EXAM PAPERS PRACTICE

Theme 3 – Definitions

- → **Absolute poverty** is not having enough income to provide the basic necessities for survival.
- → **Aid** is given by both governments and NGOs to countries that are struggling to reduce poverty or deal with disasters.
- → **Balance of payments**: the accounts that record all international transactions, including trade and capital movements.
- → **BRIC** stands for Brazil, Russia, India and China, four of the world's largest growing economies.
- → **Commodities** are raw materials or semi-manufactured products that are traded in bulk and are not recognisably originating from any particular business. Examples include iron ore, cotton, wheat and oil.
- → **Common markets** have completely free trade internally and a single unified trade policy covering all member countries' trade with the rest of the world.
- → **Corporate culture** is the set of important assumptions that are shared by people working in a particular business and influence the ways in which decisions are taken there.
- → **Corporate social responsibility** means taking decisions that reflect all stakeholders' interests.
- → **Current account of the balance of payments** records all trade in goods and services.
- → **Developed countries** include most of Europe, Japan, the USA, Canada and Australia. All have high incomes. Through capital investment, they have acquired sophisticated production facilities.
- → **Developing countries** have relatively low standards of living, compared to developed countries. They may have small manufacturing sectors; many people may be engaged in agriculture.
- → **Diversifying** means selling more than one product, or the same product in more than one market. If one market shrinks, profits can still be made with other products or in other markets.
- → **Economic growth** refers to the rate of growth of output, real incomes and GDP.
- → **Emerging economies** are characterised by rapid economic growth. They have seen big increases in manufacturing output and standards of living are rising. Some would still be described as poor countries (e.g. India) but others (e.g. Mexico) are well on the way to becoming developed countries.
- → **Ethical decision-making** means following codes of practice that embody moral values. The objective is to do the right thing, acting with honesty and integrity.
- → **Ethnocentric Model**: an approach to marketing based on the tendency to look at the world primarily from the perspective of one's own culture. A business may simply do the same everywhere as it does in its home market.
- → **The European Union (EU)** is a trade bloc that has become a single market.
- → **Eurozone** refers to the 19 EU members that use the euro as a single currency.
- → **Free trade areas** are groups of countries that trade completely freely with each other, with no trade barriers, but each member country retains its own independent trade policies in relation to the rest of the world.
- → **Geocentric approach** sees the world as a potential market with both similarities and differences in domestic and foreign markets. An effort is made to develop integrated world market strategies to gain the best from both of these strands.
- → **The Gini coefficient** provides an objective measure of income inequality and can range from O to 1. A coefficient of 0 would mean income is shared equally between all individuals, whilst a coefficient of 1 would mean one person within the population has all the income and everyone else none.
- → **Global market niches** are smaller, more specialised parts of a global market where customers in more than one country have particular needs that are not fully met by the global mass market.
- → **Glocalisation** combines the words 'globalisation' and 'localisation' to emphasise the idea that a global product or service is more likely to succeed if it is adapted to the specific requirements of local practices and cultural expectations.
- → **The Human Development Index** is constructed by the United Nations Development Program and provides a measure of development based on access to health care and education as well as national income. It therefore includes qualitative as well as quantitative aspects of development.
- → **Incentives** are financial rewards that can influence decisions. Individuals may respond to an incentive to work. Businesses may respond to incentives to invest (e.g. lower interest rates).
- → **Index numbers** can be created for any time series data so that comparisons can be made more easily.
- → **The IMF**, International Monetary Fund, co-ordinates the international monetary system. It tries to keep the system stable, providing adequate finance for world trade to continue uninterrupted.
- → **Inequality** refers to big differences in incomes and wealth within societies. China, the USA and Latin American countries have the most unequal distributions of income and wealth; the UK has greater inequality than most other European countries, but this may change.
- → **Interdependence** refers to the way in which different economies have become increasingly reliant on one another through trade, capital movements and international agreements.
- → **Lorenz Curve** shows the extent of inequality in a particular economy. It plots the percentage of the population that receives each decile (e.g. 10% or 20%) of total income.
- → **Market saturation** occurs when it becomes impossible to expand sales further in that particular market.

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- **Migration** occurs when people move from one region to another or from one country to another, seeking employment (or sometimes, just safety).
- **Minimum wage** is the minimum rate of pay per hour that must by law be paid by employers.
- **Nominal value** means value in money terms at current prices. No allowance is made for inflation.
- **Non-governmental organisations (NGOs):** a term applied to not-for-profit organisations that either act as pressure groups or as charities or both.
- **Non-price competition** refers to any competitive activity that does not involve cutting prices.
- **Offshoring** means locating production in a foreign country The objective may be to exploit cost savings, most often lower wage rates. Or it may be to be close to a thriving market or to avoid trade barriers.
- **Polycentric Model:** an approach that considers each target market to be unique. Each of its subsidiary businesses develop unique business and marketing strategies that suit the relevant location.
- **The poverty trap** is a situation in which someone would be even poorer or not much richer if they had a job because they would no longer receive unemployment benefits from the government.
- **Protectionism** is any government policy aimed at protecting the domestic economy from competing imports. Trade barriers can protect specific domestic industries and their employees by raising the prices of imported products. They will benefit but not the consumers whose purchasing power is reduced by high prices.
- **Pressure groups** are organisations that attempt to influence public policy and especially government legislation, regarding their particular concerns and priorities.
- **Professional bodies** represent groups of professionally qualified people in specific types of work. Examples include the BMA, the Law Society and the Institute of Chartered Accountants.
- **Purchasing Power Parity (PPP)** is a way of adjusting monetary values to allow for differences in prices between countries.
- **Quotas** are physical limits on the level of specific imports in any one year.
- **Rationalisation** means closing down parts of a firm that duplicate some functions. It may happen after a merger, e.g. when one bank merges with another, any one branch that is close to another in the same group will be kept open while any others are closed down.
- **Real values** can be calculated to show changes in values with the effects of inflation removed. In other words, all values are expressed at constant prices.
- **Redundancies** are job losses that result from fewer employees being needed, because of rationalisation, using more capital-intensive production or falling demand for the product.
- **Relative poverty** affects people who do not have enough income to participate in the normal life of the society in which they live.
- **Risks** are threats that may or may not occur but can be quantified using probabilities.
- **Social and cultural differences:** individual societies and groups may have a distinctive way of life, affecting their choice of product. This will also affect the way they do business with one another.
- **Subcultures** are groups of people who have interests and values in common. They may be based on hobbies, life-styles, ethnic or religious background or just personal enthusiasms and preferences. Businesses may target subcultures as potentially profitable niche markets.
- **Subsidies** are sums of money paid by the government to a producer, so that the price to the customer will be lower than it otherwise would have been. Within the EU, most subsidies actually go to farmers, so that some food prices are lower than the cost of production.
- **Supply chains** are sequences of processes that follow one another from start to finish of production.
- **Tariffs** are taxes on imported goods. They make the price higher; sales will generally be lower.
- **Technology and skills transfer** occurs when FDI brings new businesses into an economy and employees learn new skills that they take with them when they change jobs.
- **Trade blocs** are groups of countries where barriers to trade arc reduced or eliminated between member states.
- **Trade creation** occurs when there is an increase in the total amount of goods and services traded because of reduced trade restrictions within a trading bloc.
- **Trade diversion** occurs when a trading bloc reduces imports from non-member countries, enabling businesses within member countries to increase sales inside the trading bloc.
- **Trade liberalisation** refers to the process of reducing barriers to trade so that economies can move gradually closer to free trade, which would ultimately mean that there are no trade barriers at all.
- **Trade unions** are organisations that represent employees in negotiations with employers.
- **Transfer pricing** occurs when one part of an MNC in one country transfers (sells) goods or services to another part in another country. The price charged is the 'transfer price'. This may be unrelated to costs incurred and can be set at a level which reduces profit and hence the total tax paid.
- **Wealth** consists of accumulated assets, including bank deposits, shares, property and businesses.

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- → **Working conditions** refer to possible events in workplaces that may affect the welfare of employees.
- → **The World Bank** (proper name: International Bank for Reconstruction and Development) lends to developing countries in order to fund projects which will help them to raise incomes and make their economies more efficient.
- → **The WTO, World Trade Organisation**, started out as GATT, the General Agreement on Tariffs and Trade, It supervises world trading arrangements and trade negotiations and helps to resolve disputes between governments and businesses.