

# Understanding of economic terms

A Full Fact research briefing



“While 36% of respondents never or rarely pay attention to economics stories in the media, more than four out of five (83%) think that economics is relevant to their everyday lives.” That was the finding of a [survey](#) of British adults commissioned by ING and the University of Bristol’s Economics Network.

This briefing explores the quantitative and qualitative evidence we have on understanding of economic terms, finding that routine economic terms like “GDP” and “inflation” are poorly understood by most of us.

We appear to have a better understanding of debt and deficit—at least when asked to identify the right definition for each—but we’re less good at understanding the nuance of how the deficit impacts on debt.

Even talking about the “economy” might be putting off many of us, [qualitative research by the economics communication charity Economy](#) suggests, since it can often be viewed as something vast and distant.

This review suggests factcheckers and other information providers need to be cautious about using these terms prominently in our communications (such as in headlines), and ensure where we do use them we are clearly defining them. Otherwise we risk appealing only to a small minority, or even contributing to public misunderstanding.

## “GDP”

GDP is one of the least understood terms covered in this briefing.

About 10% of Brits feel “very confident” defining “GDP”, according to a 2011 BBC survey reported by Mark Thompson, former Director-General of the BBC.<sup>1</sup> A further 29% were “fairly” confident.

When given a range of options to complete the sentence “*Gross domestic product (GDP) is a measure of total value of all....*”, about 39% could select the right definition—“*final goods and services produced in an economy over a period of time*”, according to a [2015 YouGov/Post Crash Economics Society survey](#). The second most popular choice was “don’t know”, selected by a quarter of respondents.

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<sup>1</sup> Referenced in Mark Thompson, 2016. *Enough Said: What’s gone wrong with the language of politics?* (Penguin: London), p. 16. The BBC shared a copy of the poll results with us.

## “Inflation”

The same 2011 BBC survey found about 16% of Brits felt very confident defining “inflation”. A further 45% felt fairly confident.

The UK’s Bank of England does a [quarterly survey](#) assessing public attitudes to inflation and understanding of the Bank’s work. One of the questions it asks is how have prices changed over the last 12 months—with the options given ranging from “gone down”, “not changed”, “up by 1% or less”, “up by 1% but less than 2%”, and so on up until “up by 5% or more” or “no idea”.

In August 2018, about 35% of us could identify the correct percentage point range of inflation based on either the rate of the [consumer prices index](#) known at the time (2.3% in June 2018, based on CPIH) or the [retail prices index](#) (3.4% in June 2018).

We might not expect most people to get it that close, but there’s a significant proportion of us who either say we have no idea or who think prices have changed by at least 4%. 18% answered “no idea”, and it’s stayed around that rate since two years ago. Nearly a quarter of us (24%) think it has gone up by at least 4%.

The options given may also affect respondents’ answers since they suggest that the likely answer is within 5%. It would be interesting to see what the responses were if a much larger range was given.

## “Deflation”

So, are we any better on deflation? We don’t know if the BBC asked a comparable question about deflation in its 2011 survey, so we can’t compare it to understanding on inflation.

When given a range of options to describe inflation, the [YouGov poll in 2015](#) found nearly half of Brits (49%) could select the right definition of deflation (“A fall in the average price of goods and services in the economy”). The second most popular option was “a fall in the value of the currency compared to other currencies”, selected by 21%. 16% selected “don’t know”.

## “Debt” and “deficit”

If we’re given definitions of both debt and deficit and asked to identify the right definition for each, we’re pretty good at selecting those definitions.

An [Ipsos MORI/Royal Statistical Society poll in 2013](#) asked respondents to choose definitions for debt and deficit from: “the difference between what government spends and the income it receives each year”; “the total amount of money that the government owes”; “both mean the same” and “don’t know”. 82% could accurately select that the first refers to deficit and the second to debt.

8% selected “don’t know” for each, and 7% selected “both mean the same”.

We're not quite as good when asked about the deficit alone. When offered a range of definitions just for the "government budget deficit" in the 2015 YouGov survey, about 57% selected the right answer (*"The amount by which government expenditure exceeds revenue"*). The next most common answer, selected by 22%, was *"The total amount of debt that a government owes to creditors"*.

And we're less good at understanding the nuances of what changes in the level of the deficit mean for the level of national debt. When asked in the 2013 survey if it was true or false that *"The national debt will always go down if the deficit is decreasing"*, more of us struggle. 52% accurately selected that it was false. A further 28% said it was true and 20% said they didn't know.

### **"Quantitative easing"**

The least understood term in the 2015 YouGov survey was "Quantitative Easing". About 30% could select the right definition—*"The Central Bank creating new money electronically to buy certain financial assets such as government bonds"*.

41% of us opted for "don't know", including 20% who said they had heard of it but couldn't define it.

### **"The economy"**

Finally we turn to "the economy"—a word we might not consider to be an economic term but one that we might as well treat as such given how individuals feel about the word.

The charity [Economy](#) conducted interviews with 35 people across the UK from a range of ages and backgrounds, who all had a sense of disengagement from economics communication. The common theme they found was a lack of clarity around what the economy actually is, how it works, and a feeling that it's too complicated to understand.

They summarise: "The economy feels vast and distant to many; our 'personal' economy is more connected. Few ever use the word 'economics'."

For young people in particular, they said the main thing that came to mind when talking about the economy was 'money'. Or for people who had spent longer being financially independent, 'the economy' to them just meant their own financial situation.

When asked about what exactly they felt the economy was, the most common answers were to describe the economy either as an amount e.g. 'the amount of money we have as a country' or a relative status of ability, health and worth e.g. 'how we're doing'.

### **Demographic differences**

Our demographics make a difference to how much we know as well—which suggests using these terms without definition will be especially alienating to certain people.

With all the terms asked about in the 2015 YouGov survey, men were more likely to get the answer right than women. There was also a gap by social grade. For example with GDP and the budget deficit, the proportion of those from higher socio-economic backgrounds who selected the right definition was at least 13 percentage points higher than the proportion of those from lower socio-economic backgrounds.

[Analysis by Economy](#) found that social grade significantly affects our rating of our ability to engage too. They found those from lower socio-economic backgrounds were twice as likely as those from higher socio-economic backgrounds to state they do not at all feel able to engage in conversations about the economy to the level they would like to.

Economy also identifies women, young adults and ethnic minorities as individuals who consistently rate themselves lower in understanding and confidence in relation to financial literacy.

### **Views on information about the economy in the news**

Given that lots of us do not feel confident about general economic terms, how do we feel about information we come across about the economy?

A minority of us feel that information about the economy is presented in a trustworthy way.

In a [2016 YouGov poll](#) with Economy, only 20% strongly agreed that when they hear the economy discussed in the media, or by politicians or economists, they feel this information is reliable and trustworthy. Asked to answer on a scale of 0 “not at all” to 10 “completely”, the average score was 4.4 out of 10.

There was higher agreement for whether respondents felt they “understand what is being said” when the economy is discussed, with 51% strongly agreeing (with a score of 7 or more). People gave a score of on average 6.4 out of 10.

[Another poll](#) by YouGov and Economy during the 2017 UK general election shows similarly low levels of support for the way that information about the economy is being communicated.

A quarter of respondents agreed that information about the economy is communicated in the media in a trustworthy and honest way during election time. 64% disagreed, answering “not much” or “not at all”.

Only 34% agreed that this information helped them “*feel informed about the impact economic stories might have on you personally*”, while 54% disagreed.

34% also agreed they “*feel the information is useful enough to help you make an informed voting choice*”, while 55% disagreed.

None of this tells us whether communication about economic issues is worse than perceptions about the way information is communicated in the media in general. For a very rough comparison, in [research by the Reuters Institute](#) this year, about 42% of UK adults agreed that “I think you can trust most news most of the time”.

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**Written by Amy Sippitt**

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