

# The global economy notes



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ECONOMICS Globalisation the increase in trade across national boundaries  
Increase in movements of capital, labour, technology between nations  
Increase in interdependency between national economies Growth in  
size/number of Transnationals Increased environmental damage Increases in  
the flows of labour, g/s, crime legislation, tourists, technology, information  
The global economy reflects total amount of economic activity going on in  
the world.

For it to exist, it means that a rising share of economic activity in the world is taking place between people who live in different countries. International organisations Such as WTO and IMF have helped free up world trade by reducing trade barriers, and by the deregulation of the World financial markets. Some globalisation in countries causes a loss in national identity, increasing environmental problems and exploitation of labour GWP A concept similar to GDP but it looks at total world output over a period of time. One indicator of globalisation is that global trade is growing faster than GWP.

measured by adding together the outputs of the world economy. 1999 est to be US\$ 40714 billion Figures may vary significantly as Inflation rates vary, exchange rates differentiate, statistical methods vary, inaccuracies. WT and Output Expansion of the world economy directly related to fast growing new economy of North America. Purchasing Power Parity Method of comparing living standards in different countries by comparing the Purchasing Power of different currencies rather than comparing various GDPS. PPP concentrates on the volume of goods and services that can be purchased with 1 unit of a countries currency. High trade Dependency Countries with very high trade

dependencies act as trade conduits they import goods and repackage them and sell them on to third parties Global Resource Flows Net movements of savings from economy to economy in order to undertake investment across international borders Investment Direct Investment refers to the level of investment required to gain enough ownership in a venture to give the investor some say in how the business is operated.

10% Plus holdings Investment is creation of new capital FDI is in 2 forms {text: soft-page-break} Portfolio Investment is when overseas corporations purchase shares, debentures or other securities in existing domestic companies. OVERVIEW Globalisation is a force shaping a new era of interaction between nations, economies and people. With this interaction across national boundaries many countries have benefited from increased trade across to technology and investment, However globalisation has had negative effects cause by the fragmentation of production and labour markets and the loss of political and social identity. Glossary Of Terms Apec: Asia Pacific Economic Cooperation. In response to the development of trading blocks such as the EU. Asean: Association of Southeast Asian Nations is an organisation of nations from that region, which has agreed to free trade amongst its member nations. Futures Market: Market where agreements are made, that commercial ties and other products will be bought or sold at a later date, at a fixed price, determined at the time that the contract is agreed too. FREE TRADE A situation where there are no barriers Comparative Advantage: Economic principle that nations should specialise in the areas of production in which they have the lowest opportunity cost and trade with other nations, so as to maximise both nations standard of living.

**Absolute Advantage:** Is said to occur when one country can produce a product at lower cost, or with greater efficiency (ie using less resources) than another country. **Protection:** Refers to government policies that give domestic producers an artificial advantage over foreign competitions, such as tariffs on imported goods. An argument against free trade. **Dumping:** Practice of exporting goods to a country at a price lower than their selling price in their country of origin. **Effects of a Tariff** Price goes up demand contracts supply extends Government gets revenue **Disadvantage of protection** ??“ reliance on it ??“ quality may fall **Effects of A Subsidy Increase** on supply Tax payers pay subsidy More resources go to the subsidised industry **Competing non subsidised industries** pay more for their resources. **Tariffs:** Taxes on imported goods, imposed for the purpose of protecting Australian Industries **Quotas** ??“ refers to the restrictions on the amounts of values of various kinds of goods that may be imported.

**Subsidies:** Cash payments from the government to business to encourage production of a good or services and influence the allocation of resources in an economy. Subsidies are often granted to business to help them compete with overseas produced goods and services. {text: soft-page-break} **THE BASIS OF FREE TRADE** As all countries do not equally share resources, it makes sense that some trade would take place. Economists such as Adam Smith and David Ricardo have developed a theory of trade which argues that free and open trade between countries enhances global economic growth and living standards.

**Economic arguments in favour of protection** ??? Infantry??? Industry ??“ when in industry is being established protection may be justified, particularly <https://assignbuster.com/the-global-economy-notes/>

in industries where significant economies of scale apply. The industry should be able to demonstrate that it will be competitive in time and in line with this thinking, protection should only be short term and should be phased out or reduced over an agreed time schedule. To maintain employment during a recession protection may in the short term provide domestic stimulus to an economy in recession by protecting local jobs but efficient local industries could be damaged if trading partners retaliate. To avoid reliance on Key industries changing technology can significantly affect industries and it may be economically desirable to begin a process of diversification. Prevent dumping Non Economic argument (Perhaps even for long-term Protection) Self sufficiency post ww2 Australia Decentralisation social benefits may be seen as greater than economic costs of protection Political often presented as a local issue by pressure on MPs or through industry lobby. The Effects of Protection major macroeconomic effects of protection on a domestic economy are negative employment and production grow in inefficient industries Inflation may occur as import prices are increased by Tariffs.

Higher wage demands. Industries which use output of protected industries will pay a higher price due to tariffs, and capital equipment will cost more. Export growth is hindered by protection as resources are not used efficiently in protected industries damaging effect at the macroeconomic level on the performance of protected industries (as they are lead to seek help from the government rather than reforming.) The need for global Trade Liberation trade barriers hinder growth and rises in living standards, particularly in developed countries Highest tariffs imposed by rich countries on poor

countries Trade Block: Occurs when a number of countries join together in a formal preferential trading agreement to the exclusion of other countries.

WTO ??“ Enforces that existing WTO agreement, resolves trade disputes

World Bank ??“ Main role to assist poorer nations with economic

development through loans International Monetary Fund ??“ Global

organisation whose main role to maintain international financial stability.