Full Glossary — Digital Companion

This is the complete glossary for AP Business with Personal Finance, including every key term from the print book plus terms that appear in the case studies, FRQs, and project guides. The print interior carries a "Top AP Terms" subset to keep the page count manageable; the full set lives here.

Each definition is followed by the chapter (in the print book) where the term is covered in depth. Use this glossary as a study companion: cover the definitions, quiz yourself on the terms, and then check your answers.

401(k) — An employer-sponsored retirement savings plan that allows employees to contribute a portion of their pre-tax income; many employers offer matching contributions up to a certain percentage. (Chapter 27)

50/30/20 rule — A personal budgeting guideline that allocates 50% of after-tax income to needs, 30% to wants, and 20% to savings and debt repayment. (Chapter 25)

529 plan — A tax-advantaged savings plan designed to encourage saving for future education costs, where investment earnings grow federal tax-free when used for qualified expenses. (Chapter 27)

A/B testing — A method of comparing two versions of a marketing asset, such as a webpage or email, to determine which version performs better with a target audience. (Chapter 11)

Accounting equation — The foundational equation of accounting stating that Assets = Liabilities + Owners' Equity; every business transaction must keep this equation in balance. (Chapter 20)

Assets — Resources of economic value that an individual or business owns or controls, including cash, inventory, equipment, and property. (Chapter 20)

Authority (Cialdini) — A principle of persuasion stating that people are more likely to comply with requests from individuals who demonstrate expertise or credible authority on a subject. (Chapter 10)

Barriers to entry — Obstacles that make it difficult for new competitors to enter a market, such as high startup costs, strict regulations, strong brand loyalty, or patent protections. (Chapter 2)

Bootstrap — To start and grow a business using personal savings and early revenue rather than external funding from investors or lenders. (Chapter 18)

Brand identity — The collection of visual elements, messaging, values, and personality traits that a company uses to present itself to the public and differentiate from competitors. (Chapter 12)

Break-even point — The number of units a business must sell so that total revenue exactly equals total costs, resulting in neither profit nor loss. (Chapter 17)

Budget — A financial plan that estimates income and expenses over a specific period, used by individuals and businesses to manage money and plan for goals. (Chapter 25)

Business — An organization that provides goods or services to customers in exchange for money or other forms of value. (Chapter 1)

Business plan — A formal written document that outlines a company's goals, strategies, target market, financial projections, and operational structure. (Chapter 18)

Capital gains — The profit earned when an asset such as a stock, bond, or property is sold for more than its original purchase price. (Chapter 27)

Cash flow statement — A financial document that tracks the inflows and outflows of cash within a business over a specific period, organized into operating, investing, and financing activities. (Chapter 21)

CD (certificate of deposit) — A savings product offered by banks that pays a fixed interest rate for a specified term, typically offering higher rates than regular savings accounts in exchange for locking up funds. (Chapter 15)

COGS (cost of goods sold) — The direct costs attributable to producing the goods a company sells, including raw materials and direct labor. (Chapter 19)

Competitive advantage — A condition or capability that allows a company to outperform its rivals, such as lower costs, superior technology, or a stronger brand. (Chapter 2)

Competitive pricing — A pricing strategy in which a business sets its prices based primarily on what competitors charge for similar products or services. (Chapter 13)

Consensus (Cialdini) — A principle of persuasion, also called social proof, stating that people tend to follow the actions and choices of others, especially in uncertain situations. (Chapter 10)

Consistency (Cialdini) — A principle of persuasion stating that once people commit to something, they are more likely to follow through in order to appear consistent with their prior actions or statements. (Chapter 10)

Consumer — A person who purchases and uses goods or services to satisfy personal needs or wants. (Chapter 1)

Consumer protection laws — Government regulations designed to safeguard buyers from unfair business practices, unsafe products, and deceptive advertising. (Chapter 3)

Core competencies — The unique strengths and capabilities that give a business a competitive advantage and are difficult for competitors to replicate. (Chapter 22)

Core values — The fundamental beliefs and guiding principles that shape a company's culture, decision-making, and behavior. (Chapter 5)

Corporation — A legal business structure in which the entity is separate from its owners, providing limited liability protection to shareholders. (Chapter 7)

Cost-based pricing — A pricing strategy that sets the selling price by adding a fixed markup to the total cost of producing a product or delivering a service. (Chapter 13)

Credit bureau — An agency that collects and maintains credit information on individuals, then provides credit reports to lenders to help them assess borrower risk. (Chapter 16)

Credit score — A numerical rating, typically ranging from 300 to 850, that represents an individual's creditworthiness based on their credit history. (Chapter 16)

Customer — A person or organization that purchases goods or services from a business; a customer may or may not be the end consumer. (Chapter 1)

Customer acquisition cost (CAC) — The total cost of marketing and sales efforts divided by the number of new customers gained, representing the average expense of acquiring one customer. (Chapter 9)

Customer lifetime value (CLV) — The estimated total revenue a business can expect from a single customer account over the entire duration of their relationship. (Chapter 9)

Default risk — The probability that a borrower will fail to meet the required payments on a debt obligation, such as a loan or bond. (Chapter 16)

Demographics — Statistical characteristics of a population, such as age, gender, income, education level, and geographic location, used to identify and describe market segments. (Chapter 9)

Design thinking — A human-centered problem-solving approach that follows stages of empathize, define, ideate, prototype, and test to develop innovative solutions. (Chapter 4)

Direct costs — Costs that can be traced directly to the production of a specific product or service, such as raw materials and production labor. (Chapter 17)

Diversification — An investment strategy that spreads money across different asset types, industries, or geographic regions to reduce overall risk. (Chapter 27)

Dividends — Payments made by a corporation to its shareholders, typically from profits, as a return on their investment. (Chapter 27)

Elastic demand — A market condition in which a change in price leads to a proportionally larger change in the quantity demanded by consumers. (Chapter 13)

Emergency fund — A reserve of liquid savings, typically three to six months of living expenses, set aside to cover unexpected financial events. (Chapter 15)

Entrepreneur — An individual who identifies an opportunity, assumes the financial risk, and starts a new business venture. (Chapter 4)

Equity financing — Raising capital by selling ownership shares in a business to investors, who then share in the profits and losses. (Chapter 18)

Ethical dilemma — A situation in which a person or business must choose between two or more courses of action, each of which has moral implications and no clearly right answer. (Chapter 6)

FICA (Federal Insurance Contributions Act) — The U.S. payroll tax withheld from every paycheck to fund Social Security (6.2% of wages, paid by both employee and employer) and Medicare (1.45%). It appears as its own line on the pay stub, separate from federal income tax. (Chapter 25)

GAAP (Generally Accepted Accounting Principles) — A set of standardized accounting rules and guidelines used in the United States to ensure financial statements are consistent, comparable, and transparent. (Chapter 17)

Gross income — The total amount of money earned before any deductions, taxes, or withholdings are subtracted. (Chapter 25)

Gross profit — Revenue minus the cost of goods sold; the profit remaining after covering direct production costs but before subtracting operating expenses. (Chapter 19)

Gross profit margin — Gross profit expressed as a percentage of revenue, indicating how efficiently a company produces its goods relative to its revenue. (Chapter 19)

HSA (Health Savings Account) — A tax-advantaged savings account available to individuals enrolled in high-deductible health plans, used to pay for qualified medical expenses. (Chapter 15)

Hypothesis — A testable prediction about the outcome of a business experiment or research question, formed on the basis of preliminary evidence. (Chapter 11)

Income statement — A financial document, also called a profit and loss statement, that summarizes a company's revenues, expenses, and profits over a specific period. (Chapter 19)

Index fund — A type of mutual fund or exchange-traded fund designed to replicate the performance of a specific market index, such as the S&P 500, by holding the same stocks in the same proportions. (Chapter 27)

Indirect costs — Costs that support overall business operations but cannot be traced directly to a single product or service, such as rent, utilities, and administrative salaries. (Chapter 17)

Inelastic demand — A market condition in which a change in price leads to a proportionally smaller change in the quantity demanded, often seen with necessities. (Chapter 13)

Inflation — The rate at which the general level of prices for goods and services rises over time, reducing the purchasing power of money. (Chapter 15)

Insurance premium — The amount of money an individual or business pays, typically monthly or annually, to an insurance company in exchange for coverage against specified risks. (Chapter 26)

Interest rate — The percentage charged by a lender on borrowed money, or the percentage earned on deposited or invested funds, usually expressed as an annual figure. (Chapter 16)

KPI (Key Performance Indicator) — A measurable value that demonstrates how effectively a company or individual is achieving key business objectives. (Chapter 22)

Leadership styles — The various approaches leaders use to motivate, direct, and manage their teams, including autocratic, democratic, laissez-faire, transformational, and servant leadership. (Chapter 22)

Liabilities — Financial obligations or debts that a business or individual owes to others, such as loans, accounts payable, and mortgages. (Chapter 20)

Liking (Cialdini) — A principle of persuasion stating that people are more likely to say yes to individuals and brands they find attractive, relatable, or similar to themselves. (Chapter 10)

LLC (Limited Liability Company) — A business structure that combines the limited liability protection of a corporation with the tax flexibility and operational simplicity of a partnership. (Chapter 7)

Loan — A sum of money borrowed from a lender that must be repaid, usually with interest, over an agreed-upon period. (Chapter 16)

Marginal tax rate — The percentage of tax applied to the last dollar of income earned, determined by the income tax bracket into which that dollar falls. (Chapter 25)

Market — The environment in which buyers and sellers interact to exchange goods, services, or information. (Chapter 2)

Market research — The systematic process of gathering, analyzing, and interpreting data about a target market, customers, and competitors to inform business decisions. (Chapter 11)

Market segmentation — The practice of dividing a broad market into smaller, more defined subgroups of consumers who share similar characteristics, needs, or behaviors. (Chapter 9)

Marketing — The set of activities a business undertakes to promote, sell, and distribute its products or services to a target audience. (Chapter 9)

Marketing campaign — A coordinated series of promotional activities built around a single message or goal, delivered through one or more channels over a defined time period. (Chapter 14)

Marketing channel — A medium or platform used to communicate a marketing message to consumers, such as social media, email, television, or print. (Chapter 14)

Mission statement — A concise declaration of a company's core purpose, describing what the organization does, whom it serves, and how it creates value. (Chapter 5)

Money market account — A type of deposit account offered by banks and credit unions that typically pays a higher interest rate than a standard savings account and may come with limited check-writing privileges. (Chapter 15)

Monopoly — A market structure in which a single seller controls the entire supply of a product or service, with no close substitutes available to consumers. (Chapter 2)

Mortgage — A loan used to purchase real estate, in which the property itself serves as collateral; the borrower repays the loan with interest over a set term, often 15 or 30 years. (Chapter 16)

Mutual fund — An investment vehicle that pools money from many investors to purchase a diversified portfolio of stocks, bonds, or other securities, managed by a professional fund manager. (Chapter 27)

MVP (Minimum Viable Product) — The simplest version of a product that includes just enough features to attract early adopters and gather feedback for future development. (Chapter 4)

Net income — The amount of money remaining after all deductions, expenses, and taxes have been subtracted from gross income; also called take-home pay in a personal finance context. (Chapter 25)

Net income (business) — A company's total earnings after all expenses, including taxes, interest, and operating expenses, have been deducted from revenue; also called the bottom line or net profit. (Chapter 19)

Net profit margin — Net income expressed as a percentage of revenue, representing the share of each dollar of revenue that translates into profit. (Chapter 19)

Net worth — The difference between total assets and total liabilities for an individual or business, representing overall financial position at a point in time. (Chapter 20)

Nonprofit — An organization that operates for a purpose other than generating profit for owners or shareholders, reinvesting any surplus revenue into its mission. (Chapter 5)

Operating expenses — The recurring charges of running a business that are not directly tied to production, such as rent, utilities, salaries, and office supplies. (Chapter 19)

Operating profit — Gross profit minus operating expenses; the profit earned from core business operations before accounting for interest and taxes. (Chapter 19)

Operating profit margin — Operating profit expressed as a percentage of revenue, indicating how well a company controls its operating expenses. (Chapter 19)

Owners' equity — The residual interest in the assets of a business after all liabilities have been deducted; it represents the owners' claim on the company's resources. (Chapter 20)

PACED model — The deliberative decision-making process named in the AP framework: define the Problem, develop Alternatives, establish decision-making Criteria, Evaluate the alternatives against those criteria, and Decide on the best course of action. The expected structure for the Business Decision FRQ. (Chapter 23)

Partnership — A business structure in which two or more individuals share ownership, responsibilities, profits, and liabilities. (Chapter 7)

Penetration pricing — A strategy of setting an initially low price to attract customers quickly and gain market share, with plans to raise the price later. (Chapter 13)

Percentage change — A mathematical calculation that expresses the difference between a new value and an old value as a percentage of the old value. (Chapter 19)

PESTEL analysis — A strategic framework that examines Political, Economic, Social, Technological, Environmental, and Legal factors in the external environment that may affect a business. (Chapter 3)

Porter's Five Forces — A framework developed by Michael Porter for analyzing the competitive intensity and attractiveness of an industry, examining the threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitutes, and rivalry among existing competitors. (Chapter 24)

Price collusion — An illegal agreement between competing businesses to fix prices at a certain level, eliminating fair competition and harming consumers. (Chapter 13)

Price elasticity — A measure of how sensitive consumer demand for a product is to changes in its price, calculated as the percentage change in quantity demanded divided by the percentage change in price. (Chapter 13)

Price gouging — The practice of raising prices on essential goods or services to an unreasonably high level, typically during emergencies or disasters; illegal in many jurisdictions. (Chapter 13)

Pricing strategy — The method a business uses to set the price of its products or services, considering factors such as costs, competition, customer perception, and market conditions. (Chapter 13)

Product development — The complete process of bringing a new product from initial concept through design, testing, and market launch. (Chapter 12)

Product life cycle — The stages a product passes through from its introduction to the market to its eventual decline, typically described as introduction, growth, maturity, and decline. (Chapter 12)

Product-market fit — The degree to which a product satisfies strong market demand, evidenced by customers actively seeking, purchasing, and recommending the product. (Chapter 12)

Promotional mix — The combination of advertising, public relations, personal selling, sales promotion, and direct marketing that a business uses to communicate with its target audience. (Chapter 14)

Psychographics — The study of consumers based on psychological attributes such as values, attitudes, interests, lifestyles, and personality traits, used to create more nuanced market segments. (Chapter 9)

Qualitative research — Research methods that gather non-numerical data, such as interviews, focus groups, and open-ended surveys, to explore opinions, motivations, and experiences in depth. (Chapter 11)

Quantitative research — Research methods that collect numerical data through tools like structured surveys, experiments, and analytics to identify patterns and measure variables statistically. (Chapter 11)

Rate of return — The percentage gain or loss on an investment over a specified period, calculated by dividing the net gain by the original investment cost. (Chapter 27)

Reciprocity (Cialdini) — A principle of persuasion stating that people feel obligated to return favors, gifts, or concessions they have received from others. (Chapter 10)

Revenue — The total amount of money a business earns from selling its goods or services before any expenses are subtracted; also called the top line. (Chapter 19)

Risk tolerance — An individual's or organization's willingness and ability to endure potential financial losses in pursuit of higher returns. (Chapter 26)

ROI (Return on Investment) — A performance measure that evaluates the efficiency of an investment by comparing the gain or loss to the original cost, expressed as a percentage. (Chapter 22)

Roth IRA — An individual retirement account to which after-tax dollars are contributed; qualified withdrawals in retirement, including investment earnings, are tax-free. (Chapter 27)

Rule of 72 — A mental-math shortcut for estimating how long it takes an investment to double: divide 72 by the annual interest rate to get the approximate number of years. (Chapter 15)

Sarbanes-Oxley Act — A federal law enacted in 2002 that established strict financial reporting and auditing requirements for publicly traded companies to protect investors from fraudulent accounting. (Chapter 21)

Savings account — A deposit account at a bank or credit union that earns interest on the balance and provides easy access to funds, typically used for short-term saving goals and emergency reserves. (Chapter 15)

Scarcity (Cialdini) — A principle of persuasion stating that people place higher value on items or opportunities that are limited in availability. (Chapter 10)

SMART goals — A goal-setting framework requiring objectives to be Specific, Measurable, Achievable, Relevant, and Time-bound. (Chapter 22)

Social enterprise — A business that prioritizes a social or environmental mission alongside financial sustainability, using market-based strategies to achieve its impact goals. (Chapter 5)

Sole proprietorship — A business structure owned and operated by a single individual, with no legal distinction between the owner and the business. (Chapter 7)

Stakeholder — Any individual, group, or organization that has an interest in or is affected by the actions and outcomes of a business, including employees, customers, investors, suppliers, and the community. (Chapter 6)

Strategic planning — The process of defining a company's long-term direction and making decisions about how to allocate resources to pursue that direction. (Chapter 23)

Supply chain — The entire network of organizations, resources, activities, and technology involved in creating and delivering a product from raw materials to the end consumer. (Chapter 8)

SWOT analysis — A strategic planning tool that evaluates a business's internal Strengths and Weaknesses alongside external Opportunities and Threats. (Chapter 24)

Target customers — The specific group of people or organizations a business aims to reach with its products, services, and marketing efforts, identified through research and segmentation. (Chapter 9)

Trademark — A legally registered symbol, word, phrase, or design that identifies and distinguishes a company's goods or services from those of others. (Chapter 12)

Traditional IRA — An individual retirement account to which pre-tax dollars are contributed, reducing taxable income in the contribution year; withdrawals in retirement are taxed as ordinary income. (Chapter 27)

Unity (Cialdini) — A principle of persuasion stating that people are more easily influenced by those with whom they share a sense of identity or belonging, such as family, community, or culture. (Chapter 10)

Value — The perceived benefit a customer receives from a product or service relative to its cost. (Chapter 1)

Value capture — The portion of total value created that a business retains as profit, determined by pricing strategies and cost management. (Chapter 1)

Value creation — The process of producing goods or services that customers find useful and are willing to pay for, generating worth that did not previously exist. (Chapter 1)

Value proposition — A clear statement that explains how a product or service solves a customer's problem, delivers specific benefits, and differentiates from competitors. (Chapter 12)

Value-based pricing — A pricing strategy that sets the price primarily according to the perceived value to the customer rather than the cost of production or competitor prices. (Chapter 13)

Variable expenses — Expenses that fluctuate based on production volume or personal spending choices, such as raw materials for a business or entertainment for an individual. (Chapter 17)

Vision statement — A forward-looking declaration that describes what an organization aspires to become or achieve in the long term. (Chapter 5)

Voluntary exchange — A transaction in which both the buyer and seller freely choose to participate because each believes they will benefit from the trade. (Chapter 2)