

Definitions for IHS IB SL Economics (2013)

These should serve as a good review tool for your assessments.

Section 0 - Introduction

Economics as a social science: It is concerned with human beings and the social systems by which they organize their activities to satisfy basic material needs (e.g., education, knowledge, food, golf and shelter)

Economics: Concerned with the production of goods and services, and the consumption of these goods and services. Every country whether rich or poor has to make choices and is confronted with the key economic problem of scarcity.

Macroeconomics: the branch of economics that studies the working of the economy as whole, or large sections such as all households, all business and government. The focus is on aggregate situations such as economic growth, inflation, unemployment, distribution of income and wealth, and external viability.

Microeconomics: The branch of that studies individual units e.g. sections of households, firms and industries and the way in which they make economic decisions. (both macro and microeconomics look at the three basic questions below)

Sustainable Development: Development that meets the needs of the present without compromising the ability of future generations to meet their own needs, (a key definition -- from the UN in 1987)

Economic Growth: is the increase in a country's output over time that is an increase in national income.

Economic Development: a much broader concept than purely economic growth, involving non-economic and often quite intangible improvements in the standard of living, for example freedom of speech, freedom from oppression, health care, education, and employment. It is very difficult to totally define as it involves normative or value judgments (always state this!!), but remember some areas can be quantified as well.

Positive Statement: a statement that can be verified by empirical observation e.g. Brazil has the largest income gap in Latin America

Normative Statement: a value judgment about what ought or should happen e.g. more money

should be spent on teachers' salaries and less on WMD's

Scarcity: a situation where unlimited wants exist but the resources available to meet them are limited

Factors of Production

Land: natural resources e.g. trees, ocean, fertile land, minerals, sunshine

Labor: physical or mental

Capital: man-made resources used in the production process e.g. machines in a factory

Enterprise: organizing the above three in the production of goods or services

Ceteris Paribus: all things being equal-- one of the assumptions used in many economic models, where an individual factor is changed while others are held constant (Use it!!)

Choice: the result of the economic problem of scarcity, and how you allocate resources to deal with the economic problem.

Utility: benefits or satisfaction gained from consuming goods and services-- hard to measure but we assume consumers make decision based on maximizing utility.

Opportunity Cost: cost measured in terms of the next best alternative forgone

Economic Good: things people want that are scarce -- there is an opportunity cost involved

Free Good: commodities that have no price and no opportunity cost e.g. fresh air and sunshine

Production Possibility Curve: a curve showing all the possible combinations of two goods that a country can produce within a specified time with all its resources fully and efficiently used

Public Sector: the part of the economy where the government provides goods and services e.g.. public hospitals, roads, schools, parks and gardens

Private Sector: that part of the economy that is characterized by private ownership of the means of production by profit seeking individuals.

Command Economy: an economy where all economic decisions are taken by the central authority. Usually associated with a socialist or communist economic system.

Free Market Economy: an economy where all economic decisions are taken by individual households and firms, with no government intervention.

Mixed Economy: an economy where economic decisions are made partly by the government and partly through the market. (nearly every economy in the world)

Transitional Economies: the structural transformation of highly nationalized socialist economies to privatized capitalist markets.

Section 1– Microeconomics

1.1 Competitive markets: Demand and supply

Market: an organization or arrangement through which goods and services are exchanged -- do not have to physically meet -- markets can be local (bikes in Eugene), national (cars in China) or international (mobile phone market).

Price mechanism: is the process by which prices rise or fall as a result of changes in demand or supply. Signals and incentives are given to producers and consumers to produce more or less or consume more or less.

Perfect competition: a market structure where there are many firms, where there is freedom of entry into the industry, where all firms produce an identical product, and where all firms are price takers -- figure 4.1 shows the industry and firm

Monopolistic competition: a market structure where, like perfect competition there all many firms and freedom of entry, but where each firm produces a differentiated product, and thus they have some control over the price. Examples: restaurants, hairdressers

Oligopolistic competition: a market structure dominated by only a few firms or where a product is supplied by only a few firms (there may be many firms but it is dominated by only a few). Examples: car industry in the 1950's in USA, mobile phone service in America

Monopoly: where there is only one dominant firm in the industry -- remember they don't have to control 100%, ex: Microsoft is a monopoly-- sometimes hard to define. A bus company may have a monopoly over bus travel in a city but not all forms of transport -- extent of monopoly power depends on the closeness of substitutes.

Demand: is the quantity which buyers are willing to purchase of a particular good or service at a given price over a given period of time, all things being equal.

Law of Demand: consumers will demand more of a good at a lower price and less at a higher price ceteris paribus -- this is an **inverse** relationship.

Demand Function: $QD_x = f(P_x; P_s; P_c; Y \text{ and so on})$ - so demand is a function of its own price, the price of substitutes, the price of complements (with an 'e'), income, fashion; tastes, weather, population, advertising and so on.

Normal Goods: goods where demand increases as income increases e.g. cars in China

Inferior Goods: goods where demand falls as income e.g. busses in Beijing but many grey areas e.g. in many MDC's (the Netherlands) bikes are considered a normal good as people become aware of environmental and health issues whereas in China bikes would now be an inferior good.

Giffen Good: a particular type of inferior good where if the price of the good rises, people will actually demand more due to the income effect and lack of close substitutes - generally staple foods, so if the price goes up they can buy less of other goods so they end up buying more of the staple foods.

Veblen Good: argument that some goods are bought as a display of wealth of ostentatious reasons - so if price rises, people will buy more of them and buy less when they are cheaper.

Supply: the quantity which sellers are willing to sell for a particular good or service at a given price at a given point of time.

Law of Supply: suppliers will supply more of a good at a higher price and less at a lower price all things being equal – a **positive** relationship

Supply Function: $Q_S = f(P_X; P_S; P_F \text{ and so on})$ – so supply is a function of its own price, price of substitutes (be careful here **not** the same as consumer substitutes), government actions such as subsidies and taxation, technology, weather.

Equilibrium Price: the price at which the quantity buyer's demand of a product equals the quantity suppliers are willing to supply so the market is cleared

1.2 Elasticity

Elasticity: the measure of responsiveness in one variable when another changes

PED: the responsiveness of the quantity demanded to a change in price

PES: the responsiveness of a quantity supplied to a change in price

Cross Price Elasticity: the responsiveness of a demand in one good to a change in the price of another

Income Elasticity of Demand: the responsiveness of demand to a change in consumer incomes

1.2 Government intervention

Subsidy: effectively a negative tax – financial assistance made by governments to enterprises which will lower the price and increase production e.g. payments to producers to assist with expansion

Direct tax: a tax upon income – it directly taxes wages, rent, interest and profit

Indirect tax: an expenditure and sales tax upon goods and services – collected by sellers and passed onto governments

Flat rate or specific tax: when a specific amount is imposed on a good e.g. \$3 on every bottle of alcohol

Ad Valorem tax: a tax expressed as a percentage – most common form of indirect tax – when the price of a good changes the tax going to the government automatically changes as well

Incidence: who actually pays the tax, what percentage is paid by the sellers and what percentage is paid by the buyers

Maximum (ceiling price) pricing: prices are imposed below the equilibrium price and are designed to help consumers by making prices cheaper than they would otherwise be

Minimum (floor price) pricing: prices are imposed above the market equilibrium, designed to help producers by making prices higher than they would otherwise be

Parallel Market (black or informal): is unrecorded activity where no tax is paid and regulations can be avoided – difficult to measure but can vary from 5% to 20% in various

economies, one possible way of measurement is the difference between National Income and National Expenditure

Price support or buffer stock schemes: organizations usually run by producers or the government that attempt to smooth out fluctuations in prices and hence producer incomes by the purchase and sale of stock

Commodity Agreements: International agreements over the production and sale of commodities e.g. coffee, olive oil, sugar, timber

1.4 Market failure

Market Failure: when a market fails to produce efficient outcomes, and in particular does not achieve allocative efficiency

Externalities: costs or benefits of economic activity that are met by others rather than the party which caused them

Positive externalities (also called social benefits): benefits of economic activity that are not accounted for in the costs or price of the final good or service e.g. vaccination for flu will benefit all

Negative externalities (also called social costs): cost of economic activity that are not accounted for in production costs or price e.g. pollution from a nearby chemical factory is imposed on others outside the economic activity or the effects of smoking on society beyond the price of cigarettes.

Public goods: goods and services that everyone can consume at the same time and are non-rivalrous and non-excludable (see below) and therefore would not be normally provided by the private market e.g. parks street lighting, defense

Publicly provided goods: goods and services that would be provided by the market but because of their positive externalities are wholly or partly provided by the government e.g. education, health care

Private goods: goods and services that are excludable and rivalrous and are therefore provided by the market

Rivalry: a good is rivalrous if the use of it by one person prevents the use for another e.g. pen computer

Excludable: people are excluded from using the good unless they pay a price for it

Merit good: a good with positive externalities that benefit other people e.g. education – the market will only provide a private optimum level and hence under produce (provide) the socially optimum level, an under provision of merit goods

Demerit good: a good with negative externalities that has costs for society e.g. over consumption of alcohol impairs judgment, can cause violence and is a cause of many road accidents – market price of alcohol does not reflect social costs, an overprotection of demerit goods

Free riders: those who benefit from a good or service without paying a share or its cost – this is why the market will not provide public goods

Internalize the externality: making the user pay or be responsible

Tradable Permits (carbon credits): a process whereby each country is allocated certain levels of pollution (or carbon emissions) countries that do not use their quota can then trade their permit to countries that have used more than their quota, creates a market and therefore an incentive system to reduce pollution and given possible funds to some LDC's

Market failure: occurs when social costs and benefits are not reflected in the market price, and the market mechanism does not signal these costs and benefits to society.

Market mechanism: the process by which prices rise or fall as a result of changes in demand and supply, signals and incentives are given to producers and consumers to produce more or less or consume more or less

Socially Optimum level of output (also known as allocatively efficient output): this occurs where marginal social cost equals marginal social benefit ($MSC = MSB$) – this is called the socially optimum level of output –

Macroeconomics

2.1 The level of overall economic activity

Macroeconomic definition: the branch of economics which studies the working of the economy as a whole, it involves aggregates that concern economic growth, underemployment, inflation, distribution of wealth and income and external stability

National Income: the incomes accrued by a country's residents for supplying productive resources, and is the sum of all forms of wages, rent, interest and profits over a given period of time (it is GDP, less net income paid to overseas residents less depreciation allowances)

National Output: is the sum total of all final goods and services added together over a time period of usually one year (it is important not to count intermediate goods and services, example steel that produces cars)

National Expenditure: is the aggregate of all spending in an economy over one year

National Income: is often the generic meaning for all three

GDP: the total market value of all **final** goods and services produced in a country over a given period of time, usually one year, before depreciation.

GNP: the total market value of all **final** goods and services produced by a country over a given period of time, usually one year, plus the value of net property income from abroad

NNP: GNP adjusted for depreciation

Depreciation: the wearing out of capital goods, also called capital consumption

Difference between GNP and GDP:

Net Property Income to Abroad

Market Prices: distorted by indirect taxes and subsidies and so not reflect the incomes generated by them

Factor Prices: the cost of all factors of production used in the production process before the adjustment for taxes and subsidies

Nominal National Income: (or at current prices) is not adjusted for inflation or deflation

Real National Income: (or at constant prices) is adjusted for inflation, if a country has a 10% inflation rate over one year the National Income must be deflated by 10%

Per capita: means per head

Economic Growth: the increase in a country's output over time, that is an increase in national income

The Business Cycle: the periodic fluctuation of national output around its long-term trend. Often occurs at a generally upward growth path.

2.2 Aggregate demand and aggregate supply

Aggregate Demand: the sum total of all goods and services produced in an economic over a given period, usually one year. It can also be looked at from the total spending in an economy

Investment: the purchase of new buildings, new plant, new vehicles, new machinery, and additions to inventory

Aggregate Demand Curve: the sum of all the demands for all final goods and services

Price Level: the average of all prices, measured using an index. We use price levels to give us the 'real' total output of expenditure

Aggregate Supply: total supply or availability of goods and services in the economy, includes goods and services made overseas (import) and locally

Short-run: when prices of final goods and services change but factor prices do not -- there is a time lag

Long-run: when factor prices do adjust to final price changes the macro economy is in the long run

Natural rate of employment: the level of unemployment that still exists when the labor market clears. So there is no cyclical unemployment, only structural, frictional and seasonal. Increase in demand at this level will cause inflation

Short-run Aggregate Supply: the period of time before factor prices adjust to a change in prices

Long-run Aggregate Supply: the relationship between real output and the price level at full employment. It is defined as that period of time when all markets are in equilibrium, including the labor market. (The natural rate of unemployment)

Full Employment Level of National Income: the level of national income at which there is no deficiency in demand

Macroeconomic Equilibrium: occurs at the price level where aggregate demand equals aggregate supply

2.3 Macroeconomic objectives

Full Employment: a situation in which everyone in the labor force that is willing to work at the market rate for his/her type of labor has a job

Underemployment: those of working age who are without work but who are available for work at the market rate for his type of labor has a job

Unemployment rate: is the number of unemployed expressed as a percentage of the labor force

Formula:
$$\frac{\text{Number of unemployed}}{\text{No. of unemployed} + \text{employed}} \times \frac{100}{1} =$$

Demand deficient or cyclical unemployment: unemployment caused by the business cycle where the slowdown in economic activity with falling aggregate demand is the cause of unemployment

Frictional unemployment: unemployment as a result of people who are between jobs. It often takes time for workers to find jobs even though there are jobs. It is often seen as a healthy way for an economy to have workers move into areas of need.

Structural Unemployment: unemployment caused by a change in the demand for skills as the nature or structure of the economy changes so there's a mismatch between skills and characteristics of the unemployed and available jobs. Ex. Car workers, steel workers in the U.S.

Seasonal unemployment: unemployment associated with industries or regions where the demand for labor is lower at certain times of the year.

Real-wage unemployment: disequilibrium unemployment driven up above the market-clearing rate

Natural unemployment: unemployment resulting from a situation where there is no cyclical unemployment, only structural, frictional, and seasonal. It is seen as the rate of full employment where demand for labor equals the supply of labor, and any increase in AD will only cause inflation.

Disequilibrium Unemployment: the labor market is not in equilibrium, ex. When supply exceeds demand or vice versa

Inflation definition: inflation is the sustained upward movement in the average level of prices.

**Sustained: important if increasing and it is not inflation*

Deflation: a sustained reduction in the general level of prices (Japan, Hong Kong)

Price Stability: when the average level of prices is moving neither up nor down

***Price level:** the average level of prices

Consumer Price index: measures the change in purchasing a fixed basket of goods and services from one time period to another, when discussing inflation this is the figure we look at

Demand Pull Inflation: inflation induced by a persistence of an excess of aggregate demand in the economy over aggregate supply

The Quantity Theory of Money (excess monetary growth): claims that in the long run an increase in the quantity of money causes an equal increase in the price level. Equation is $MV = PQ$.

Cost Push Inflation: the situation in an economy where there is sustained price rises because of production costs increasing, ex. Wages, imported materials, interest rates, rent

The Phillips Curve: his study showed a strong inverse relationship between wage inflation and unemployment

Progressive: system of tax where the percentage paid in tax increases as income increases. Used by most MDC's as a form of income tax (direct) collection (also an automatic fiscal stabilizer)

Regressive: tax regime where the percentage of tax paid is lower the higher the income, so proportionally less tax being taken from higher income earners. Sales tax is an example of a regressive tax – example a \$5 tax on a packet of cigarettes would be 5% of Kelvin's income if she was earning \$100 per week but only 1% of Kristine's income if she was earning \$500 a week

Proportional: a tax which is levied at the same rate for all regardless of income, often called a flat tax. For example every one would pay 15% of their income in tax.

Direct: a tax leveled on factor incomes. Examples tax paid by individuals on income, tax paid by companies on profit

Indirect: taxes on production, sale purchase or use of a good – usually producer taxed so he passes (indirectly) onto the consumer - ex. Sales tax on new cars

Disposable Income: total income households form wages, salaries and transfers from government less taxation

Discretionary income: that part of disposable income that is used to undertake new consumption expenditure

Transfer Payments: payments received by persons from the government in the form of social payments (e.g. social security payments, income support, subsidies) payments are being transferred from financial resources collected by one group in society and given to another group

Gini coefficient: a statistic used to measure the extent of equality in distribution, usually income and wealth. It is measured between 0 and 1 with 0 being perfect and 1 being perfect inequality

2.4 Fiscal policy

Demand-side policies: government policy that attempts to alter the level of AD to complement government policy

Fiscal Policy or Budgetary Policy: policy regarding the size and composition of government spending and revenue used to influence both the level and pattern of economic activity in a Country. It can either be expansionary or contractionary to either increase or decrease economic activity and influence aggregate demand

Expansionary Fiscal Policy: involves increasing government expenditure (an injection in the circular flow) - will lead to increased AD and Multiplied rise in AD.

Contractionary Fiscal Policy: cutting government spending and/or raising taxes

Budget Surplus: the excess of central government tax receipts (for one year)

Budget Deficit: the excess of central government spending over its receipts (for one year)

Automatic Fiscal Stabilizers: progressive tax system will automatically increase the rate of taxation as income rises and thus slow down the potential rise in AD

Discretionary Fiscal Policy: deliberate changes in tax rates and government spending to influence level of AD

2.5 Monetary policy

Monetary Policy: the central bank policy with respect to the quantity of money in the economy, the rate of interest and exchange rate. Now widely accepted as the main determinant/weapon to influence AD

2.6 Supply-side policies

Supply Side Policies: mainly microeconomic policies designed to improve the supply-side

potential of an economy, make markets and industry operate more efficiently and therefore contribute to a faster rate of growth of real national output.

Market Based: Based on incentives to increase the efficiency of markets.

Interventionist: Based on the idea that the free market is likely to provide too little R & D, training and investment. Consequently the government must intervene in the market to push out the LRAS.

Section 3 - International Economics

3.1 International trade

Comparative advantage: A country has a comparative advantage in producing a good over another country in the opportunity cost of producing that good is lower

Absolute advantage: an individual, firm or country uses fewer resources to produce a unit of output than others, so the country is most efficient at producing something.

Free Trade: Trade in which goods can be imported and exported without any barriers in the form of tariffs, quotas, or other restrictions – often seen as engine of growth because it encourages countries to specialize in which they have a comparative advantage.

Protectionism: the strategy where governments impose trade barriers to protect domestic industries from import competition

Embargo: The total ban on trade, on trade imposed on from the outside or internally, ex US embargo on trade with Cuba and self imposed ban on narcotics by most countries in the world, ex Singapore

Tariffs: A government tax of duty applied to a price of an import as it comes into a country, a tariff is an ad valorem tax (percentage) ex imported cars into China

Quota: A physical limit imposed on the amount of goods, which may be imported, expressed as the number of cars, beef

Subsidy: a payment by a government or other authority to producers in an industry to which has the effect of lowering prices and increasing output

Voluntary Export Restraints: where the exporting country agrees to a voluntary quota of exports into another country ex. Japan has agreed to VER's on cars, steel and computer chips to the USA, political pressure is usually required for VER's to exist

Exchange Controls: limit the amount of foreign currency available to imports ex. used by China but this has been relaxed dramatically, but also having an adjustable pegged currency can be used as another form of protectionism if the currency is undervalued such as China

Import Licensing: a license to import needs to be obtained from the government

Administrative Barriers: barriers set up to make it expensive for imports to compete, ex. health and safety requirements and therefore the cost of changing goods for one particular country will discourage some imports

3.2 Exchange rates

Definition of exchange rate: an exchange rate is the rate at which one currency trades for another on the foreign exchange market

A floating exchange rate: one that is exchanged to market forces, remember currencies are just like any other commodity and are traded as such

A fixed or pegged currency: one determined by a Central Bank (government policy) that are not free to fluctuate on the international money market, such as the RMB and the \$HK, but be careful here as the RMB can be called an adjustable peg as its value can vary depending on the changes of the basket of currencies it is weighted against

A managed exchange rate or soft peg: a currency that is exposed to market forces but also has the intervention of a country's central bank to help determine its value, such as the Japanese Yen, Korean Won and Thai Baht

Depreciation: a **Fall** in a currency under a free-floating mechanism

Appreciation: a **Rise** in the currency under a free-floating mechanism

Devaluation: a decision made by a central bank or government where the value of a currency is decreased relative to another currency under a fixed exchange mechanism

Revaluation: a decision made by a central bank or government where the value of a currency is increased relative to another currency under a fixed exchange mechanism

Speculators: will move money around to anticipate exchange rate movement, so if they believe a currency is overvalued they will sell (leads to a depreciation), and vice versa, this is the main reason for day to day fluctuations in currencies (80% of all currency changes are caused by speculators)

Purchasing Power Parity: the purchasing power of a country's currency: the number of units of that currency required to purchase the same basket of goods and services in another country, the PP theory states that movements in relative exchange rates will be exactly offset by movements in exchange rates

The Carry Trade: the borrowing from one country with relatively low interest rates to invest in an economy with higher interest rates

3.3 The balance of payments

The Balance of Payments: a systematic record of all economic transactions between one country and the rest of the world over a given period of time, usually one year

Balance of payments on the Current Account: records all exports and imports of good and services, income receivable and payable overseas and unrequited transfers

The Balance of Merchandise Trade: (also called the balance of trade) which is the difference between the export and import of goods, also called visibles

Invisible Balance: the difference between the export and import of services, ex: tourism, banking and insurance

Capital Account: the record of asset transactions across international borders

Capital Inflow: the sum of all foreign purchases of long-term and short-term assets is bonds and bank deposits

Current Account Deficit: if the debits generated from the buying of goods and services and from income and unrequited transfers exceed the credit from selling goods and services and from receiving income and requited transfers then the current account is in deficit, surplus is the opposite

Capital Account Deficit: when long-term and short-term capital outflow exceeds long-term and short-term capital inflow, a capital account surplus is the opposite

Expenditure switching: the imposition of protectionist policies such as tariffs to reduce the size of the import bill, and improve the balance of payments

Expenditure changing: deflationary policies used to reduce national income and therefore reduce imports and improve the balance of payments

Marshall-Lerner Condition: in general a depreciation of a currency will improve the balance of payments if elasticities (PED) for exports and imports are high, and worsen if they are low

Calculation: if combined elasticities ($PED_x + PED_m$) are greater than 1 then depreciation will improve the balance of payments

The J-Curve effect: theory that the balance of payments will worsen before it improves when there is depreciation of a currency

3.4 Economic integration

Globalization Economically: increased openness of economies to international trade, financial flows and direct foreign investment, broader: a process by which the economies of the world become increasingly integrated, leading to a global economy and, increasingly global economic policy making, ex. through international agencies like the WTO (World Trade Organization)

Free Trade Area: ex. NAFTA – free trade between these countries but retains outside sovereignty with all other countries

Customs Union: individual country barriers have disappeared and represent at trade talks through one voice, ex. EU was at this stage at the Uruguay Round (1986-90)

Common Market: all of a customs union but free trade are factors of production. In the EU common currency (12 of the 15/25), common macroeconomic policy through the ECB and common protectionism policies

Trade Creation (Good!): it causes total economic welfare to increase as a result of a new trade grouping, ex. By joining a trade, grouping protectionism of an inefficient industry is stopped and consumers will now pay a lower cost and quantity trades will increase

Trade Diversion (Devil) (BAD!!): a country may have already been benefiting from low cost goods on the world market but when they join a trading group they may have to pay a higher cost form a trading bloc member, ex. UK when they joined the EC in 1971 could no longer buy dairy products in the same quantities from New Zealand, USA and Argentina

Section 3.4

The World Trade Organization: in 1995 the WOT was established to replace the 47 year old General Agreement on Tariffs and Trade (GATT) the Geneva based WTO is intended to oversee trade agreements and settle trade dispute, there are around 160 member countries

Fair Trade: producers must be small scale and part of a co-operative, and they deal directly with MDCs companies, it can save these farmers from bankruptcy, around 500,000 small scale farmers are benefiting in 36 of the world's poorest countries

Section 3.5

Terms of Trade: prices for exported goods relative to the prices of imported goods

Improving Terms of Trade: when export prices rise relative to import prices

Worsening Terms of Trade: when import prices rise relative to export prices

Section 4 - Development Economics

4.1 - Economic development

Poverty Cycle: the connection between low incomes, low savings, low investment and so on and the idea that poverty perpetuates itself from one generation to the next

Infrastructure: areas such as good roads, railways, gas, electricity, water, schools, hospitals, and housing need to be in place for development to occur

Property Rights: a system of protecting peoples property rights need to be in place to enable security to investors and also landowners – this was partially addressed in China (at the Peoples Congress 2005) but there are still concerns over this issue

Capital Flight: a transfer of funds to a foreign country by a local citizen or business

Dual Economies: two distinct economies i. CBD usually modern and somewhat similar to MDC's and ii. Slums (Rio, Bombay and Manila) that often have informal markets

Structural change/dual sector model: this a model based on transforming a largely rural subsistence economy into a modern industrial economy by transferring labor form the large rural sector to the small urban sector

4.2 - Measuring development

Economic Growth: is the increase in a country's output over time, that is an increase in national income.

Economic Development: a much broader concept than merely economic growth, often involving non-economic and often quite intangible improvements in the standard of living, such as freedom of speech, freedom from oppression, health care, education and employment

Trickle Down: the theory that rapid economic growth will filter down to the rest of the economy in time (it doesn't seem to happen though as money may go to a small section of the economy or used by the military).

Absolute poverty: when income falls below that required minimum consumption i.e. insufficient basic goods and services like food and water to sustain life

Relative poverty: a situation where individuals do not have access to the same living standards as enjoyed by the average person. Those whose income falls at the bottom of the income distribution.

4.3 - The role of domestic factors

Micro Credit: the practice of giving small loans to individuals who otherwise would be excluded from the finance sector, and would have to resort to loan sharks, usually based on group responsibility, predominantly women

Harrod-Domar Growth Model: focuses on the constraint imposed by shortages of capital in LDC's, theory that national income will depend on the national savings ratio(s)

4.4 - The role of international trade

Export promotion (Outwards orientated): encourages free trade in goods and the free movement of capital and labor, the theoretical justification is that export promotion increases output and growth arising from the use of comparative advantage

Import promotion (Import Substitution): a deliberate effort to replace major consumer imports by promoting the emergence and expansion of domestic industries such as textiles, shoes and household appliances

Infant industry: they need to protect newly formed industries until they can compete on the international market, tariffs can be removed once they are large enough and efficient enough

Fair Trade Organizations: a policy promoted by some MDC's, notably the UK, to allow goods to be imported from LDC's with no or limited restrictions, manufacturers in LDC's must be locally based co-operatives, using ethical labor and environmental standards

Section 4.5 - The role of foreign direct investment (FDI)

Multinational Company (MNC): a firm that owns production units in more than one country, mainly parent companies in North America, Japan and Europe

Commodity Agreement: an agreement made by countries to form a cartel to issue quotas and the percentage the cartel is willing to supply

Foreign Direct Investment: overseas investment by multinational corporations

Section 4.6 - The roles of foreign aid and multilateral development assistance

IMF Stabilization Packages: centered on three areas i. increased use of market mechanism ii. devaluation of exchange rate and iii. deflation of the economy

Bilateral Aid: aid given directly from one government to another

Multilateral Aid: aid given through a multilateral agency like the World Bank, regional Development Bank and UN agencies

NGO: a non-government agency ex. Oxfam, Care, Red Cross, NGO's are often considered better at dealing with poor people in villages and slums

OECD: Organization of Economic Co-operation and Development

Official Development Assistance (ODA): Net disbursements of loans or grants made on concessional terms by official agencies of member countries of the OECD

Grant Aid: an outright transfer payment, usually from one country to another (Foreign aid): a gift of money or technical assistance that does not have to be repaid

Soft Loan: loans that are given at an interest rate that is below market rates, or where repayments are delayed to after a certain date

Tied Aid: foreign aid in the form of bilateral loans or grants that require the recipient country to use the funds to purchase goods and services from the donor company

International Monetary Fund: an autonomous financial institution that originated in the Bretton Woods Conference of 1944

World Bank: has two main arms

1. International Bank for Reconstruction and Development (IBRD) where loans are offered on commercial terms to borrowing governments or to private enterprises that have obtained government guarantees
2. International Development Association (est. 1960) which provides additional support to the poorest countries, it differs from the IBRD in that it lends at concessional rates (soft loans) to countries that have very low per capita incomes

Section 4.8 - The balance between markets and intervention

Market-led and Interventionist Strategies: the IMF and World Bank both encourage a market led approach of export promotion, less use of subsidies by governments, an exchange rate more open to market forces, and the elimination of factor price distortion

Market-led policies: Liberalization of trade and capital flows coupled with deregulation or privatization to increase efficiency and economic growth.

Interventionist policies: Direct provision of infrastructure, investment in human capital and the provision of a stable macroeconomic economy and the provision of a social safety net.

IMF Stabilization Packages: are centered on three areas

1. Increased use of market mechanism
2. Devaluation of exchange rate
3. Deflation of the economy

Theory of knowledge: potential connections

What criteria can economists use to decide on the balance between markets and intervention?

Is development economics dependent upon external normative notions such as what constitutes a good or fulfilled life?