# CHAPTER 30 : Government expenditure and net trade

## Key terms

1. Budget deficit : when government spending is greater than tax revenue
2. Budget surplus : when government spending is less than the amount of money received in taxation or other income during a particular period. Income received by government is sometimes called government receipts.
3. Exchange rate : the price at which one currency is sold for another
4. Fiscal policy : decisions about government spending, together with taxes and government borrowing, are called fiscal policy
5. Net exports or the net trade balance : export minus import
6. Protectionism : government actions or policies that restrict international trade.

## 1. Reasons for government spending

- Fiscal policy
- The level of economic activity
- Correction of market failure
- Political priorities

## 2. Export and imports

: the demand for export and import is influenced by a number of factors

**2.1 Price** : If demand is elastic, higher price can contribute to lower demand for export

**2.2 Real income in the domestic economy** : if economy is doing well and real incomes of household are rising, they spend more. Import goods and services tend to be higher.

**2.3 Exchange rate** : Depreciated currency can makes export goods more competitive and enable to export more

**2.4 State of the world economy** : If there is higher income in world economy, domestic country is likely to export more

**2.5 Degree of protectionism** : Greater degree of protectionism internationally, the more difficult it will be for firms to export.

**2.6 Non-price factors** : If goods are high innovation and high quality standard, domestic firms possible to export more.