

# Global economics essay

[Business](#), [Marketing](#)



1. Explain the meaning of Globalization in its different aspects. What is ‘ comparative advantage’? What is the difference between “ comparative advantage” and “ absolute advantage”?

Globalization is a term that often refers to the interconnectedness of the resources and goods, which belong to different economies and countries. It sets the goal of unification, reduction of trade barriers, international specialization and trade, based on efficiency and intensified communication and transportation.

Comparative advantage in the international trade is related to the opportunity cost for a country of producing a good. A country would specialize in producing a good, if it has lower opportunity cost of production than the other countries.

Absolute advantage indicates that a country can produce a product more efficiently than the others, based on the actual cost of production rather than its opportunity cost. According to Adam Smith specialization and trade arise based on the absolute advantage.

2. What do we mean by the Washington Consensus? What are its main tenets?

Washington Consensus often means several concepts. Firstly, it refers to the neoliberal orientation of the most influential economies and financial institutions in the period of 1989 – 2008. The term can denote both market-oriented policies for all economies, as well as recommendations to the developing economies, which promote international trade and economic deregulation. The term was first introduced by John Williamson in 1989 to describe a set of policies, which should be implemented by Washington-

based institutions, such as IMF, World Bank etc., in order to reform the weak economies of the developing countries. Washington Consensus suggests reforms in fiscal policy, market-based interest rates, trade and foreign direct investment liberalization, market exchange rates, privatization, deregulation and protection of property rights, growth-oriented public spending and tax system reforms. After the economic crisis of 2008 – 2009 the Washington Consensus is considered outdated.

3. What is the difference between nominal and real exchange rates? What is a currency board? What alternatives does Germany have faced with the Greek crisis?

Nominal exchange rate indicates the value of one currency in terms of the other currency. Real exchange rate shows the rate at which goods and services of one country can be traded for those of another country.

Currency board is an authority, which aims to sustain a fixed level of the exchange rate with other foreign currencies. It usually controls that the amount of local currency issued is closely related to the target exchange rate.

As one of the most influential forces in the EU, Germany has a strong voice in deciding the future of the union. One of the options today is to create a rescue package, which would help Greece to recover from its debt-crisis in exchange for certain fiscal adjustments in the country. However, the crisis has revealed the major flaw of the European currency: it leaves little flexibility for periphery countries, such as Greece, which have to act based on the rigid common currency. Today the question for Germany and other countries of the EU is not only about the way to help Greece, but also about

the role and the future of the common currency, which limits country's budgetary control and may induce a chain reaction of defaults in the periphery countries of the union.

## **References**

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