Open Economy–International Trade and Finance

AP Macroeconomics · Vocabulary in context

Word	Example
balance of payments /ˈbæləns ɒv ˈpeɪmənts/	The **balance of payments** records all money flowing into and out of a country.
transactions /trænˈsækʃnz/	The balance of payments records **transactions** with other countries.
current account /ˈkʌrənt əˈkaʊnt/	Money from selling services abroad goes into the **current account**.
goods and services	Trade in **goods and services** goes in the current account.
exports /ˈekspɔːts/	Chinese cars sold abroad are Chinese **exports**.
imports /ɪmˈpɔːts/	Phones made in Korea and sold in France are French **imports**.
transfers /ˈtrænsfɜːz/	Money sent home by workers abroad counts as **transfers**.
trade deficit /treɪd ˈdefɪsɪt/	A country that imports more than it exports has a **trade deficit**.
capital (financial) account /ˈkæpɪtl əˈkaʊnt/	The **capital (financial) account** records the buying and selling of assets abroad.
financial assets	Bonds and shares are **financial assets**.
mirror images	The current and capital accounts are **mirror images** of each other.

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capital-account surplus	A current-account deficit is matched by a **capital-account surplus**.
foreign investment /ˈfɒrən ɪnˈvestmənt/	**Foreign investment** flows in when foreigners buy domestic assets.
exchange rate /eksˈtʃeɪndʒ reɪt/	The **exchange rate** is the price of one currency in another.
appreciates /əˈpriːʃɪeɪts/	When the yuan **appreciates**, it buys more dollars.
depreciates /dɪˈpriːʃɪeɪts/	When the yuan **depreciates**, it buys fewer dollars.
floating /ˈfləʊtɪŋ/	A **floating** exchange rate is set by the market.
foreign-exchange market	Currencies are bought and sold in the **foreign-exchange market**.
equilibrium exchange rate /ˌiːkwɪˈlɪbrɪəm eksˈtʃeɪndʒ reɪt/	The **equilibrium exchange rate** is where the currency's supply and demand curves cross.
domestic /dəˈmestɪk/	**Domestic** means inside the home country.
real interest rate /rɪəl ˈɪntrest reɪt/	The **real interest rate** is the interest rate minus inflation.
inflation /ɪnˈfleɪʃn/	**Inflation** means prices in general are rising.
competitive /kəmˈpetɪtɪv/	Lower prices make the firm more **competitive**.
Tastes /teɪsts/	A change in **tastes** towards Japanese cars raises demand for yen.

Word	Example
expectations	**Expectations** of a stronger currency raise demand for it today.
Monetary policy /ˈmʌnɪtəri ˈpɒlɪsi/	**Monetary policy** changes interest rates to control inflation.
expansionary /ekˈspænʃənəri/	An **expansionary** policy aims to raise aggregate demand.
aggregate demand /ˈægrɪgeɪt dɪˈmænd/	**Aggregate demand** is the total spending in the economy.
net exports /net ˈekspɔːts/	**Net exports** are the value of exports minus the value of imports.
capital flows /ˈkæpɪtl fləʊz/	**Capital flows** move money between countries for investment.
inflows /ˈɪnfləʊz/	Higher interest rates attract capital **inflows**.
bonds /bɒndz/	Governments sell **bonds** to borrow money.
outflows /aʊtˈfləʊz/	Lower interest rates cause capital **outflows**.
government borrowing	Heavy **government borrowing** raises the real interest rate.
loanable funds /ˈləʊnəbl fʌndz/	Government borrowing increases demand in the **loanable funds** market.
budget deficit /ˈbʌdʒɪt ˈdefɪsɪt/	A **budget deficit** means the government spends more than it collects in tax.
twin deficits	The **twin deficits** are a budget deficit and a trade deficit together.

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