

DIVISIONS IN THE GLOBAL ECONOMY



Multiple choice

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|------|-------|-------|-------|
| 1. D | 6. D | 11. B | 16. B |
| 2. A | 7. B | 12. A | 17. D |
| 3. A | 8. A | 13. C | 18. B |
| 4. D | 9. C | 14. A | 19. D |
| 5. B | 10. D | 15. B | 20. C |

Short answer questions

Question 1

- (a) **The Human Development Index measures economic development with reference to a nation's income levels, education levels and health standards.**
- (c) **Growth rates can differ between countries because of a range of factors. The growth rate and quality of the labour supply (in terms of skills and training) can impact upon the ability of an economy to grow. The domestic level of interest rates (usually set by the central bank) impacts upon the cost of borrowing for consumers and investors – if interest rates are higher, that will reduce the growth rate compared with other countries. Finally, structural factors, such as the degree of political stability can impact upon a country's ability to grow – political instability usually reduces the willingness of investors to take risks, whose returns may be jeopardised by political upheaval.**
- (d) **The newly industrialised economy of Indonesia highlights that while globalisation provides economies with a tremendous opportunity to increase their level of development, it can also create greater risks. Since the early 1980s, Indonesia has embraced globalisation through reduced trade barriers and by attracting significant inflows of FDI, which reached US\$4.7 billion in the first six months of 1997 alone. Economic integration allowed Indonesia's economy to grow at breakneck speed – 7.1 per cent per year, on average, in the decade to 1995, which contributed to a fall in poverty from 60 to 11 per cent of the population over the same period. The onset of the Asian financial crisis in 1997, however, in which the Rupiah fell by some 70 per cent of its value, sent shockwaves throughout the region – highlighting the problems of financial and economic integration. In the immediate aftermath of the crisis, poverty doubled, interest rates increased and the government cut spending. While Indonesia has since recovered, it has also created greater scepticism among Indonesians about the benefits of globalisation.**

Question 2

- (a)
 - i) **Life Expectancy**, an important indicator of health standards in an economy.
 - ii) **Adult illiteracy rate**, an important indicator of education levels.
- (b) **Economic growth** simply measures how much the productive capacity of an economy has grown over a period of time. It does not, however, take into account whether these benefits are improving overall quality of life. Economic development indicators, by contrast, measure a range of factors.
- (c) **Foreign investment** can play a significant role in promoting growth and development in developing nations, whose savings levels are often too low to provide sufficient funds for investment. The past two decades have seen the dramatic growth of the East Asian region – largely as a result of increased FDI flows. Other regions, however, particularly the least developed economies in Africa, have not been as successful in attracting foreign investment, receiving just 2.6 per cent of all of the FDI flows to developing countries.
- (d) The globalisation era has been accompanied by the growth of income inequality within many nations, partly because of an increased reliance on market forces to determine economic outcomes, but also because of the reduced ability of national governments to influence income distribution through taxation and spending policies. While this phenomenon has been a key feature of most high income and developing nations, some countries, especially the newly industrialised of East Asia, have reduced income equality because increased economic integration has been successful in improving living standards for the poorest groups in their societies.

Question 3

- (a)
 - (i) **Low life expectancy**, which results from poor medical facilities and limited access to pharmaceuticals.
 - (ii) **A reliance on agricultural production**, which receive low prices on world commodity markets.
 - (iii) **Low income levels**, as measured by their real GNP per capita figures (adjusted for purchasing power parity).
- (b) **Economic development** can differ between countries because of the size and quality of their labour supplies. Whereas high income countries tend to have highly skilled and educated workforces, developing countries tend to have large, unskilled and young populations. Political and institutional factors can also play a role in causing different levels of development, as political upheaval can deter investors whose returns might be jeopardised by instability. Finally, the growth of regional trading blocs can reduce development in poorer nations, who exporters will find it more difficult to gain access to consumer markets in richer countries.

- (c) **While globalisation might be expected to produce similar economic conditions across the world, economic integration has thus far sharpened inequalities between rich and poor nations. Some regions, such as the developing countries of Sub-Saharan Africa have experienced very slow growth rates during the past decade and the transition economies of Europe and Central Asia have performed even worse – experiencing an average annual fall in economic activity of 1.5 per cent during the 1990s. High income countries, by contrast, have been successful in capitalising on the benefits of increased trade, financial and investment flows throughout the global economy. The newly industrialised countries of East Asia, including South Korea, Taiwan and Singapore, have arguably benefited even more because of their export-led growth strategies and ability to attract substantial foreign investment in recent decades. While this region experienced rapid growth over the 1990s – 7.2 per cent on average each year – the financial crisis of 1997 demonstrated the risks of economic integration.**