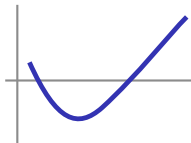


International Economic Issues

A-Level Economics ■ Topic 11

A-Level Economics



What we will cover

- 1 Correcting an imbalance
- 2 The J-curve
- 3 Measuring exchange rates
- 4 Growth vs development
- 5 Comparing countries
- 6 Globalisation



the world as one market



Correcting an imbalance

expenditure-reducing

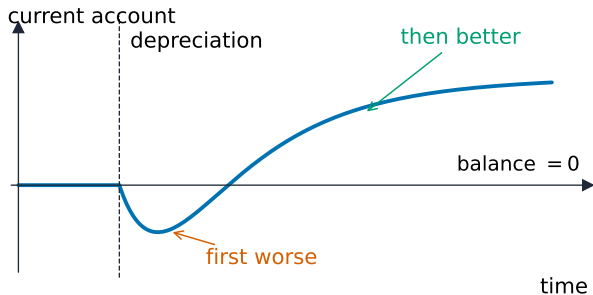
cut demand → fewer imports

expenditure-switching

lower exchange rate
→ home goods

The **Marshall–Lerner condition** : a lower rate helps only if $PED_{\text{exports}} + PED_{\text{imports}} > 1$.

The J-curve



The **J-curve effect** J: just after a **depreciation**, the current account first gets **worse** (imports cost more at once), then **improves** as trade volumes adjust.

J-curve: after depreciation, CA first worse then better



Measuring exchange rates

An **exchange rate** is the price of one currency in terms of another – and there is more than one way to measure it:

nominal

–
the everyday
market rate

real

–
adjusted
for prices

trade-weighted

– average vs all partners

Floating: **appreciation** / **depreciation** . Fixed: deliberate **revaluation** / **devaluation** .

Three ways to measure one exchange rate

Nominal exchange rate

The **nominal exchange rate** is the everyday market rate between two currencies – the number on the board at the bank.

Real exchange rate

The **real exchange rate** adjusts that for the difference in prices between the two countries, so it shows true **competitiveness**.

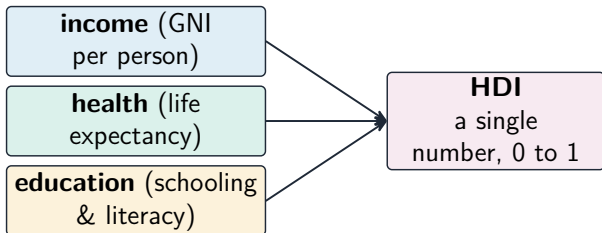
Trade-weighted

The **trade-weighted exchange rate**, also called the **effective exchange rate**, averages a currency against **all** its partners, weighted by how much trade is done with each.

A currency can rise against the dollar and fall on the trade-weighted measure at the same time – which is why an exam answer must say *which* rate it means.



Growth vs development and the HDI



Growth is more income;
development is wider – health, education & freedom. The **HDI** rolls income, **life expectancy** & education into one number (0–1).

Growth is not development

economic growth

a rise in **real output** – one number, and it says nothing about who received it

economic development

a rise in **welfare and freedom**: health, education, and choice

why they differ

an oil discovery can raise GDP sharply while schooling, health and inequality are unchanged or worse

the HDI

income, life expectancy and education combined into one index

education measured as

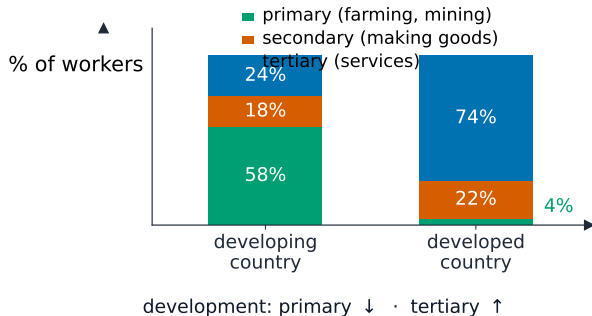
mean and expected **years of schooling**

other signs

access to clean water, doctors per person, and mobile-phone and internet use

Growth is a **means**; development is the **end**. Every question comparing two countries wants that distinction made explicitly.

Comparing countries



A **developed** vs a **developing** country differ in income, birth rate & life expectancy.

As a country develops, workers shift **primary** → **secondary** → **tertiary**.

Developed and developing, and where the work is

Developed country

A **developed country** has high income per person, low birth rate, high life expectancy and a small share of workers in farming.

Developing country

A **developing country** has lower income, often high population growth, lower life expectancy and a large farming workforce.

Employment structure

The **employment structure** shifts as a country develops: out of the **primary sector** (farming, mining), into the **secondary sector** (making goods), and later into the **tertiary sector** (services).

Standard of living

Development is about the **standard of living** – health, education and freedom of choice – not income alone.

The sector shares are a development measure in their own right: a stacked bar tells you roughly where a country sits before you look at any income figure.

What actually shapes a country's development

savings and investment

without domestic saving, investment must be borrowed or attracted from abroad

education and health

the productivity of the workforce, and how long it stays productive

infrastructure

roads, ports, power, broadband – what every other activity rests on

stable government and law

contracts enforced and property secure, or nobody invests for the long term

access to world markets

landlocked, or facing tariff walls, and the export route closes

the visible marker

the [share of workers in farming](#): small in a developed economy, large in a developing one

None of these acts alone, which is why single-cause explanations of poverty fail. Name at least two and say how they reinforce each other.



Relationships between countries

trade – raises income, but volatile primary-export prices

aid & **debt** – fund development, but risk dependency & repayment drain

FDI – money, jobs, technology, but profits may flow abroad

migration – eases unemployment & sends **remittances** , but can drain skills

How rich and poor countries are linked

trade

opens markets and raises income – but a country dependent on one commodity is exposed to its world price

aid

can fund schools and roads – but it may create **dependency**, or be wasted or diverted

FDI

a **multinational** brings money, jobs and technology – but **profits leave** the country and local firms may be squeezed out

debt

borrowing funds development – until repayments exceed what development earns

migration

remittances are a major income source – against the loss of the skilled workers who sent them

Every link has a good and a bad side, and the exam always wants both. An answer with only the benefits caps at the description band.

The links between rich and poor countries

Trade

Can raise incomes – but many developing countries depend on a few primary exports whose prices swing sharply.

Aid and debt

Aid funds schools and roads, but may create dependency; **debt** can pay for development, and repaying it can drain a poor country's budget.

FDI

Foreign direct investment (FDI) by a **multinational corporation** brings money, jobs and technology – while profits may flow back abroad and workers may be poorly treated.

Migration

Eases unemployment and brings **remittances** home, but can drain a country of its most skilled people.

Every link on this slide has two sides. An evaluation mark comes from saying *under what conditions* the good side wins.

Globalisation



Globalisation ties economies together; countries join a **trade bloc** (e.g. the EU).

- + lower prices, faster growth, larger markets
- – lost jobs, wider gaps, more pollution

Globalisation: what it is, and what it does

globalisation

growing links between countries – in trade, money, technology and people – so the world acts more like **one market**

a trade bloc

a group trading freely among themselves, like the European Union – free inside, common barriers outside

the gains

faster growth, technology transfer, and poorer countries able to **industrialise**

the costs

the gap between rich and poor can **widen**, and powerful multi-nationals may avoid tax and dodge **protectionism** rules

and

cultural and environmental effects that no trade statistic records

Globalisation raises **total** world output while distributing it unevenly. Both halves of that sentence are needed for the evaluation mark.

What drives globalisation

Cheaper links

Falling transport and communication costs: a container ship and a fibre-optic cable both shrink distance.

Free trade

Free trade agreements and lower tariffs let goods cross borders with less friction.

Mobile capital

Investment moves to wherever it earns most, so production is split across countries rather than done in one.

The result

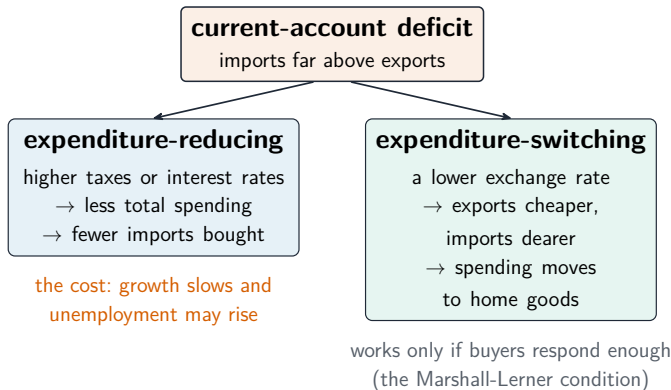
The world acts more like **one market** – in trade, money, technology and people.

Name a cause, then a consequence, then who bears it. “The world is more connected” on its own earns nothing.

Benefits and costs

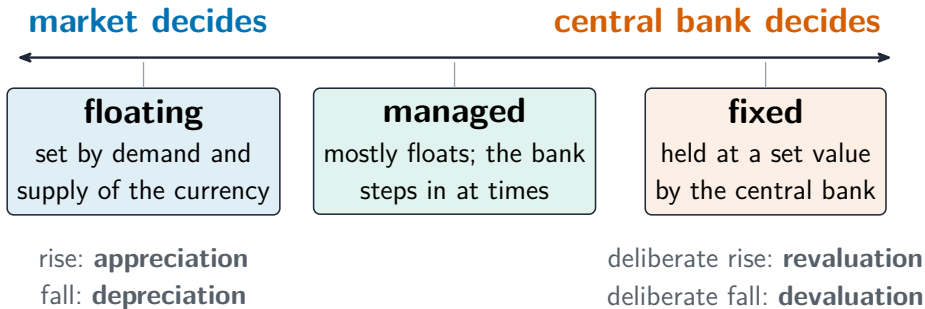
Globalisation helps developed and developing economies in different ways, but the gains are not shared evenly, which is why it remains so argued about.

Correcting a balance of payments imbalance



Two routes out of a deficit: spend less overall, or switch spending to home goods

The three systems



The three exchange-rate systems, and the words for a rise or fall in each

The three exchange-rate systems

Floating

A **floating exchange rate** is set by the demand for and supply of the currency. A rise is an **appreciation**, a fall a **depreciation**.

Fixed

A **fixed exchange rate** is held at a set value by the central bank. A deliberate rise is a **revaluation**, a deliberate fall a **devaluation**.

Managed

A **managed exchange rate** mostly floats, with the central bank stepping in at times – most real-world currencies sit here.

Why the words matter

Use appreciation/depreciation for a market move, revaluation/devaluation for a policy decision. The examiner reads the choice as evidence you know the system.

One line from “the market decides” to “the central bank decides”: floating, managed, fixed.

Economic development

growth
more income

development
income + health
+ education + freedom

Do not confuse the two. A country can **grow without developing** much, if the extra income goes to a few people. Development means rising incomes **plus** better health, more schooling and more freedom – which is why the HDI combines all three.

Exam tips

- Distinguish **expenditure-reducing** from **expenditure-switching** policies for a deficit.
- Explain the **Marshall-Lerner condition** ($PED_x + PED_m > 1$) and the **J-curve** (the deficit worsens before it improves).
- Compare development with the **HDI** (income, education, health), not GDP alone.
- Evaluate **globalisation** with its winners and losers (growth and choice versus inequality and instability).



Worked example – Marshall-Lerner

After a depreciation, $PED_X = 0.6$ and $PED_M = 0.7$. Will the current account improve?

- Marshall-Lerner: a depreciation improves the current account only if $PED_X + PED_M > 1$.
- $0.6 + 0.7 = 1.3 > 1 \Rightarrow$ yes, it improves.
- Exports are cheaper abroad and imports dearer at home, and demand responds enough overall.
- In the short run demand is inelastic, so it worsens first: the J-curve.

Add the two elasticities and compare with 1. Sum $\leq 1 \Rightarrow$ the higher import prices outweigh the extra export volume and the account worsens.

Topic 11 – key takeaways

1

J-curve

depreciation: worse first, then better

2

Exchange rates

nominal, real, trade-weighted

3

Development

HDI: income, health & education

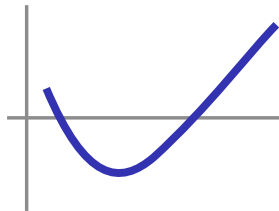
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Globalisation

ties economies – gains shared unevenly

Check yourself

- 1 Just after a depreciation, the J-curve first does what?
- 2 Which rate adjusts for prices between countries?
- 3 Name the three parts of the HDI.
- 4 Workers shift from primary to which sectors as a country develops?



Answers 1. gets worse 2. the real exchange rate 3. income, health, education
4. secondary then tertiary