Edexcel (A) Economics A-level

Theme 4: A Global Perspective

Definitions

Key word	Definition
Absolute advantage	When a country can produce a good more cheaply in absolute terms than another country
Absolute poverty	When people are unable to afford sufficient necessities to maintain life; those on less than $1.90 a day
Aid	When a country voluntarily transfers resources to another or gives loans on a concessionary basis
Appreciation	An increase in the value of the currency using floating exchange rates
Asymmetric information	When one party has more knowledge than another; this causes market failure in the financial sector
Automatic stabilisers	Mechanisms which reduce the impact of changes in the economy on national income
Balance of payments	A record of all financial dealings over a period of time between economic agents of one country and another
Buffer stock systems	When a maximum and minimum price are imposed together in order to bring about price stability.
Capital account	A part of the balance of payments; records debt forgiveness, inheritance taxes, transfers of financial assets and sales of assets
Capital expenditure	Government spending on investment goods such as new roads, schools and hospitals, which will be consumed in over a year
Capital flight	When large amounts of money are taken out of the country, rather than being left there for people to borrow and invest
Central banks	A financial institution that has direct responsibility to control the money supply and monetary policy, to manage gold reserves and foreign currency and to issue government debt
Common market	Members trade freely in all economic resources and impose a common external tariff
Comparative advantage	When a country is able to produce a good more cheaply relative to other goods produced; it has a lower opportunity cost
Current account	A part of the balance of payments; records payments for the purchase and sale of goods and services, as well as incomes and transfers
Customs union	The removal of all tariff barriers between members and the introduction of a common external tariff
Current expenditure	General government final consumption plus transfer payments plus interest payments

Cyclical deficit	The part of the deficit that occurs because government spending fluctuates around the trade cycle
Depreciation	A fall in the value of the currency using floating exchange rates
Devaluation	When the currency is decreased against another under a fixed system
Developed country	Countries with a high GDP per capita and a high standard of living
Developing country	Countries with a low GDP per capita and a low standard of living
Discretionary fiscal policy	Deliberate manipulation of government expenditure and taxes to influence the economy; expansionary and deflationary fiscal policy
Economic development	Improvements in living standards
Emerging economies	A country that is growing quickly and has some characteristics of a developed country but is not fully there yet
Exchange rate	The purchasing power of a currency in terms of what it can buy of other currencies
Financial account	A part of the balance of payments; records FDI, portfolio investment and the transfer of gold and currency reserves
Financial markets	When buyers and sellers can buy and trade a range of services or assets that are fundamentally monetary in nature
Fiscal deficit	When the government spends more than it receives in a year
Fixed exchange rate	The value of the currency is set against the value of another and that exchange rate does not change
Foreign currency gap	When a country does not export enough to finance the purchase of goods from overseas
Foreign direct investment	Investment by one private sector company in one country into another private sector company in another
Free trade	Trade with no barriers or restrictions
Free trade agreements	When two or more countries in a region agree to reduce/eliminate trade barriers on all goods from member countries
Free floating exchange rate	Value of the currency is determined purely by market demand and supply of the currency
General government final consumption	Spending on goods and services which will be consumed within the next year
Gini coefficient	A measure of income inequality; the ratio of the area between the 45

	degree line (the line of perfect equality) and the Lorenz curve and the whole area under the 45 degree line
Globalisation	The growing interdependence of countries and the rapid rate of change it brings about; movement towards free trade of goods and services, free movement of labour and capital and free interchange of technology and intellectual capital
Harrod-Domar model	Savings provide the funds that are used for investment, and growth rates depend on the level of saving and the productivity of investment. Therefore, growth in developing countries is limited by the lack of investment
Human capital	The economic value of an individual's skills, experience, training etc.
Human Development Index (HDI)	Measures an economy's development based on income, health and education
Infrastructure	Facilities required for an economy to function, such as roads
International competitiveness	The ability of a country to compete effectively and become attractive in international markets
J-curve	A current account will worsen before it improves following a depreciation of the currency
Laffer curve	Shows that a rise in tax rates does not necessarily lead to a rise in tax revenue, due to the impact on incentives and work
Lewis 2 model	A model which suggests that countries will develop through industrialisation as labour is moved from the unproductive agriculture sector to the more productive urban sector. This increases wages and leads to more saving and investment
Lorenz curve	The cumulative percentage of population plotted against the cumulative percentage of income that those people have
Market bubbles	When the price of an asset rises massively and greatly exceeds the value of the asset itself
Market rigging	A group of individuals or institutions collude to fix prices or exchange information that will lead to gains for themselves at the expense of other participants in the market
Microfinance schemes	Schemes which aim to give poor and near-poor households permanent access to a range of financial services
Managed floating exchange rate	Value of the currency is determined by demand and supply but the Central Bank intervenes to prevent large changes
Marshall-Lerner condition	The sum of the price elasticities of imports and exports must be more than one if a currency depreciation is to have a positive impact on the trade balance

Monetary unions	Two or more countries with a single currency
Moral hazard	When individuals act in their own best interests knowing there are potential risks- another cause of financial market failure
National debt	The sum of government debts built up over many years
Primary product dependency	When a country relies heavily on primary products, such as agricultural goods or mining.
Progressive taxation	Where those on higher incomes pay a higher marginal rate of tax; those on higher incomes pay a higher percentage of their income on tax
Proportional taxation	The proportion of income paid on the tax remains the same whilst the income of the taxpayer changes; everyone pays the same percentage of their income on tax
Protectionism	When government enact policies to restrict the free entry of imports into their country, such as tariffs and quotas
Quota	Limits placed on the level of imports allowed into a country
Regressive taxation	Where the proportion of income paid in tax falls whilst the income of the taxpayer increases; those on lower incomes pay a higher percentage of their income on tax
Relative poverty	When income falls below an average income threshold. In the UK, this is those on less than 60% of median household income
Revaluation	When the currency is increased against the value of another under a fixed system
Speculation	Trading financial assets in hope of significant returns
Structural deficit	The deficit which occurs when the cyclical deficit is 0
Tariffs	Taxes placed on imported goods in an attempt to prevent people from buying them
Terms of trade	The ratio of an index of a country's export prices to an index of its import prices. $\frac{\text{average export price index}}{\text{average import price index}} \times 100$
Theory of comparative advantage	Countries will find specialisation mutually advantageous if the opportunity costs of production are different
Trade creation	When a country moves from buying goods from a high cost to a lower cost producer
Trade diversion	When a country moves from buying goods from a low cost producer to

	a higher cost one
Trade liberalisation	Reduction or removal of protectionist policies
Trading bloc	A group of countries that reduce or remove trade barriers between them
Transfer payments	Government spending for which there is no corresponding output, where money is taken from one group and given to another
Transfer pricing	Where firms manipulate the price of their good so that profit is increased in areas of low tax
Unit labour costs	The cost of employing workers for each unit of a good $\frac{\text{total wages}}{\text{real output}}$