



Common Economic Terms

Understanding economic terms as they relate to coastal management can help with decision-making. This list of working definitions for non-economists is broken down into six categories:

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Basic Concepts

Annualized costs and benefits: The present value (PV) of an anticipated stream of costs and benefits is annualized to determine the average cost or benefit per year over a given time frame.

Co-benefit: The beneficial outcomes from an action that are not directly related to the initial action taken. Co-benefit is another way to refer to ecosystem goods and services, or, positive environmental externalities.

Coastal economy: All of the economic activities taking place in coastal shoreline areas.

Direct economic impacts: The change resulting from the initial effects of a specific economic activity in a specific geography, such as the jobs, wages, and gross domestic product added to the local economy.

Direct impact: The change in economic activity resulting from the initial round of inputs purchased by the final-demand industry.

Earnings: The compensation to employees plus the net earnings of sole proprietors and partnerships.

Expected damages (ED): The average value of expected losses, calculated by summing the product of estimated losses under different scenarios by the probability of those scenarios occurring.

Externality: A positive (benefit) or negative (cost) impact (e.g., side effects) of an action incurred by unrelated third parties that is not captured in the final market price for a given good or service.

Final-demand change: The change in the purchases of goods or services by final users.

Final-demand multipliers: The ratios of a total change in economic activity to a dollar or million dollar change in final demand. These multipliers can be used to estimate total changes in output, value added, earnings, and employment.

Indirect or secondary economic impacts: The spillover effects of a specific economic activity to other activities.

Induced economic impacts: The household spending of income earned directly or indirectly as a result of a specific activity.

Inputs: The intermediate additions and labor used by an industry to produce output.

Marine economy: The businesses and jobs directly dependent on ocean and Great Lakes resources. According to NOAA's definition, the U.S. marine economy includes six ocean sectors.

Marginal benefit: The benefit added from producing one additional unit.

Marginal cost: The cost added from producing one additional unit.

Market values: The economic values based on data derived from market transactions (e.g., prices and quantities of items that are bought and sold).

Net present value (NPV): The present value, in today's dollars, of benefits minus costs.

Nonmarket values: The value of goods and services that are not bought or sold in normal market transactions but have economic value nonetheless (e.g., a good day at the beach). A number of methods have been developed for estimating non-market values.

Present value (PV): The current value of future costs or benefits. The PV discounts costs and benefits in future years using a specified discount rate and aggregates the costs and/or benefits across years.

Time horizon: The relevant period over which benefits or costs are incurred for a project of interest, often corresponding to the life of the project.

Value added: Total value of income generated from production. This income consists of payments to labor (compensation of employees), payments to government (taxes on production and imports), and returns on investment (gross operating surplus). It is equivalent to gross domestic product (GDP).

Marine Economy Sectors

Living resources sector: Sector that includes commercial fishing, fish hatcheries, aquaculture, seafood processing, and seafood markets; recreational fishing is excluded (included in tourism and recreation).

Marine construction sector: Sector that includes beach nourishment and harbor dredging.

Marine transportation sector: Sector that includes deep-sea freight, marine passenger transportation (excluding charter boat fishing, which is included in tourism and recreation), pipeline transportation, marine transportation services, search and navigation equipment, and warehousing.

Offshore mineral resources sector: Sector that includes oil and gas exploration and production, and sand and gravel mining.

Ship and boat building sector: Sector that includes ship and boat building and repairs.

Tourism and recreation sector: Sector that includes eating and drinking establishments, hotels, marinas, boat dealers, campsites and RV parks, scenic water tours, manufacture of sporting goods, amusement and recreation services, recreational fishing, charter boats, zoos, and aquariums.

Economic Datasets

North American Industrial Classification System (NAICS): A hierarchical classification system to group business activities according to their similarity in the processes used to produce goods or services. Most of the economic datasets produced by agencies in North America are classified by the NAICS standard, which allows consistent comparison among them. Most of the industries have at least one associated NAICS code at the 6-digit level.

Economics: National Ocean Watch (ENOW): An annual time-series data set produced by NOAA to measure the contribution of the U.S. ocean and Great Lakes economy. It describes six economic sectors for 400 coastal counties, 30 coastal states, 8 regions, and the nation from 2005 onward.

Economics: National Ocean Watch (ENOW) Framework: A definition of the marine economy pulls out, from the entire universe of economic activities, only the activities that are directly dependent on the ocean and Great Lakes. The framework covers 47 industries among all the 6-digit NAICS industries. All of the industries are further aggregated and organized into six marine sectors.

Quarterly Census of Employment and Wages (QCEW): A comprehensive tabulation produced by the Bureau of Labor Statistics that provides employment and wage information for workers covered by state unemployment insurance laws and for federal workers covered by the Unemployment Compensation for Federal Employees program, covering approximately 90 percent of U.S. businesses.

Gross Domestic Product (GDP) by State: State-level data produced by the Bureau of Economic Analysis (BEA), which is one of the most comprehensive and closely watched economic statistics. It measures the size and composition of the U.S. economy based on the market value of all final goods and services produced during a year by resources that are located in the United States. Data are published in both real (adjusted for inflation) and current (not adjusted) dollars.

Nonemployer Statistics (NES): An annual series produced by the Census Bureau that provides subnational economic data for businesses that have no paid employees and are subject to federal income tax. The data consist of the number of businesses and total receipts by industry.

Zip Code Business Patterns (ZBP): A data set produced by the Bureau of the Census that presents business data summarized for nine employment-size classes by hundreds of NAICS codes and about 40,000 ZIP codes nationwide.

Economic Indicators

Employment: The number of people paid a wage by an employer for the work that they perform, including part-time and seasonal workers. Employment statistics do not include self-employed workers.

Establishments: An individual place of business (e.g., a store, warehouse, factory, or other type of business at a single physical location).

Firms (or companies): One or more establishments under common ownership or control. A single firm may have multiple places with business establishments.

Gross domestic product (GDP): The final value of all the goods and services produced in a country in one year. GDP is often broken down to show the value that different economic activities or different places (individual states, for example) add to the national economy. For example, the GDP data in Economic National Ocean Watch (ENOW) are based on the GDP by State statistics produced by the Bureau of Economic Analysis (BEA).

Gross output: The total market value of industry output (sales). Gross output equals intermediate inputs plus value added. Gross output is not the same as gross domestic product (GDP), which only includes value added.

Gross receipts: All revenues received by a business. For example, self-employed workers derive their income from gross receipts after payment of taxes and other costs of doing business.

Jobs: The approximate totals of both employed and self-employed workers, including full-time, part-time, seasonal, and multiple jobholders.

Real Gross Domestic Product (RGDP): A measure of gross domestic product (GDP) that is adjusted to remove the effects of inflation in order to provide a better indication of the real increase or decrease in the level of economic activity over time. See *Gross domestic product*.

Revenue: Income generated from normal business operations. Equivalent to total output.

Return on Investment (ROI): The anticipated net gain from a project estimated by subtracting the project's cost from the project's direct financial gain (the benefits), then dividing by the project's cost. Since this value is represented as a percentage, multiply the previous number by 100.

Self-employed workers (or nonemployers): Persons operating businesses with no paid employees. These businesses account for three-quarters of the businesses in the U.S., but only support about 5 percent of the total employed workers in the nation.

Statistical suppression: The non-disclosure of some values by law to protect the confidentiality of one or more businesses. Values suppressed are usually labeled as “suppressed,” “ND (Not Disclosable),” or “-9999” in different statistics, although most of the time they can be reflected in higher level totals.

Type II multipliers: Multipliers that account for both the interindustry effects (direct and indirect) and household-spending effects (induced) of a final-demand change.

Wages: The annual compensation that employees were paid by employers.

Commercial Fishing Statistics

Fishermen or captain: Represents a licensed individual involved with harvesting fish or shellfish. The fishermen are usually self-employed.

Commercial dealers: Any person or entity other than the final consumer, who purchases, ships, consigns, transfers, transports, barter, accepts (maintains), or packs any marine fishery products received from marine resource harvesters or marine aquaculturists. Any marine fishery products landed in any state must be reported by a dealer or a marine resource harvester acting as dealer in that state. Any marine resource harvester or aquaculturist who sells, consigns, transfers, or barter marine fishery products to anyone other than a dealer would himself be acting as a dealer and would therefore be responsible for reporting as a dealer. This definition is provided for purposes of statistical gathering only.

Unique identifier for commercial fisheries: Although a fisherman may have multiple licenses across several fisheries, each fisherman has a unique identifier for statistical and reporting purposes. Reporting of the unique identifier is required of both commercial fishermen and dealer on all submitted reports.

Economic Approaches

Benefit-cost analysis (BCA): An economic decision-making analysis approach that allows one to compare a project's costs and benefits. The outputs of such analysis include net present value, benefit-cost ratio, and return on investment that can be used to inform a project development decision and compare different possible project alternatives. Often referred to as cost-benefit analysis. [Benefit-Cost Analysis guidance document](#).

Benefit transfer: A methodology to estimate the values of ecosystem benefits (goods and services) in a location or context of interest when values are not available from an original study by applying data and values from studies in a different but similar location(s) or context(s). [Benefit Transfer guidance document](#).

Benefits Valuation: An economic approach focused on estimation of benefits and does not involve consideration of costs. [Benefits Valuation guidance document](#).

Contingent valuation (CV): Methodology that values non-market resources through a survey that asks how much money people are willing to pay for an environmental feature or service.

Cost-effectiveness analysis (CEA): Analysis that requires monetization of the costs associated with various approaches to achieve the same benefit or outcome. [Cost-Effectiveness Analysis guidance document](#).

Damages avoided: The ameliorating benefits of a natural habitat measured by using either the value of property protected or the cost of actions taken to avoid damages (i.e., storm surge, flooding, etc.) as a measure of the benefits provided by an ecosystem. [Avoided Damages Avoided Guidance Document](#).

Discounting: A process to calculate the current (present day) value of a cost or benefit incurred in the future. A dollar today is worth more than in the future because 1) it has the capacity to earn interest, 2) inflation devalues the purchasing power of the dollar over time, and 3) the future holds uncertainty. Future values are discounted to determine how much they are worth today. [Discount Rate guidance document](#).

Economic impact analysis: Method used to estimate how increased spending or employment flows through the economy of a defined geographic area and to measure the direct, indirect, and induced impacts. (See *input-output analysis*.) [Input-Output Analysis guidance document](#).

Hedonic valuation: Sometimes referred to as hedonic pricing or hedonic regression, hedonic valuation is a valuation method that estimates how the price of an item varies according to its characteristics. In environmental economics, this is most often applied to using housing market transaction data to tease out value estimates for nearby co-benefits or amenities. [Hedonic Valuation guidance document.](#)

Indirect impact: The change in economic activity resulting from the subsequent rounds of inputs purchased by industries affected by a final-demand change.

Induced impact: The change in economic activity resulting from the changes in spending by workers whose earnings are affected by a final-demand change.

Input-output analysis: Method used to estimate how increased spending or employment flows through the economy of a defined geographic area and to measure the direct, indirect, and induced impacts. (See *input-output analysis*.) (See *economic impact analysis*.) [Input-Output Analysis guidance document.](#)

Literature review: Generally defined as a systematic review of the scholarly literature as it relates to your particular study. Depending on the purpose of the study, there are many types of literature reviews. [Surveys, Interviews, and Literature Reviews guidance document.](#)

Market price: The current price at which an item or service can be purchased or sold. This price is determined by the forces of supply and demand. For commodities bought and sold in a market, there is an established market price that can be used to monetize a benefit. Generally, ecosystem services do not have market prices; however, with certain assumptions, market prices can be applied.

Monetize: The process by which benefits or co-benefits are assigned a dollar value. Generally, an ecosystem service (e.g., mangroves providing carbon sinks resulting in reduced carbon emissions) is assigned a per unit value based on a variety of economic methods (e.g., benefit transfer or willingness to pay).

Opportunity cost: The cost associated with the foregone next-best alternative. Opportunity cost is often applied to monetization of time spent. Estimates are typically based on the salary a person would receive if they were otherwise spending that time earning a salary working. [Travel Cost and Opportunity Cost guidance document.](#)

Regional economic accounting: A methodology that uses economic indicators such as number of businesses (establishments), employees, gross domestic product (GDP), and other economic metrics for a particular geographic region.

Replacement cost: The amount of money a business must spend to replace an essential asset such as a real estate property, an investment security, a lien, or another item with one of the same or higher value. [Replacement Cost guidance document.](#)

Stated preference (SP): A suite of methodologies employed to estimate the value of non-market resources. Specific stated preference methods include contingent valuation (CV), choice modeling (CM)/ choice experiments (CE), contingent ranking, and other variations. [Willingness to Pay \(Stated Preference\) guidance document.](#)

Survey: Data-gathering tools that present various open-ended or quantitative questions on a particular topic and sent to a population to gauge general or specific information such as general demographics, attitudes, opinions, preferences, and even economic information. Surveys help assess the “what is” or how features or elements are distributed across a population or phenomenon. [Surveys, Interviews, and Literature Reviews guidance document.](#)

Travel cost: A revealed preference method of economic valuation used when the resource being valued is a physical location that requires time and/or money to visit. A natural recreational area is worth *at least* as much as the various costs incurred by visitors to recreate there, from lodging to flying expenses to entrance fees and so on; carefully summing all the expenses incurred to visit a given site across a given population offers a conservative estimate for that site’s recreational value. [Travel Cost and Opportunity Cost guidance document.](#)

Value chain: A conceptual tool used to illustrate how a project or service leads to a change that leads to a benefit.

Willingness to pay (WTP): In general, the maximum price at which a consumer will buy one unit of a product. In environmental economics, willingness to pay is the price (often hypothetical) that someone is willing to pay to protect a resource. For example, the price a resident is willing to pay to conserve or restore an acre of local wetland. Willingness to pay values are often derived from survey responses but can also be calculated based on observed actions. [Willingness to Pay guidance document.](#)