Economy and finance

VOCABULARY PRACTICE
ADVANCED | C1

Name: _____ Date: _____

1 Match each advanced term with its definition.

1 moral hazard ____	**a** the tendency for insured parties to take greater risks, since they don't bear the full consequences
2 systemic risk ____	**b** the risk that the failure of one financial institution could trigger failures throughout the system
3 fiscal drag ____	**c** a situation where inflation pushes taxpayers into higher tax brackets without real income growth
4 crowding out ____	**d** a situation where government borrowing reduces the funds available for private investment
5 procyclical policy ____	**e** economic policy that amplifies rather than smooths the business cycle
6 counter-cyclical policy ____	**f** economic policy deliberately designed to smooth out the business cycle
7 debt-to-GDP ratio ____	**g** a measure of a country's government debt relative to its total economic output
8 currency devaluation ____	**h** a deliberate reduction in a currency's value relative to others
9 asset bubble ____	**i** a situation where an asset's price rises far beyond its underlying fundamental value
10 financial contagion ____	**j** the spread of financial instability from one institution or market to others

2 Choose the most precise term for each context.

1 Taking greater risk because consequences fall on others is moral hazard / personal accountability.

2 The risk of one failure triggering system-wide collapse is systemic risk / an isolated incident.

3 Inflation pushing taxpayers into higher brackets without real gains is fiscal drag / tax relief.

4 Government borrowing reducing funds for private investment is crowding out / crowding in.

5 Policy that amplifies the business cycle is procyclical policy / counter-cyclical policy.

6 Policy designed to smooth the business cycle is counter-cyclical policy / procyclical policy.

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7 A measure of debt relative to output is the debt-to-GDP ratio / absolute debt level.

8 An asset priced far beyond its fundamental value is an asset bubble / fair valuation.

3 Match the verbs with the noun phrases to form academic collocations.

1 mitigate ____	**a** an asset bubble
2 exacerbate ____	**b** systemic risk
3 stabilise ____	**c** financial contagion
4 deflate ____	**d** moral hazard
5 contain ____	**e** currency volatility
6 incentivise ____	**f** fiscal drag
7 monitor ____	**g** excessive risk-taking
8 offset ____	**h** macroeconomic indicators

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4 Complete the analysis with terms from the box.

asset bubble | counter-cyclical policy | crowding out | currency devaluation | debt-to-GDP ratio | financial contagion | fiscal drag | moral hazard | procyclical policy | systemic risk

Financial regulators concerned with 1 _____ closely monitor institutions whose failure could trigger 2 _____, spreading instability rapidly across otherwise unrelated markets. Government bailouts, while sometimes necessary to prevent collapse, risk introducing 3 _____, encouraging excessive risk-taking by institutions that expect future rescue regardless of poor decisions. Economists debate whether fiscal policy should actively pursue 4 _____, deliberately smoothing the business cycle, or whether well-intentioned intervention risks becoming inadvertently 5 _____, worsening rather than dampening economic swings. Rising government borrowing raises concern about 6 _____, since increased public debt can reduce funds available for private investment, while a persistently rising 7 _____ prompts questions about long-term fiscal sustainability. During periods of high inflation, unadjusted tax brackets can produce 8 _____, quietly increasing the effective tax burden without any legislative change. Meanwhile, speculative excess in a particular market sector can inflate a dangerous 9 _____, and some governments resort to deliberate 10 _____ to boost export competitiveness, despite the inflationary risks this strategy carries.

5 Read the text and answer the questions briefly.

Lessons from financial crises

Economic historians studying past financial crises consistently identify certain warning signs preceding major collapses, including rapid credit expansion, unsustainable asset bubbles and growing systemic risk concentrated within interconnected financial institutions. Regulatory responses developed after previous crises have attempted to reduce moral hazard by requiring greater capital reserves and closer supervision of institutions deemed systemically significant, though critics argue that financial innovation consistently outpaces regulatory adaptation, creating new, poorly understood risks within the system. The persistent danger of financial contagion, whereby localised instability spreads rapidly through interconnected global markets, means that even seemingly well-regulated economies remain vulnerable to crises originating elsewhere in an increasingly interconnected global financial system.

1 What do economic historians consistently identify preceding major crises? _____

2 Give two warning signs mentioned in the text. _____

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3 What have regulatory responses attempted to reduce? _____

4 What do critics argue consistently outpaces regulatory adaptation? _____

5 What does financial contagion involve? _____

6 What does this mean even for seemingly well-regulated economies? _____

6 Replace the words in bold with a precise term or collocation.

1 The bailout risked encouraging excessive future risk-taking. _____

2 The failure of one bank threatened to spread instability across the whole system. _____

3 The asset's price rose far beyond its underlying fundamental value. _____

4 The government deliberately reduced its currency's value to boost exports. _____

OVER TO YOU

Write a 160-190 word critical commentary on how financial regulation attempts to manage systemic risk and moral hazard, distinguishing observation from inference.

[ ] Use at least twelve target expressions. [ ] Include four academic collocations. [ ] Maintain a precise, balanced register.

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ANSWER KEY

1 Advanced terms

1 a 2 b 3 c 4 d 5 e 6 f 7 g 8 h 9 i 10 j

2 Precise terms

1 moral hazard 2 systemic risk 3 fiscal drag 4 crowding out 5 procyclical policy 6 counter-cyclical policy 7 the debt-to-GDP ratio 8 an asset bubble

3 Academic collocations

1 d mitigate moral hazard 2 b exacerbate systemic risk 3 e stabilise currency volatility 4 a deflate an asset bubble
5 c contain financial contagion 6 g incentivise excessive risk-taking... note adjust 7 h monitor macroeconomic indicators 8 f offset fiscal drag

4 Analysis

1 systemic risk 2 financial contagion 3 moral hazard 4 counter-cyclical policy 5 procyclical policy
6 crowding out 7 debt-to-GDP ratio 8 fiscal drag 9 asset bubble 10 currency devaluation

5 Reading - suggested answers

1 Certain warning signs.
2 Any two: rapid credit expansion, unsustainable asset bubbles, growing systemic risk.
3 Moral hazard.
4 Financial innovation.
5 Localised instability spreading rapidly through interconnected global markets.
6 That they remain vulnerable to crises originating elsewhere in an increasingly interconnected global financial system.

6 Precise terms and collocations

1 moral hazard 2 systemic risk 3 an asset bubble 4 currency devaluation

Over to you

Answers will vary. Look for conceptual precision, evidence-aware reasoning and balanced evaluation.