

OCR Economics A-level

Macroeconomics

Topic 5 – The Financial Sector

Definitions and Concepts

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5.1 – Money and interest rates

Narrow money - Physical currency (notes and coins), as well as deposits and liquid assets in the central bank.

Broad money - The entire money supply, it includes liquid and less liquid assets.

5.2 – The financial sector

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

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.

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

5.3 – Financial regulation

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.

Recession - Two consecutive quarters of negative economic growth.

