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# INTRODUCTION TO THE GLOBAL ECONOMY

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## Multiple choice

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|----|---|-----|---|
| 1. | D | 6.  | A |
| 2. | C | 7.  | A |
| 3. | A | 8.  | C |
| 4. | D | 9.  | D |
| 5. | B | 10. | A |

## Short answer questions

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### Question 1

- (a) **Globalisation is the process of increased integration between different economies and the increased impact of international influences on all aspects of life and economic activity.**
- (b) **i) Globalisation has resulted in an internationalisation of the labour market, with more people than ever before moving to different countries in search of better work opportunities.**
- ii) It has also resulted in less wage and job stability, as corporations feel empowered to move operations elsewhere if wage demands are too high.**
- (c) **i) The size of global trade flows has increased tremendously as a result of globalisation. Reductions in trade protection and improvements in technology have made it easier for consumers to gain access to goods and services produced in countries all over the world.**
- ii) The composition of trade flows has also been altered tremendously by globalisation, as countries tend to specialise in the production of goods and services in which they have comparative advantage.**

### Question 2

- (a) **i) The growth of global financial flows is perhaps the best indicator of globalisation because of their extraordinary growth in recent decades. By one measure – exchange traded derivatives – financial flows grew to around \$US14.3 trillion by 2000, which is 20 times their level in 1987.**
- ii) Another indicator of globalisation is the internationalisation of the labour market. It is estimated 2.3% of the world's population have ventured outside of their own country for work – that is, around 106 million people live outside**

the country of their birth. A further 1.5% are estimated to work outside their country of citizenship. Highlighting the opportunities for higher remuneration for individuals willing and able to travel overseas for employment.

- (b) **Globalisation has had a mixed impact on the environment. On one hand, the rise of globalisation has allowed countries around the world to create global initiatives such as the Kyoto Protocol to fight environmental problems. However, such agreements can fail to achieve their goals if large economies like the USA fail to ratify them. Additionally globalisation has allowed the exploitation of the environment in developing countries, as their governments seek to attract foreign companies by relaxing environmental regulations. This results in overuse of resources and damage to local environments, such as the deforestation of the Amazon in Brazil.**
- (c) **While trade flows are a useful indicator of the presence of globalisation, they perhaps do not reveal the intensity of increased interaction between economies, such as the growth of financial, investment and technological linkages between countries. Additionally, Trade in goods and services has been an important part of the global economy for countries, and were almost as important in the early twentieth century as they are today.**

### Question 3

- (a) **Gross domestic product is the total value of goods and services produced in an economy over a period of time, usually one year.**
- (b) **The aggregate size of financial flows has exploded in recent decades. By one measure – exchange traded derivatives – financial flows grew to \$14.3 trillion by 2000, around 20 times their level in 1987. While foreign direct investment has grown substantially as well, the major source of growth in financial flows has been shorter term, speculative financial flows.**
- (c)
  - i) **Increased financial flows between nations can create volatility on foreign exchange markets, and have destabilising impacts on individual economies.**
  - ii) **Increased foreign ownership of domestic businesses can reduce local autonomy; overseas investors may not always prioritise the interests of the host country when making business decisions.**
- (d) **TNCs are global companies whose ownership, production facilities and consumer markets extend beyond national boundaries (i.e. across at least two countries). The most visible impact of TNCs is the dramatic increase in FDI flows over the past decade, as indicated by the table in the stimulus. This can accelerate economic growth and development. TNCs also facilitate the transfer of technologies between countries, further accelerating economic growth. However, TNCs have also been criticised for relocating their production facilities to countries where they have the fewest requirements relating to worker protection and environmental safeguards, and they therefore contribute to the exploitation of workers and environmental damage.**