
Postgraduate Certificate in International Finance

International Trade and Finance

International Trade and Finance Glossary

1. Absolute Advantage:

An economic theory introduced by Adam Smith that suggests a country should specialize in producing goods or services in which it is more efficient than other countries. This allows the country to maximize its output and trade for goods or services it cannot produce as efficiently.

2. Balance of Payments:

A record of all economic transactions between a country and the rest of the world over a specific time period. It includes the trade balance (exports minus imports), financial transactions, and capital flows.

3. Comparative Advantage:

The ability of a country to produce a good or service at a lower opportunity cost than another country. This concept, introduced by David Ricardo, forms the basis of international trade theory.

4. Currency Exchange Rate:

The rate at which one currency can be exchanged for another. Exchange rates fluctuate based on factors such as interest rates, inflation, and political stability.

5. Dumping:

The practice of selling goods in a foreign market at a price lower than the production cost or the price in the home market. This can be considered an unfair trade practice and may lead to trade disputes.

6. Exchange Rate Regime:

The system used by a country to determine the value of its currency in relation to other currencies. Common exchange rate regimes include fixed, floating, and managed exchange rates.

7. Export-Import Bank (Ex-Im Bank):

A government agency that provides financing and insurance to support the export of goods and services from a country. Ex-Im Banks help to promote international trade by mitigating risks for exporters.

8. Foreign Direct Investment (FDI):

Investment in a business or project in a foreign country by a company based in another country. FDI can take the form of building new facilities, acquiring existing businesses, or investing in joint ventures.

9. Free Trade Agreement (FTA):

An agreement between two or more countries to reduce or eliminate trade barriers such as tariffs and quotas on goods and services traded between them. FTAs promote economic growth and increase trade between participating countries.

10. Globalization:

The process of increasing interconnectedness and interdependence among countries, economies, and societies through trade, investment, technology, and information flow. Globalization has led to a more integrated global economy.

11. Import Substitution Industrialization (ISI):

A development strategy that emphasizes the production of goods domestically to reduce reliance on imports. ISI aims to promote local industries, create jobs, and protect domestic markets.

12. International Monetary Fund (IMF):

An international financial institution that provides financial assistance, policy advice, and technical assistance to member countries facing economic difficulties. The IMF promotes international monetary cooperation and exchange rate stability.

13. Letter of Credit (LC):

A financial instrument issued by a bank on behalf of a buyer to guarantee payment to a seller upon the fulfillment of certain conditions. Letters of credit reduce the risk for both parties in international trade transactions.

14. Most Favored Nation (MFN) Status:

A principle of international trade that requires a country to extend the same trade terms and privileges to all trading partners that it provides to its most favored trading partner. MFN status promotes non-discriminatory trade practices.

15. Non-Tariff Barriers:

Restrictions on trade that do not involve the imposition of tariffs. Non-tariff barriers include quotas, licensing requirements, quality standards, and other regulations that can hinder trade flows.

16. Offshore Financial Center (OFC):

A jurisdiction that provides financial services to non-residents in a tax-efficient and regulatory-friendly environment. OFCs are often used for international trade and investment activities.

17. Purchasing Power Parity (PPP):

A theory that suggests exchange rates between two currencies should equalize the prices of a basket of goods and services in each country. PPP is used to compare the relative value of currencies.

18. Quota:

A limit imposed by a government on the quantity of a specific good that can be imported or exported during a certain period. Quotas are a type of trade barrier that can protect domestic industries or restrict competition.

19. Special Drawing Rights (SDRs):

An international reserve asset created by the International Monetary Fund (IMF) to supplement the official reserves of member countries. SDRs are allocated to IMF member countries based on their quotas.

20. Tariff:

A tax imposed by a government on imported or exported goods. Tariffs are a common trade barrier used to protect domestic industries, raise revenue, or address trade imbalances.

21. World Trade Organization (WTO):

An international organization that regulates and facilitates trade between countries. The WTO sets rules for trade agreements, resolves trade disputes, and promotes free and fair trade practices.