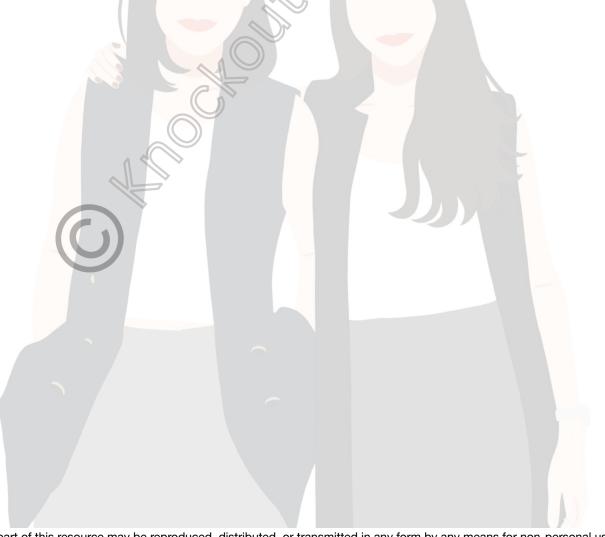
## **CHAPTER 30: Government expenditure and net trade**

## **Key terms**

- 1. Budget deficit: when government spending is greater than tax revenue
- 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.



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## 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.