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1. **current account deficit (CAD)** is recorded when the debits in the current account (imports and income payments to overseas) are greater than the credits (exports and income payments from overseas)

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  2. **debt servicing ratio** is the proportion of export revenue that is used to make repayments on foreign debt, and is a common measure of the sustainability of Australia's foreign debt level

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  3. **exchange rates** are the price of one currency in terms of another economy's currency

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  4. **external stability** is an aim of government policy that seeks to promote sustainability on the external accounts so that Australia can service its foreign liabilities in the medium to long run and avoid currency volatility

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  5. **net foreign debt** is the total stock of loans owed by Australians to foreigners, minus the total stock of loans owed by foreigners to Australians

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  6. **net foreign equity** the total value of assets in Australia such as land, shares and companies in foreign ownership, minus the total value of assets overseas that are owned by Australians

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  7. **net foreign liabilities** are equal to Australia's financial obligations (foreign debt plus foreign equity) to the rest of the world minus the rest of the world's financial obligations to Australia

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  8. **the pitchford thesis** states that as long as a current account deficit is the result of savings and investment decisions by the private sector which are not the result of distortions to normal market mechanisms, then there is no cause for concern about an economy's external stability
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