INTRODUCTION TO THE GLOBAL ECONOMY

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MULTIPLE CHOICE

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

SHORT ANSWER QUESTIONS

Question 1

(a) Globalisation is the process of increased integration between countries and economies and the increased impact of international influences on all aspects of life and economic activity.

(b) There has been an increase in the East Asian and Pacific share of trade, which doubled from 1990 to 2003. High income countries have seen their share of world trade fall slightly from 80% in 1990 to 74% in 2003.

(c) Multilateral trade agreements such as the WTO have encouraged global reductions in protection, leading to increased trade flows. The rise of transnational corporations, often locate their sales and production across several economies has also increased trade flows. Finally, advances in technology and communications have helped reduce transportations costs, facilitating the movement of products worldwide, and increasing global trade flows.

(d) Increased trade flows in the global economy will increase the level of exports in some economies, contributing to higher levels of economic growth. This can be seen in the rapid growth of Newly Industrialising Economies of South East Asia as a result of their export-led development strategy. Income from increased trade flows also affords the ability to purchase more goods and services, resulting in an improvement of living standards. However, these benefits have not been equally shared throughout the global economy. Whilst developed and newly industrialising economies have seen increased levels of growth and improvements in living standards, many developing nations are unable to participate in global trade as their agricultural exports are subject to high levels of protection. As a result, areas such as sub-Saharan Africa have seen little progress in terms of growth and living standards, leading to an increase in the inequality of living standards in the global economy.

Question 2

(a) The foreign exchange market is where currencies are traded.

(b) The deregulation of financial markets since the 1970's reduced barriers to international financial flows. International financial flows have also increased due to advances in technology, allowing for a more rapid transfer of financial products worldwide.

(c) Importers are participants in foreign exchange markets as they trade their domestic currency for foreign currencies in order to purchase goods and services from abroad. More significant is the role of speculators, who trade currencies in attempt to profit from short term exchange rate movements. Speculators buy currencies when they expect an appreciation and sell them when they expect a depreciation.

(d) International financial flows provide a source of foreign funds for economies, increasing domestic investment and economic growth. However, their short term and volatile nature means that they carry considerable risks. Changes in financial flows have an effect on international investors confidence in a country through influencing exchange rates. A falling exchange rate and an outflow of funds may slow down the rate of economic growth, and potentially have wide-reaching destabilising effects on economies, as seen in the Asian Financial Crisis in 1997. By influencing the exchange rate, international financial flows can impact a country's trade performance. For example, an appreciation results in a country's exports becoming relatively more expensive and hence less internationally competitive. A loss of export income may reduce economic growth. Likewise, a depreciation results in greater international competitiveness and economic growth.

Question 3

(a) An answer to this question may include any three of the following:

- Trade flows, as increases in economic growth in one country will spur demand for exports from another country, leading to a possible increase in economic growth
- International organisations such as the Group of Eight (G8), which coordinates policy that has impacts on the global economy
- Transnational corporations, with company decisions made based on one country's conditions affecting production and employment in subsidiaries in other countries

(b) An answer to this question may include any three of the following:

- Changes in domestic interest rates, which impact on the level of economic activity within a country
- Structural factors such as labour market policies, which differ between countries and affect their levels of employment and economic growth
- Regional factors, where some closely integrated countries such as European nations tend to influence each other more than countries in less integrated areas

(c) The recent economic performance of the global economy presents some evidence for the emergence of the international business cycle. Examples include global downturn following the terrorist attacks of September 11 and the spread of the Asian Financial Crisis in 1997. However growth rates have tended to be synchronised, rather than converged. China and India's continued strong growth over the past decade has occurred despite slower growth in the United States and Japan, however all economies have followed the general trend of a global upswing. Differences in levels of economic development may moderate the extent to which the effects of the IBC are felt across individual economies.