[Glossary]

[Theories of Consumption & Investment]

Subject:	Business Economics
Course:	B.A., 4th Semester, Undergraduate
Paper No. & Title:	Paper – 401 Macroeconomics-II
Unit No. & Title:	Unit - 1 Theories of Consumption & Investment
Lecture No. & Title:	1: Theories of Consumption & Investment (Part-II)

Glossary:

Life Cycle Hypothesis: It means the consumption in any period is not the function of current income of that period but of the whole lifetime expected income.

Transitory Income: A transitory income is a temporary income that is not going to persist in future periods.

Permanent Income Hypothesis: It is this long-term expected income which is called by Milton Friedman as a permanent income on the basis of which people make their consumption plans.

Measuring permanent income: Permanent income is defined as " the steady rate of consumption a person could maintain for the rest of his life, given the present level of wealth && income now & in the future."

Marginal Efficiency of capital: The marginal efficiency of capital is the highest rate of return expected from an additional unit of a capital asset over its cost.

Residential Investment: It refers to the expenditure which people make on constructing or buying new houses for the purposes of living or renting.

Business Fixed: Business fixed investment means investment in the machines, tools and equipments that business firms purchases for the production of goods and services.

Inventory Investment: Firms hold inventories of raw materials, semi-finished goods to be processed into final goods. The firms also hold inventories of finished goods to be hold shortly. The change in the inventories or stocks of these goods with the firms is called inventory investment.

Human Capital: It refers to the return on income derived from selling household's labor services i.e. efforts and abilities of its labor.

Non- Human Wealth: It consists of tangible assets such as saved money, debentures, equity shares, real estate & consumer durables.