Chapter 15

**REVIEW CONCEPTS**

Agency Costs: Costs incurred by a principal (a person or organization that asks for the assistance of others) because the agent (helper) might have interests in the task that differ from the principal’s interests. Agency costs include the opportunity costs of monitoring, providing incentives, and suffering the consequences of remaining agency costs.

Counterfactual: What would happen if a policy or program is not implemented, a scenario constructed to compare with what will happen.

Cross-subsidization: The use of profits from one activity to subsidize the costs of another activity.

Differencing Tests: Used to determine whether the right amount is spent on fund-raising. It is the ratio of historic changes in donations divided by changes in fund-raising expenditures. Net donations are maximized when the ratio equals one; more should be spent if it is greater than one, and less should be spent if the ratio is less than one. A second differencing test is used to decide whether fund-raising expenditures are divided across campaigns or fund-raising methods in an efficient way.

Donor-advised Fund (DAF): A donor fund set up and managed by a public charity that allows donors to make a charitable contribution that is disbursed by the charity following advice from the donor.

Endowment: In legal use, refers to funds permanently restricted by the donor, especially restrictions that prohibit the recipient from spending the corpus (original donation). Endowments allow an organization to spend income derived from the corpus. In popular use, endowment is the sum of legal endowment and quasi-endowment.

Quasi-endowment: Funds set aside by (reversible) action of the organization’s board, where the initial board allocation is treated like corpus and not spent, but income derived from the allocation can be spent.

Triage: A system for dividing a set of potential beneficiaries into three categories – those that will survive regardless, those that will die regardless, and those that treatment might help. More generally, a process of prioritizing problems and addressing them in order of importance.