

## Economics Terms Exercise (2<sup>nd</sup> Week July 2017)

1. **Austerity:**

Reducing government spending and/or increasing taxes to reduce the budget deficit so as to alleviate a country's debt burden.

2. **Loose monetary policy:**

Expansionary monetary policy.

3. **A planned budget deficit:**

Expansionary fiscal policy.

4. **Traditional monetary policy:**

Interest rate policy.

5. **A cap-and-trade policy is used to alleviate the market failure source of:**

Negative externalities in production.

6. **Monetary tapering:**

Gradually raising interest rates so that the central bank will have more room to lower interest rates in the future to alleviate the effects of a recession.

7. **Intra-industry trade:**

Trade within the same industry.

**8. Inter-industry trade:**

Trade across different industries.

**9. Vertical specialisation:**

Specialising in a particular stage of production.

**10. Purpose of export quotas:**

A form of protectionism. It is to prevent excessive exports of raw materials so as to keep more supply for the domestic economy. This would have the effect of lowering the price of raw materials used within the domestic economy, lowering cost of production and hence increases the SRAS.

**11. An economy operating at the vertical portion of the AS curve can also be rephrased as “an economy operating at:**

a. full capacity/employment.

b. classical range of the AS curve.

**12. Name one way the central bank can raise the money supply:**

Reducing the required reserves ratio/reducing the discount rate/purchase of bonds in the open market/quantitative easing.

13. Hot money inflows and outflows are affected by:

a. interest rates.

b. expectations of future currency movements.

14. A country specialising in the production of high value-added goods tend to have a higher terms of trade because:

The average price of its exports tend to be more expensive and average price of its imports tend to be cheaper.