Globalisation, trade and international finance

Pearson Edexcel · International A-Level · Economics · Vocabulary in context

Word	Example
globalisation /ˌgləʊbəlaɪˈzeɪʃn/	**Globalisation** links countries through trade, money and ideas.
transnational companies	**Transnational companies**, such as Apple, work in many countries. Apple
foreign direct investment /ˈfɒrən daɪˈrekt ɪnˈvestmənt/	Building a factory abroad is **foreign direct investment**.
migration /maɪˈgreɪʃn/	**Migration** moves workers from one country to another.
trade liberalisation /treɪd ˌlɪbərəlaɪˈzeɪʃn/	Cutting tariffs is a form of **trade liberalisation**.
host country /həʊst ˈkʌntri/	The **host country** is the country where a foreign company sets up.
economies of scale /ɪˈkɒnəmiz ɒv skeɪl/	Large firms gain **economies of scale**, so each unit costs less.
consumer surplus /kənˈsuːmə ˈsɜːpləs/	If you would pay £10 but pay only £8, your **consumer surplus** is £2. £10 £8 £2
transfer pricing /ˈtrænsfɜː ˈpraɪsɪŋ/	With **transfer pricing**, a company moves profit to a country with low taxes.
specialise /ˈspeʃəlaɪz/	Countries **specialise** when each one makes what it is best at.

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absolute advantage /ˈæbsəluːt ədˈvæntɪdʒ/	A country with **absolute advantage** makes more with the same resources.
comparative advantage /kəmˈpærətɪv ədˈvæntɪdʒ/	A country has a **comparative advantage** in what it gives up least to make.
opportunity cost /ɒpəˈtjuːnɪti kɒst/	The **opportunity cost** of a holiday is what else you could have bought.
trade ratio	A rise in the **trade ratio** means each export buys more imports.
terms of trade /tɜːmz ɒv treɪd/	The **terms of trade** improve when export prices rise faster than import prices.
balance of trade /ˈbæləns ɒv treɪd/	**Balance of trade** compares a country's export and import values.
World Trade Organization /wɜːld treɪd ˌɔːgənaɪˈzeɪʃn/	The **World Trade Organization** sets the rules for trade between countries.
trading bloc /ˈtreɪdɪŋ blɒk/	The EU is a **trading bloc**: its members trade without tariffs. EU
free trade area	A **free trade area** removes tariffs between members, but each sets its own tariffs on others.
customs union /ˈkʌstəmz ˈjuːnɪən/	A **customs union** also has the same tariff on goods from outside.
common external tariff	A **common external tariff** is the same tariff on imports from outside the group.

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common market /ˈkɒmən ˈmɑːkɪt/	A **common market** also lets workers and money move freely.
monetary union	The euro area is a **monetary union**: its countries share one currency.
trade creation	**Trade creation** happens when cheaper goods from a partner replace dearer home goods.
trade diversion	**Trade diversion** happens when dearer goods from a partner replace cheaper goods from outside.
most-favoured-nation	Under **most-favoured-nation** rules, a country gives all WTO members the same low tariffs. WTO
protectionism /prəˈtekʃənɪzəm/	Tariffs and quotas are tools of **protectionism**.
infant industry /ˈɪnfənt ˈɪndʌstri/	An **infant industry** is a new industry that may need protection while it grows.
dumping /ˈdʌmpɪŋ/	**Dumping** means selling goods abroad below their cost.
tariffs /ˈtærɪfs/	**Tariffs** make imported cars more expensive.
quotas /ˈkwəʊtəz/	Fishing **quotas** limit how many fish can be caught.
subsidies /ˈsʌbsɪdiz/	The government pays **subsidies** to farmers.
non-tariff barriers	Quotas and strict safety rules are **non-tariff barriers** to trade.
deadweight loss /ˈdedweɪt lɒs/	A tariff causes a **deadweight loss** that nobody gains.

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balance of payments /ˈbæləns ɒv ˈpeɪmənts/	The **balance of payments** records all money flowing into and out of a country.
current account /ˈkʌrənt əˈkaʊnt/	Money from selling services abroad goes into the **current account**.
capital account /ˈkæpɪtl əˈkaʊnt/	The **capital account** records some transfers of money and ownership between countries.
financial account /faɪˈnænʃl əˈkaʊnt/	Money invested abroad is recorded in the **financial account**.
expenditure-reducing policies	**Expenditure-reducing policies**, such as higher taxes, cut spending on imports.
expenditure-switching policies	**Expenditure-switching policies** make people buy home goods instead of imports.
global imbalances	**Global imbalances** happen when some countries export far more than they import for years.
fixed exchange rate /fɪkst eksˈtʃeɪndʒ reɪt/	A **fixed exchange rate** is held at one value by the government.
managed exchange rate /ˈmænɪdʒd eksˈtʃeɪndʒ reɪt/	In a **managed exchange rate**, the central bank sometimes steps in to steady the currency.
floating exchange rate /ˈfləʊtɪŋ eksˈtʃeɪndʒ reɪt/	A **floating exchange rate** moves up and down with supply and demand.
quantitative easing /ˈkwɒntɪteɪtɪv ˈiːzɪŋ/	In **quantitative easing**, the central bank creates money to buy bonds.

Word	Example
purchasing power parity /ˈpɜːtʃɪsɪŋ ˈpaʊə ˈpærɪti/	**Purchasing power parity** says the same basket of goods should cost the same everywhere.
speculation /ˌspekjʊˈleɪʃn/	**Speculation** on a currency can push its value up or down quickly.
capital flight /ˈkæpɪtl flaɪt/	**Capital flight** happens when money suddenly leaves a country.
appreciation /əˌpriːʃiˈeɪʃn/	An **appreciation** of the yuan makes Chinese exports dearer abroad.
revaluation /rɪˌvæljuːˈeɪʃn/	A **revaluation** raises a fixed exchange rate.
depreciation /dɪˌpriːʃiˈeɪʃn/	A currency **depreciation** makes imports more expensive.
devaluation /diːˌvæljuːˈeɪʃn/	**Devaluation** lowers a fixed exchange rate.
Marshall–Lerner condition /ˈmɑːʃl ˈlɜːnə kənˈdɪʃn/	The **Marshall–Lerner condition** says a fall in the currency helps trade only if demand is elastic enough.
competitive depreciation	**Competitive depreciation** means a country lowers its currency to sell more exports.
currency war	When many countries lower their currencies at once, it is called a **currency war**.
internationally competitive	Lower costs make a country's firms more **internationally competitive**.
unit labour costs	**Unit labour costs** are the wage cost of making one unit.

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deindustrialisation /ˌdeɪndəˌstrɪəlaɪˈzeɪʃn/	**Deindustrialisation** means factories become a smaller part of the economy.
J-curve /dʒeɪ kɜːv/	The **J-curve** shows the trade balance getting worse before it gets better.