The global economy

Edexcel IGCSE Economics 4EC1 sections 2.2.1-2.2.3 full package

Topic 7 at a glance

> Economies integrate, trade, and price each other's currencies.

- 4EC1 spec sections 2.2.1 to 2.2.3.
- The **tariff** reuses the shared market model.

Why globalisation happened

> Trade got cheaper and easier, and firms went global.

- **Globalisation**: integration and interdependence.
- MNCs carry production across borders.

Winners and losers

Gains	Costs
higher living standards	traditional industries close
more choice, lower prices	exposed workers lose out
cheaper communication	environmental damage

Multinationals and FDI

For the host
jobs and skills
infrastructure and capital
tax revenue

Against
tax avoidance
environmental damage
profits sent abroad

Free trade, both ways

For free trade	Against
lower prices, more choice	foreign competition
cheaper inputs	domestic firms close
wider markets	unemployment in exposed industries

Seven reasons to protect

Motive	What it guards
dumping	firms against below-cost imports
employment	jobs in exposed industries
infant industries	new firms until they can compete
revenue	the government budget
safety	consumers from unsafe products
current account	against a deficit
retaliation	against other countries' barriers

A tariff, drawn

A **tariff** of 4: price 12 to 16, imports 48 to 24, revenue 96.

- Domestic producers sell more: 68 to 84.
- Consumers buy less: 116 to 108.

Three ways to protect

Method	For	Against
tariff	raises revenue	higher prices
quota	exact quantity limit	no revenue; higher prices
subsidy	saves jobs	costs the budget

Blocs, the WTO and trade patterns

Trading blocs

free trade inside

economies of scale

trade diverted from outsiders

The WTO

negotiates freer trade

sets trade rules

settles disputes

What moves a currency

> Demand and supply of the currency set its price.

- The **exchange rate**: one currency's price in another.
- Importers sell domestic currency to buy foreign.

Four direction words

Direction	Floating (market)	Fixed (deliberate)
rise	**appreciation**	revaluation
fall	**depreciation**	**devaluation**

Depreciation, drawn

> Import demand rises: a foreign unit costs 6.5, not 5.

- The market for the foreign currency.
- More imports: more foreign currency demanded.

What a depreciation does

> Dearer imports, cheaper exports: the current account can improve.

- Only if the elasticities allow.
- An **appreciation** does the reverse.

Data response: the weak yen

1. **Car of ¥3,000,000, in $** $\div 120 = 25{,}000$; $\div 150 = 20{,}000$
2. **Oil at 120 and 150** $\$80 \times 120 = ¥9{,}600$; $\times 150 = ¥12{,}000$
3. **Oil in yen** $(12{,}000 - 9{,}600) \div 9{,}600 \times 100 = 25\%$

Decision

Exports 20% cheaper abroad; oil 25% dearer at home.

Data response: was the weak yen good?

Gains	Losses
exporters sell more	dearer energy and food
record tourism	record trade deficit
some welcome inflation	real incomes fall

Check yourself

Question	**Answer**
Imports at world price 12?	$116 - 68 = 48$
Tariff revenue at 16?	$4 \times 24 = 96$
A deliberate cut in a fixed rate?	**devaluation**
Depreciation: import prices?	rise
¥3,000,000 at 150 per \$?	\$20,000