

OCR Economics A-level

Macroeconomics

Topic 4 – The Global Context

Definitions and Concepts

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4.1 – International trade

International trade - Exchange of goods and services between countries.

4.2 – Exchange rates

Bilateral exchange rates - The value of one currency expressed in another currency.

Effective exchange rates - Describes the strength of one currency to a basket of other currencies using an index.

Exchange rates - The purchasing power of a currency in terms of what it can buy of other currencies.

Fixed exchange rate - The value of the currency is set against the value of another and that exchange rate does not change.

Floating exchange rate - Value of the currency is determined purely by market demand and supply of the currency.

Hybrid exchange rate system - A combination of the characteristics of fixed and floating exchange rates; the currency fluctuates but it doesn't float on a fully free market e.g. managed float.

Nominal exchange rates - The weight of one currency relative to another, without being adjusted for inflation.

Real exchange rates - When the exchange rate is adjusted for inflation to give a more accurate reflection of purchasing power.

