Key-Terms Revision Sheet — Define & Apply

The fastest marks in any Economics exam come from precise definitions. This sheet groups the course's key terms by topic and pairs each with the way examiners expect you to *use* it — not just recite it. Your unit also carries a full glossary; this is the condensed, exam-focused version for the night before.

> A definition earns full marks when it is **precise** (the exact economic meaning), **complete** (includes the key qualifier), and where useful **applied** (a formula or one-line example). "A tariff is a tax on imports" is fine; "a tax on imports that raises their domestic price, protecting local producers but reducing efficiency" is better.

Unit 3 — trade & protection

- **Comparative advantage** — producing a good at a lower *opportunity cost* than another country. *Use it to:* justify the gains from specialisation, even when one country is better at everything.
- **Opportunity cost** — the value of the next best alternative forgone. *Use it to:* read the slope of a PPF.
- **Tariff** — a tax on imports that raises their domestic price. *Use it to:* show domestic production up, consumption down, imports down, plus a deadweight loss.
- **Subsidy** — a government payment to domestic producers lowering their costs. *Use it to:* contrast with a tariff (budgetary cost, not consumer price rise).

Unit 3 — external accounts

- **Balance of payments** — the record of all transactions with the world; current account + capital and financial account; balances overall by double-entry. *Use it to:* anchor any external-stability answer.
- **Current account** — trade balance + net primary income + net secondary income. *Use it to:* explain a CAD via the savings–investment gap.
- **Terms of trade** — (export price index ÷ import price index) × 100. *Use it to:* link a commodity boom to higher national income.
- **Exchange rate** — the price of the $A, set by demand and supply in the FX market. *Use it to:* trace effects of an appreciation/depreciation on exports and imports.
- **Foreign direct investment** vs **portfolio investment** — a lasting controlling interest vs liquid financial assets. *Use it to:* evaluate the stability of capital inflows.

Unit 4 — activity & the AE model

- **Business cycle** — fluctuations in real GDP around trend (expansion, peak, contraction, trough). *Use it to:* place the economy and justify a policy stance.
- **Aggregate expenditure** — AE = C + I + G + (X − M). *Use it to:* identify which component a shock hits.
- **MPC** / **MPS** — the share of an extra dollar consumed / saved; MPC + MPS = 1. *Use it to:* compute the multiplier.
- **Multiplier** — k = 1 ÷ (1 − MPC) = 1 ÷ MPS. *Use it to:* size the final change in output from an injection.

Unit 4 — the AD/AS model & policy

- **Aggregate demand** — total demand at each price level; AD = C + I + G + (X − M). *Use it to:* show a demand-side policy shifting AD.
- **Aggregate supply** — SRAS slopes up; LRAS is vertical at potential output. *Use it to:* separate short-run from long-run effects.
- **Fiscal policy** — using the budget (G and T) to influence activity. *Use it to:* classify an expansionary/contractionary stance.
- **Automatic stabilisers** — counter-cyclical changes in spending and tax with no new decision. *Use it to:* distinguish from discretionary policy.
- **Monetary policy** / **cash rate** — the RBA's use of the overnight rate to influence activity. *Use it to:* open any monetary answer.
- **Transmission mechanism** — the channels (rates, exchange rate, wealth, cash flow) from the cash rate to AD. *Use it to:* structure a "how does monetary policy work" answer.
- **Labour productivity** — output per unit of labour input. *Use it to:* drive a rightward LRAS shift.
- **Aggregate Production Function** — the link between inputs and output; rises with productivity. *Use it to:* connect productivity to potential output.

> **The pairs students most often confuse:** absolute vs comparative advantage; terms of trade (a price ratio) vs trade balance (a value); tariff (consumer price up) vs subsidy (budget cost); FDI vs portfolio investment; fiscal (government, budget) vs monetary (RBA, cash rate); SRAS shift (costs) vs LRAS shift (capacity); AD shift (demand-side) vs LRAS shift (supply-side). Be able to state the distinction in one sentence for each pair.

> Learn the definition *and* its use. In the exam, leading with a crisp defined term signals control of the material and frequently secures the opening mark of a question before your analysis even begins.