P-Glossary

Equity

Equity is the amount that shareholders own in a publicly listed company. Equity is the risk-bearing part of the company's capital. Equity has a lower priority against debt capital (i.e., loans, bonds) when a company becomes insolvent and its assets are distributed.

Equity also has another connotation when used with the word "efficiency." Typically, society makes trade-offs between efficiency and equity. When government polices are being designed, these two goals conflict. If the society aims to maximize its scarce resources (i.e., efficiency), it will conflict with equity. Equity, in this context, means that the benefits of the resources are distributed fairly and evenly among society's members. Efficiency refers to the size of the economic pie, while equity refers to how the pie is divided.