression, after

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thousands of banks failed, laws were enacted to insure deposits and boost confidence in banks.

Capital gain: An increase in the value of an asset between the time it is bought and the time it is sold.

Capital gains tax: A tax on the sale of assets based on their increase in value.

Default: A condition that exists when a borrower cannot repay a loan.

Depression: An extreme decline in economic productivity that is more severe than a recession.

Discount rate: The interest rate charged to other financial institutions when they borrow from Federal Reserve banks.

Entitlement: Government funds issued to certain individuals because of a prescribed need. Social Security, Medicare, veterans' benefits and food stamps are examples of entitlement programs.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits for at least $100,000, increasing consumer confidence in the banking system and preventing bank runs.

Federal funds rate: The interest rate set by The Fed that banks charge each other for loans.

Federal Reserve System: The central banking authority of the United States. The system includes 12 Federal Reserve banks, a Board of Governors and other important financial committees.

Federal Reserve Board ("The Fed"): A regulatory body that determines U.S. monetary policy. One tool used by The Fed is raising and lowering key interest rates, including the discount rate and the federal funds rate.

Fort Knox: A U.S. Army base that includes the Bullion Depository, which holds the nation's gold reserves.

Free trade: A policy in which tariffs are reduced or eliminated between nations to promote trade.

The Great Depression: The most severe depression ever. It began in 1929, lasted almost 10 years and was caused by a decline in spending and production. The Great Depression began after artificially high stock prices led to a stock market crash in October 1929.

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During this period, thousands of banks failed, and more than 25 percent of Americans were unemployed.

Gold standard: A term used when the currency of a country is backed by a quantity of gold.

Gross domestic product (GDP): The total value of all goods and services produced within one nation during a specific time.

Gross national product (GNP): The total value of goods and services produced by a nation during a specific time. The GNP is equivalent to the GDP plus the country's overseas investments.

Industrial economy: An economy dominated by manufactured goods.

Inflation: An overall rise in prices.

Inflation rate: The percent increase in prices.

Market economy: An economy dominated by buying and selling with little interference from a centralized government.

Panic: A period of fear caused by an economic crisis, characterized by stock market crashes or bank failures.

Personal property: Items, other than real estate, owned by an individual.

Poverty line: The amount of money required to meet basic needs.

Poverty rate: The percent of the population living below the poverty line.

Prime rate: The lowest interest rate charged to borrowers with the least risk of defaulting.

Protectionism: A policy that protects domestic products by imposing tariffs, quotas and other restrictions on foreign imports.

Real estate: Property that is tied to the land, particularly buildings and the land itself.

Recession: A significant decline in the economy over a prolonged period.

Service economy: An economy dominated by services rather than products.

Subsidy: Government assistance to pay for items that are in the public interest but cannot be supported by the economy. Farmers are given subsidies to grow crops; cities may subsidize public transportation.

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Stagflation: A period of economic recession (stagnation) and high prices (inflation).

Subprime loan: A loan with a relatively high interest rate, often issued to a higher-risk borrower.

Tariff: A tax imposed on imported goods. In addition to raising revenue, tariffs may create an advantage for domestically produced goods.

Trade deficit: A condition that exists when the value of a nation's imports exceeds the value of its exports.

Unemployment rate: The percentage of people who are seeking work but do not have jobs. It is an important indicator of the health of a nation's economy.

U.S. Treasury Department: Maintains the finances of the U.S. government. The Treasury Department produces U.S. currency, issues payments from the federal government and borrows funds to keep the government running. The treasury secretary is a Cabinet member who advises the president on financial matters.

Business Finance

Asset: A company's possession that has value.

Bailout: Emergency funds given to corporations in order to prevent their collapse. Funds can come from the government or other institutions, can take many forms, and may or may not require reimbursement.

Capital: A company's available resources. Financial capital is money; capital goods include buildings, machinery and other equipment.

Chapter 11: U.S. bankruptcy code that allows a company to reorganize. The company is generally placed under a group of trustees, and the terms of its debt are spread out over time or reduced.

Credit rating: An indication of a business's ability to pay back its debts. A credit rating determines how easily a company can get credit such as loans.

Demand: Consumer desire to purchase a commodity. Generally, the higher the demand for an item, the higher its price (see "Supply").

Economy of scale: The relationship that occurs when increased efficiency lowers manufacturing costs as more of a product is made. The price reduction may be passed on to consumers.

In the black: Making a profit; not in debt.

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In the red: Losing money, in debt.

Labor union: An association of workers created to improve working conditions. Through collective bargaining, unions act as mediators between employees and employers regarding wages, benefits and other issues.

Liability: A financial obligation, such as a debt.

Net worth: The total value of assets, minus liabilities.

Price ceiling: The highest price set by government regulators for a good or service. Limiting prices is often intended to protect consumers.

Price floor: The lowest price allowable by regulators. Keeping prices from dropping too low may help sellers.

Profit: Revenue minus costs. Also known as net income.

Revenue: The money that a company brings in before subtracting costs to calculate profit. Also known as sales or gross income.

Share: A representation of ownership in a company. Publicly traded shares are often sold on a stock market or an exchange. A share's value may fluctuate based on the company's performance.

Shortage: A condition in which demand exceeds supply. Prices tend to go up.

Supply: The quantity of a commodity that is available to sell. Generally, a larger supply yields a lower unit price. Lower supply creates higher demand, leading to a higher unit price. (See "Demand")

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