

DIVISIONS IN THE GLOBAL ECONOMY

3

MULTIPLE CHOICE

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

SHORT ANSWER QUESTIONS

Question 1

- (a) Human Development Index (HDI).
- (b) Economic growth occurs when there is a sustained increase in an economy's productive capacity, as measured by an increase in real Gross Domestic Product (GDP). In contrast, economic development is a broader measure of the standard of living in an economy, which takes into account indicators of health, education and environmental quality as well as material living standards.
- (c) Economic growth will not necessarily increase economic development. If national income increases, this may benefit those who are already wealthy while others remain in poverty, unable to afford access to health care and education. Furthermore, growth in GDP per capita may occur alongside destruction of the natural environment, reducing living standards for people within that economy.
- (d) On average, annual growth in Gross World Product was lower in the 1990s than the 1980s. While some Newly Industrialising Economies such as South Korea have experienced rapid growth, transition economies such as Russia and Ukraine experienced negative growth in the 1990s. In addition, the increased size and volatility of international financial flows has led to downturns such as the Asian Financial Crisis in 1997-98. Economic development has generally improved due to government expenditure on social welfare policies, often funded by foreign aid from governments and NGOs in the developed world. In addition, international organisations such as the World Bank have secured private investment to finance development projects in developing nations. However, countries in sub-Saharan Africa are the exception to this trend of improvement, with declining per capita incomes and disease causing widespread suffering.

Question 2

- (a) A transition economy is one which was a socialist economy that is now becoming a market economy. They tend to be concentrated in Central and Eastern Europe and Asia.
- (b) An answer to this question may include countries such as: Indonesia, Malaysia, Myanmar, Thailand, Vietnam, Cambodia and Laos.

- (c) An answer to this question may include any two of the following:
- High levels of income inequality
 - Dependence on agricultural production for income, employment and trade
 - Reliance on foreign aid and development assistance as major source of income
 - Low levels of labour productivity, industrialisation, technological innovation and infrastructure development
 - Weak political and economic institutions, high prevalence of corruption
 - High levels of foreign debt
- (d) Both newly industrialised countries and developing economies have had access to the benefits of globalisation such as increased investment and trade flows, advances in technology and improvements in efficiency and productivity. While newly industrialised countries have taken advantage of these opportunities to attract foreign investment and increase their share of global trade, developing economies have often failed to do. Rather, they have often been overwhelmed by international financial flows, experienced currency crises and subject to volatile and declining prices for their major exports. Hence while globalisation has allowed newly industrialised countries to increase the living standards of their populations, developing economies have been left vulnerable rather than empowered by increased exposure to international competition.

Question 3

- (a) The World Bank
- (b) An answer to this question may include any two of the following::
- Access to health care
 - Access to education
 - Degree of income inequality
 - Quality of environmental resources
- (c) The global trade system can lead to greater inequality in the global economy as developed nations reduce other nations' access to their markets through protection, such as tariffs and quotas. Developing nations suffer as their main export commodities, agricultural goods, are highly protected. This is only worsened by the growth of regional trade blocs, such as the EU which imposes barriers to trade against non-European exporters. Individually, developing nations have little influence within the WTO to lobby for more favourable trade agreements, contributing to global inequality.
- (d) Globalisation has improved living standards in developed nations, with consumers gaining access to a greater variety of goods and services through trade and producers profiting from economies of scale in production. Living standards have not improved in the less-integrated developing and transition economies, which face restricted access to export markets and high servicing costs on their foreign debt. Globalisation has also seen increased destruction of the natural environment in developing nations, as some governments are unwilling to introduce environmental protection laws for fear of deterring investment by TNC's. Nonetheless, globalisation has increased opportunities for nations to work together to address environmental issues on a global level, through initiatives such as the Kyoto Protocol.