Topic One
The global economy

The **global economy** is all the economies of individual nations that are linked together rather than individual economies.
The **gross world product** is the aggregate value of all goods and services produced worldwide in a year.
Globalisation involves the process of increased integration between countries and economies and increased impact of international aspects of life and economic activity.

- **International trade flows**

The average level of trade growth has grown at three times the average rate of national economic activity.
Transnational Corporations are firms that operate in more than one country.

- **International finance**

Growth of international finance has played crucial roles, because money can move between countries much quicker than goods and services. Financial flows have expanded substantially following financial deregulation around the world

- **International Investment and Technology**

Foreign Direct Investment involves the movement of funds, which are directly invested into economic activity. Technology has allowed for faster communication and trade between countries. It has given economies a better opportunity for better trade performances.

- **Internationalisation of the labour market**

Labor cannot move around the world as quickly as money, goods and services, but there have still been slight increases in the movement of labor. One of the constraints has been the immigration policy of countries. High skilled workers are attracted towards the richest economies. Low-skilled workers are also in demand in advanced economies

Global financial markets
Foreign exchange markets (FOREX markets) are networks of buyers and sellers exchanging one currency for another where the value is determined in terms of another currency. FOREX markets have experienced extremely high amounts of growth, mainly because of speculators who only want to make a short-term profit.

- **Exporters** – use the FOREX markets because they wish to receive the payments for their goods in their own currency. Only represents a small proportion of overall foreign exchange transactions.
- **Foreign investors** – who are purchasing assets in another country, must exchange their currency for the local currency for the local currency
- **Speculators** – make short-term currency trades so that they can make a profit. They make up about 98% of the FOREX market. Speculation can lead to volatility on the foreign exchange market.

Impacts of changes
Changes in trade and financial flows can have significant impacts on economies. Shifts in trades will cause economies to shift resources towards the industry with increased demand. It is opposite when there is a decline in demand for a certain product. Changes in financial flows can also have an impact on the economy of certain countries. Most movements in exchange rates and flows of finance have mild effects of economies.

Free trade is a situation where there are no artificial barriers to trade imposed by governments.
Comparative advantage is when a country can produce a good at a lower opportunity cost than other countries can.

Advantages	**Disadvantages**
Obtain goods they cannot produce	Rise in short-term unemployment
Better allocation of resources	Difficult for new industries to enter
Economies of scale	Dumping may occur
International competitiveness	
Higher living standards	

Reasons for protection

- **Protection** is any government action that has the effect of giving domestic producers an artificial advantage over foreign competition.
- **Infant Industries**

Newly established industries may find it hard to enter the markets because their costs are high. Protection should only be temporary; otherwise there would be no incentive to increase efficiency.

- **Prevention of dumping**

Dumping occurs when foreign firms attempt to sell their goods in another country at unrealistically low prices. It is used to establish a market position, or dispose of a large number of goods.

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- **Protection of domestic employment**

Protection will mean that domestic consumers will purchase local goods because they are cheaper, which will provide employment in the domestic economy. in the long run this policy will tend to lead to higher unemployment in the long run.

- **Defense and self-sufficiency**

These are non-economic reasons for protection. Countries will generally want to keep control of defense industries and food supplies. When a country wishes to adopt these policies it must accept that it may gain self-sufficiency at the expense of higher living standards.

Methods of protection

- **Tariffs** – are government-imposed taxes on imports. It has the effect of raising the price of imports.
- **Quotas** – controls the volume of goods that is allowed to be imported over a given time period.
- **Subsidies** – are financial assistance to domestic producers, which enables them to reduce their selling price and compete more easily
- **Voluntary export restraints** – a country will sometimes agree to restrict the volume of exports

Trade agreements – are formal agreements between countries designed to break down the protection barriers.
A **trading bloc** – occurs when a number of countries join together in a formal preferential trading agreement to the exclusion of other countries

- APEC
- EU
- NAFTA
- CERTA
- ASEAN

International organizations

- **World Trade Organization** – their role is to implement and advance global trade agreements and to resolve trade disputes. The WTO was a result of the GATT. The WTO had 142 members in 2001
- **International Monetary Fund** – their role is to maintain international financial stability, particularly in relation to FOREX markets. The IMF's policies are to support the free flow of capital, goods and services throughout the world markets.
- **World bank** – their role is primarily concerned with helping poorer countries with their economic development. Its focus is to fund investment to infrastructure, reduce poverty and help countries adopt to globalization.

Economic growth is an expansion of a country's productive capacity. Growth makes it possible for a country to satisfy an increased proportion of material wants. Economic growth can cause environmental degradation and loss of traditional cultural values.
Economic development takes into account increase in welfare, lower levels of poverty, unemployment, health and the preservation of the environment. It also takes into account the GNP per capita. High levels of economic development usually correspond with higher rates of economic growth.
Gross National Product is the total value added from domestic and foreign sources in a country and includes GDP plus net receipts of primary income from foreign sources.
Purchasing Power Parity (PPP) – is the idea of measuring, by adjusting measurements of the size of the economy to reflect the actual purchasing power of currencies within a national economy.
Human Development Index – is a measurement of achievement in a country by combining both economic growth and social welfare.
It takes into account:

- Life expectancy at birth
- Level of education
- GDP per capita

Categories of development:

- **High-income countries** – are the advanced/industrialized countries within the world.
- **Newly industrialized countries**- these are countries that are in transition from been developing countries towards becoming high-income countries.

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- **Developing countries** – are economies with low levels of living standards and which are struggling to achieve high levels of growth and industrialization.
- **Transition economies** – are economies that were formerly socialist economies prior to the collapse of socialism in the 1980's. They are trying to convert to market economies.
- **Emerging economies** – they have faster rates of growth and better economic prospects.

Characteristics of developing countries

- Lower living standards
- High levels of income inequality
- Agricultural production
- High levels of unemployment
- Low workforce participation rates
- Lack of technology
- Reliance on foreign aid

Why living standards differ:

- **Economic structure**
  - High income countries are based on service industries and advanced technology
  - Low income countries are based on agricultural production
- **Population and labor market factors**
  - High income countries have a population with a high level of education and relatively high rates of production
- **Institutional factors** – stable government and policies allows for better living standards
- Economic growth influenced by culture
- Access to capital and ease of establishing a business
- Global relations
- Levels of foreign debt

Impacts of globalisation

High-income countries and newly industrialized countries have generally benefited from globalization

- The NIC's performed best because of globalisation
- Transition economies fared worse experiencing a drop in their growth rates