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Macroeconomic and International Policy Terms[1]

Compiled by Mary A. Marchant and William M. Snell

Balance of Payments. A statement of economic transactions (i.e., the exchange of goods and services, investments, and capital claims) between a nation and its trading partners.

Balance of Trade. The value of a nation's exports minus the value of its imports. The balance of trade is positive if exports exceed imports; negative if imports exceed exports.

Bilateral Trade Negotiations. The discussion of trade issues involving two nations for the purpose of enhancing trade. The *Canada/U.S. Free Trade Agreement* is an example.

Budget Deficit. There is a budget deficit when current expenditures exceed current revenues. Most frequently, the budget deficit is used to describe the situation in which government revenues (i.e., taxes) fail to cover government expenditures.

Budget Surplus. There is a budget surplus when current revenues exceed current expenditures. Most frequently, the budget surplus is used to describe the situation in which government revenues (i.e., taxes) exceed government expenditures.

Cairns Group. An informal group of major food exporters from both developed and developing nations which seeks the removal of access barriers and substantial reductions in subsidies affecting agricultural trade. Nations include Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

Canada/U.S. Free Trade Agreement (FTA). A *bilateral trade agreement* implemented between Canada and the U.S. in 1989, which removes various *tariff* and *nontariff trade barriers* over a ten-year period.

Capital-Intensive Sector. An industry, such as agriculture, that requires large amounts of machinery and equipment to produce goods. Thus, a capital-intensive industry depends considerably on the cost of borrowing money (i.e., the *interest rate*).

Central Bank. The central bank's major responsibility is to control a nation's money supply. The *Federal Reserve* serves as the central bank in the U.S.

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[1] Italicized words are defined elsewhere in the glossary.

Centrally Planned Economies. An economic system in which the government rather than market forces determine the production, pricing, and distribution of goods and services.

Common Agricultural Policy (CAP). The agricultural policy of the *European Community* (EC) which outlines regulations and agricultural programs to promote regional agricultural development, provide fair standards of living for the farm population, stabilize markets, increase agricultural productivity, and ensure food security.

Consumer Price Index (CPI). A monthly measure of changes in the prices of goods and services. It is the most widely accepted measure of *inflation*.

Currency Appreciation (Depreciation). An increase (decrease) in value of one currency relative to another currency.

Discount Rate. The *interest rate* the *central bank* charges on loans to commercial banks.

Embargo. A government-ordered trade restriction which completely prohibits the trade of a particular good or service to another country.

European Community (EC). An organization currently comprised of 12 Western European nations (Belgium, Germany, France, Italy, Luxembourg, the Netherlands, Denmark, Greece, Ireland, Portugal, Spain, and the United Kingdom). The EC attempts to unify and integrate member countries by establishing common economic policies, including the *Common Agricultural Policy (CAP).* Major reforms are currently implemented within the EC to more fully integrate the economies of member nations by eliminating all physical and technical barriers to the free trade of goods, services, capital, and people by the end of 1992 -- more commonly referred to as EC-92.

Exchange Rate. The price of one currency in terms of another currency. Exchange rates are regularly quoted between all major currencies, but frequently one important currency, the U.S. dollar, is used as a standard to express and compare all rates. Floating (flexible) exchange rates are determined solely by the supply and demand conditions (i.e., no government intervention) in the foreign exchange market. This compares to a fixed exchange rate where government intervention by monetary authorities results in exchange rates falling within a narrow band.

Export Subsidy. Direct or indirect compensation a government provides to private commercial firms in order to promote the export of domestic products. Examples include cash payments, tax exemptions, preferential *exchange rates*, and government subsidized financing for exports.

Farm Bill. The major agricultural legislation in the U.S., which expires every four or five years. The Farm Bill outlines provisions on commodity programs, trade, conservation, credit, agricultural research, food stamps, and marketing.

Federal Reserve System (The Fed). The *central bank* of the U.S. consisting of 13 district banks and a centralized decision-making body, the Board of Governors. The Federal Reserve: 1) provides currency upon demand to member banks, 2) provides check-clearing services, and 3) regulates the money supply by buying and selling *government securities,* changing the *reserve requirement,* and changing the *discount rate*. Although a creation of government, with the Board of Governors being appointed by the President, the System has generally maintained independence in its own policy decisions and on wider economic events and policies.

Fiscal Policy. A *macroeconomic* policy tool used by the government to regulate the total level of economic activity within a nation. Examples of fiscal policy include setting the level of government expenditures and the level of taxation.

Foreign Exchange. The foreign currency a nation has in its reserves to purchase goods from other nations, (i.e., imports).

Foreign Exchange Rate. See *Exchange Rate*.

General Agreement on Tariffs and Trade (GATT). A trade agreement which was originally negotiated in Geneva, Switzerland, in 1947 to increase international trade by reducing *tariffs* and other *trade barriers.* GATT provides a code of conduct for international commerce and provides a framework for periodic *multilateral trade negotiations* on *trade liberalization* and expansion. The most recent round of negotiations began in Punta del Este, Uruguay, in 1987.

Gramm-Rudman-Hollings Deficit Reduction Act. This law, originally passed in 1985 and amended in 1987, mandates annual reductions in the federal *budget deficit* to achieve a balanced budget by 1993 (i.e., the federal budget deficit would be zero in 1993). If Congress and the President cannot agree on a targeted budget package for any specific year, automatic spending cuts could occur for almost all federal programs, including agriculture.

Gold Standard. A monetary system in which nations "fix" the rate of exchange between their currencies and gold, which effectively "fixes" *exchange rates* between nations.

Government Securities. The short- and long-term bonds the government sells to finance its expenditures.

Gross National Product (GNP). A measure of the market value of goods and services produced by the labor and property of a nation. Includes receipts from that nation's business operations in foreign countries, as well as the share of reinvested earnings in foreign affiliates of domestic corporations.

Interest Rate. The cost of borrowing money. **Nominal interest rates** include three components: 1) the time value of money (which reflects the notion that a dollar today is worth more than a dollar in the future since one can receive interest on a dollar invested today), 2) market risk, and 3) expected *inflation*. **Real interest rates** are nominal interest rates minus *inflation*.

International Monetary Fund (IMF). The IMF is the banker of last resort for countries experiencing *foreign exchange* deficiencies. In addition, the IMF monitors currency exchange relationships among nations.

Import Quota. The maximum quantity or value of a commodity allowed to enter a country during a specified time period.

Inflation. A sustained rise in the general price level, generally measured by the *Consumer Price Index (CPI).*

Macroeconomics. The branch of economics that deals with a nation's total economic behavior.

Microeconomics. The branch of economics that deals with the behavior of the individual producer and consumer, particularly as decisions are made with respect to the allocation of limited resources.

Monetary Policy. A *macroeconomic* policy tool used to influence *interest rates, inflation,* and credit availability through changes in the supply of money available in the economy. In the U.S., the *Federal Reserve* implements monetary policy changes.

Most-Favored Nation. Agreements between nations to extend the same trading privileges to each other that they extend to any other trading partner.

Multilateral Trade Negotiations. Discussion of trade issues involving three or more nations. The *General Agreement on Tariffs and Trade* is an example.

National Debt. The outstanding financial obligations (i.e., debt) of a federal government.

National Income. A measure of the money value of goods and services available to a nation from economic activity.

Nontariff Barrier. Regulations other than *tariffs* used by governments to restrict the volume of trade. Examples include *embargoes, import quotas,* and unnecessary sanitary restrictions.

Open Market Operations. Sales or purchases of marketable securities conducted by the *central bank* as an instrument of control over the monetary system.

Overvalued Currency. Currency of a particular country that is "too high" relative to the currency of another country. A currency is overvalued if its price relative to other currencies makes the goods produced by that economy overpriced in world markets. For example, if country A has an overvalued currency relative to country B, exports from A to B decrease and imports to A from B increase. Thus, in the absence of adjustments in currency values, nations with overvalued currencies will tend to have a negative *balance of trade.*

Policy Mix. The "mix" or combination of a nation's monetary, fiscal, and trade policies.

Protectionism. *Tariff* or *nontariff trade barriers* imposed by a government to protect a domestic industry.

Quota. A quantitative restriction which limits the value or volume of imports or exports of specific goods. A quota may be specified as an absolute limit (e.g., 5,000 tons) or may change from year to year as the domestic supply and demand situation changes. Quotas are usually set by the importing country in an effort to protect domestic industries from foreign competition, although exporting countries may voluntarily limit exports to reduce trade friction with an importing country (Voluntary Export Restriction, VER).

Real Return. The return to an asset minus the rate of *inflation*.

Recession. A cyclical downward movement in the economy involving at least two consecutive quarters of a decline in the real (inflation-adjusted) *Gross National Product (GNP).* A recession can also be used to describe a sustained period of depressed economic conditions for an individual industry, such as agriculture.

Reserve Requirement. The amount of reserves (i.e., money) that the *central bank* requires a commercial bank to hold (i.e., money that cannot be used for loans).

Tariff. A tax that a government assesses on goods as they enter (or leave) a country. A tariff may be imposed to protect domestic industries from imported goods and/or to generate government revenue.

Tariffication. The conversion of *nontariff trade barriers* to their tariff equivalents. Currently, the *GATT* negotiations are using tariffication to measure trade distortions.

Terms of Trade. The relationship over time between the price of a country's exports to the price of its imports. If export prices are higher than import prices, the terms of trade are said to be favorable.

Trade Balance/Deficit/Surplus. See *Balance of Trade.*

Trade Barriers. Regulations governments use to restrict imports from, and exports to, other countries. Examples include *tariffs, embargoes, import quotas,* and unnecessary sanitary restrictions.

Trade-Dependent Sector. An industry, such as agriculture, which depends considerably on international markets to sell its goods and services.

Trade Harmonization. Equal treatment among trading partners (e.g., all trading partners face the same *tariff* and *nontariff* trade restrictions).

Trade Liberalization. A term which describes the complete or partial elimination of trade distorting government policies.

Trade Policy. The collection of national policies which affect the quantity and value of a nation's exports and imports. Examples include *tariffs,* import/export *quotas,* and import/export *subsidies.*

Uruguay Round. See *General Agreement on Tariffs and Trade (GATT).*

Undervalued Currency. Currency of a particular country that is priced "too low" relative to the currency of another country. A currency is undervalued if its price relative to other currencies makes the goods produced by that economy underpriced in world markets. For example, if country A has an undervalued currency relative to country B, imports from B to A decrease and exports to B from A increase. Thus, in the absence of adjustments in currency values, nations with undervalued currencies will tend to have a positive *balance of trade*.

Value-Added. Increasing the value of a good by domestic processing. Examples of value-added products include soybean meal and oil, frozen vegetables for retail consumption, and processed meats.

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