

Edexcel (A) Economics A-level

Theme 4: A Global Perspective

Flashcards

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Absolute advantage



Absolute advantage

When a country can produce a good more cheaply in absolute terms than another country



Absolute poverty



Absolute poverty

When people are unable to afford sufficient necessities to maintain life;
those on less than \$1.90 a day



Aid



Aid

When a country voluntarily transfers resources to another or gives loans on a concessionary basis



Appreciation



Appreciation

An increase in the value of the currency
using floating exchange rates



Asymmetric information



Asymmetric information

When one party has more knowledge than another; this causes market failure in the financial sector



Automatic stabilisers



Automatic stabilisers

Mechanisms which reduce the impact of changes in the economy on national income



Balance of payments



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



Buffer stock systems

When a maximum and minimum price are imposed together in order to bring about price stability



Capital account



Capital account

A part of the balance of payments;
records debt forgiveness, inheritance
taxes, transfers of financial assets and
sales of assets



Capital expenditure



Capital expenditure

Government spending on investment goods such as new roads, schools and hospitals, which will be consumed in over a year



Capital flight



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



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



Common market

Members trade freely in all economic resources and impose a common external tariff



Comparative advantage



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



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



Customs union

The removal of all tariff barriers between members and the introduction of a common external tariff



Current expenditure



Current expenditure

General government final consumption
plus transfer payments plus interest
payments



Cyclical deficit



Cyclical deficit

The part of the deficit that occurs because government spending fluctuates around the trade cycle



Depreciation



Depreciation

A fall in the value of the currency using floating exchange rates



Devaluation



Devaluation

When the currency is decreased against another under a fixed system



Developed country



Developed country

Countries with high GDP per capita and a high standard of living



Developing country



Developing country

Countries with a low GDP per capita and a low standard of living



Discretionary fiscal policy



Discretionary fiscal policy

Deliberate manipulation of government expenditure and taxes to influence the economy; expansionary and deflationary fiscal policy



Economic development



Economic development

Improvements in living standards



Emerging economies



Emerging economies

A country that is growing quickly and has some characteristics of a developed country but is not fully there yet



Exchange rate



Exchange rate

The purchasing power of a currency in terms of what it can buy of other currencies



Financial account



Financial account

A part of the balance of payments;
records FDI, portfolio investment and the
transfer of gold and currency reserves



Financial markets



Financial markets

When buyers and sellers can buy and trade a range of services or assets that are fundamentally monetary in nature



Fiscal deficit



Fiscal deficit

When the government spends more than it receives each year



Fixed exchange rate



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



Foreign currency gap

When a country does not export enough to finance the purchase of goods from overseas



Foreign direct investment



Foreign direct investment

Investment by one private sector company in one country into another private sector company in another



Free trade



Free trade

Trade with no barriers or restrictions



Free trade agreements



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



Free floating exchange rate

Value of the currency is determined purely by market demand and supply of the currency



General government final consumption



General government final consumption

Spending on goods and services which will be consumed within the next year



Gini coefficient



Gini coefficient

A measure of income inequality; the ratio of the area between the 45 degree line and the Lorenz curve and the whole area under the 45 degree line



Globalisation



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



Harrod-Domar model

Savings provide the funds that are used for investment, and growth rates depend on the level of savings and the productivity of investment. Therefore, growth in developing countries is limited by the lack of investment



Human Development Index (HDI)



Human Development Index (HDI)

Measures an economy's development based on income, health and education



Infrastructure



Infrastructure

Facilities required for an economy to function, such as roads



International competitiveness



International competitiveness

The ability of a country to compete effectively and become attractive in international markets



J-Curve



J-Curve

The current account will worsen before it improves following a depreciation of the currency



Laffer curve



Laffer curve

Shows that a rise in tax rates does not necessarily lead to a rise in tax revenues, due to the impact on incentives and work



Lewis 2 model



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 move saving and investment.



Lorenz curve



Lorenz curve

The cumulative percentage of population plotted against the cumulative percentage of income that those people have



Market bubbles



Market bubbles

When the price of an asset rises massively and greatly exceeds the value of the asset itself



Market rigging



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



Microfinance schemes

Schemes which aim to give poor and near-poor households permanent access to a range of financial services



Managed floating exchange rate



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



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



Monetary unions

Two or more countries with a single currency



Moral hazard



Moral hazard

When individuals act in their own best interests knowing there are potential risks- another cause of financial market failure



National debt



National debt

The sum of government debts built up over many years



Primary product dependency



Primary product dependency

When a country relies heavily on primary products, such as agricultural goods or minin



Progressive taxation



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



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



Protectionism

When governments enact policies to restrict the free entry of imports into their country, such as tariffs and quotas



Quotas



Quotas

Limits placed on the level of imports
allowed into a country



Regressive taxation



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



Relative poverty

When income falls below an average income threshold

In the UK, this is those on less than 60% of the median household income



Revaluation



Revaluation

When the currency is increased against the value of another under a fixed system



Speculation



Speculation

Trading financial assets in hope of significant returns



Structural deficit



Structural deficit

The deficit which occurs when the cyclical deficit is 0



Tariffs



Tariffs

Taxes placed on imported goods in an attempt to prevent people from buying them



Terms of trade



Terms of trade

The ratio of an index of a country's exports to an index of its import prices



Theory of comparative advantage



Theory of comparative advantage

Countries will find specialisation mutually advantageous if the opportunity costs of production are different



Trade creation



Trade creation

When a country moves from buying goods from a high cost to a lower cost producer



Trade diversion



Trade diversion

When a country moves from buying goods from a low cost producer to a higher cost one



Trade liberalisation



Trade liberalisation

Reduction or removal of protectionist policies



Trading bloc



Trading bloc

A group of countries that reduce or remove trade barriers between them



Transfer payments



Transfer payments

Government spending for which there is no corresponding output, where money is taken from one group and given to another



Transfer pricing



Transfer pricing

Where firms manipulate the price of their good so that profit is increased in areas of low tax



Unit labour costs



Unit labour costs

The cost of employing workers for each unit of a good

