

International economic issues (A Level)

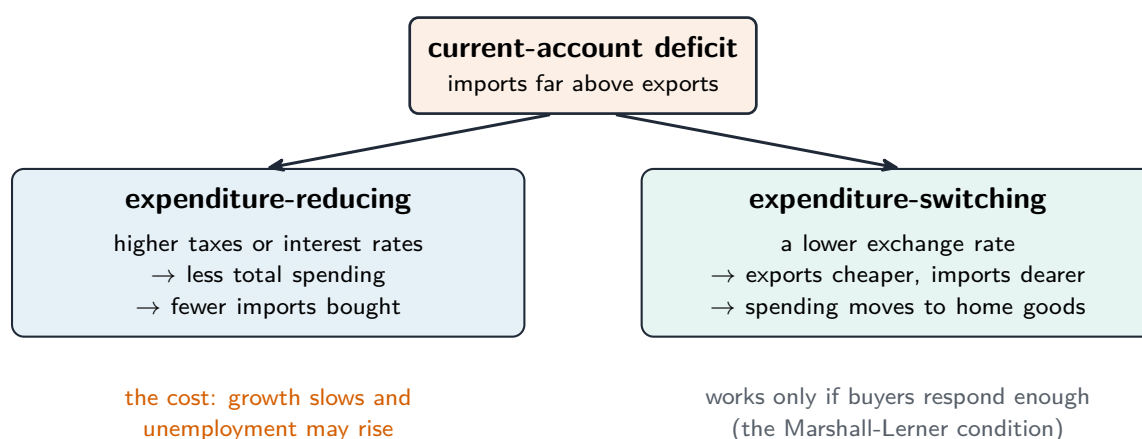
A-Level Economics

This final topic covers trade imbalances, exchange rates in depth, and how countries develop and connect.

Correcting a balance of payments imbalance

A country with a large **balance of payments** 国际收支 problem —usually a deficit on the **current account** 经常账户—can use two kinds of policy.

- **expenditure-reducing** 支出减少 policies cut total demand (higher taxes or interest rates). With less spending, people buy fewer imports. But growth slows and unemployment may rise.
- **expenditure-switching** 支出转换 policies move spending away from imports towards home goods. The main tool is a lower **exchange rate** 汇率—a **depreciation** 贬值 under floating rates, or a **devaluation** 法定贬值 under a fixed system—which makes exports cheaper and imports dearer.



Two routes out of a deficit: spend less overall, or switch spending to home goods

The Marshall–Lerner condition and the J-curve

A lower exchange rate only improves the current account if buyers respond enough. The **Marshall-Lerner condition** 马歇尔勒纳条件 says the sum of the price elasticities of demand for exports and imports must be greater than one:

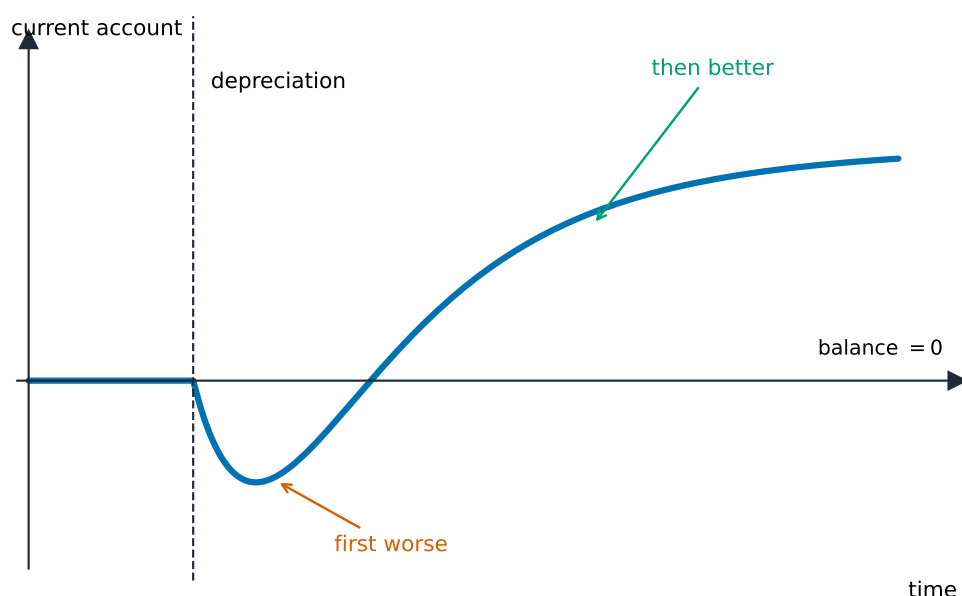
$$PED_{\text{exports}} + PED_{\text{imports}} > 1$$

Worked example. After a depreciation, the demand for a country's exports has $PED = 0.6$ and its demand for imports has $PED = 0.7$. Will the current account improve?

$$0.6 + 0.7 = 1.3 > 1,$$

so the Marshall-Lerner condition **is** met, and the depreciation should improve the current account in the long run. (If the two elasticities had summed to less than 1—for example $0.3 + 0.4 = 0.7$ —a depreciation would make the deficit **worse**.)

Even when this holds, the gain takes time. The **J-curve effect** J 曲线效应 describes what happens: just after a depreciation, the current account first gets **worse** (imports cost more straight away, but trade volumes are slow to change), then later improves as buyers adjust—tracing the shape of a letter J.



After a depreciation the current account first worsens (imports cost more at once), then improves as trade volumes adjust—tracing a letter J.

Exchange rates

An **exchange rate** is the price of one currency in terms of another. There is more than one way to measure it:

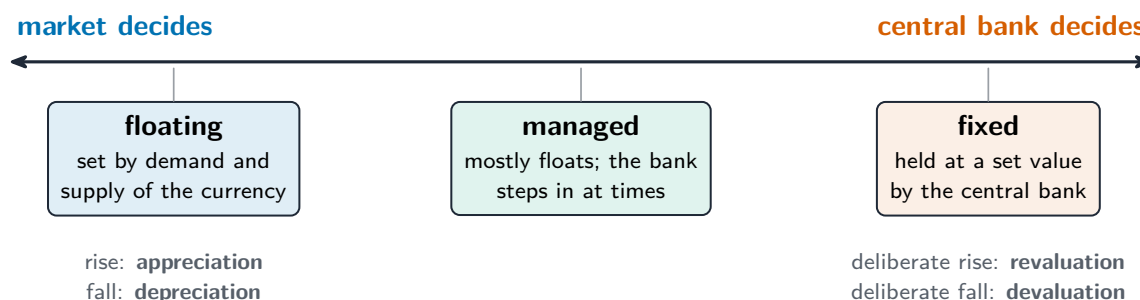
- the **nominal exchange rate** 名义汇率 is the everyday market rate between two currencies.
- the **real exchange rate** 实际汇率 adjusts the nominal rate for differences in prices between the countries, so it shows true competitiveness.
- the **trade-weighted exchange rate** 贸易加权汇率, also called the **effective exchange rate** 有效汇率, is an average of a currency's value against all its trading partners, weighted by how much trade is done with each.

The three systems

- a **floating exchange rate** 浮动汇率 is set by the demand for and supply of the currency.
- a **fixed exchange rate** 固定汇率 is held at a set value by the central bank.

- a **managed exchange rate** 管理浮动汇率 mostly floats, with the central bank stepping in at times.

Under floating rates, a rise in value is an **appreciation** 升值 and a fall is a **depreciation**. Under a fixed system, a deliberate rise is a **revaluation** 法定升值 and a deliberate fall is a **devaluation**. A weaker currency tends to raise exports and inflation; a stronger currency does the opposite.



The three exchange-rate systems, and the words for a rise or fall in each

Economic development

It is important not to confuse two ideas:



Growth is more income; development is wider wellbeing too

- **economic growth** 经济增长 is simply a rise in real output.
- **economic development** 经济发展 is wider. It is about people's **standard of living** 生活水平—their health, education, and freedom of choice, not just their income.



Economic development is wider than growth: it is about living standards in a fast-growing developing economy.

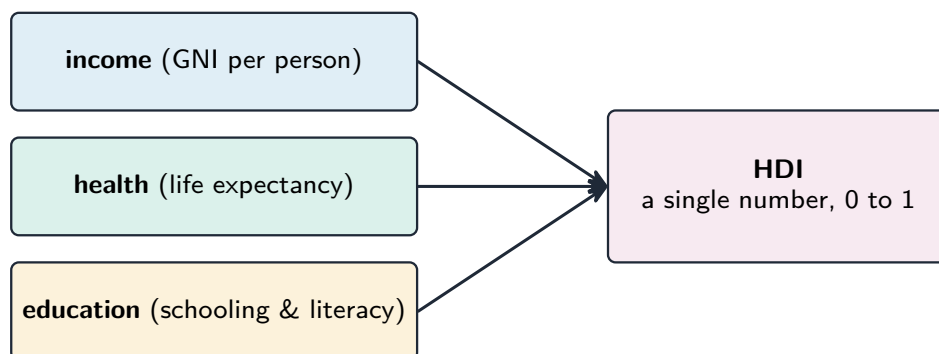
Image: Ayorinde Ogundele, CC BY-SA 4.0 (commons.wikimedia.org)

A country can grow without developing much (if the extra income goes to a few people). Development usually means rising incomes **plus** better health, more schooling, and less poverty.

Measuring development

The best-known measure is the **Human Development Index** 人类发展指数 (HDI). It combines three things into one number between 0 and 1:

- income (GNI per person),
- health (**life expectancy** 预期寿命 at birth),
- education (years of schooling and adult **literacy** 识字率).



The HDI rolls income, health and education into one number —so it captures living standards far better than income alone

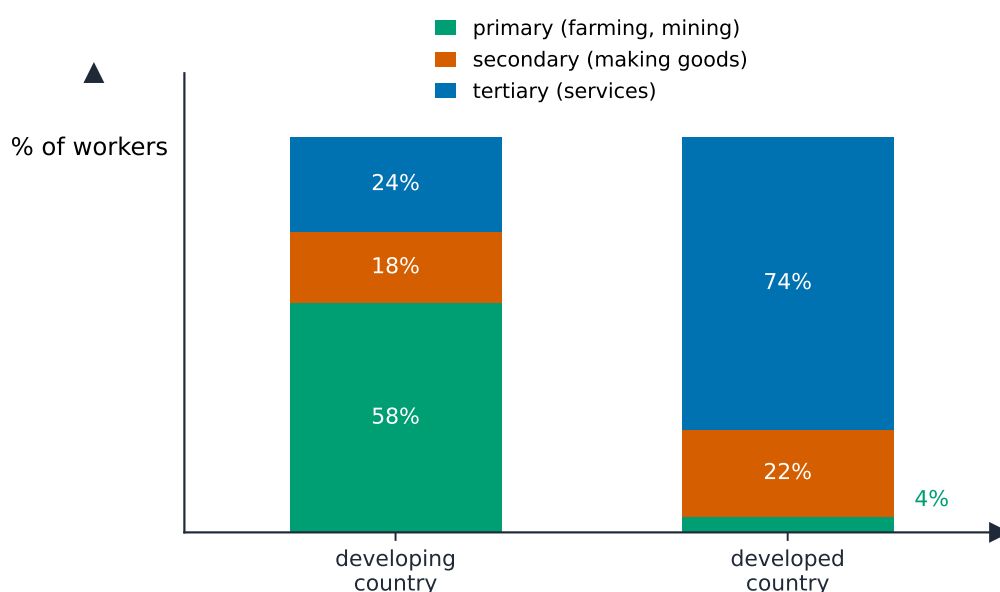
Other useful signs of development include access to clean water, the number of doctors per person, and mobile-phone and internet use.

Comparing countries at different levels of development

We often compare a **developed country** 发达国家 (high income, like Germany) with a **developing country** 发展中国家 (lower income, like Kenya). They differ in clear ways:

Feature	Developed	Developing
income per person	high	low
birth rate 出生率 and population growth	low	often high
life expectancy	high	lower
share of workers in farming	small	large

The **employment structure** 就业结构 also differs. As a country develops, workers move out of the **primary sector** 第一产业 (farming and mining), into the **secondary sector** 第二产业 (making goods), and later into the **tertiary sector** 第三产业 (services).



As a country develops, workers shift out of the primary sector and into the secondary and then the tertiary (services) sector.

Many things shape development: savings and investment, the quality of education and health, infrastructure, stable government and law, and access to world markets.

Relationships between countries

Richer and poorer countries are linked in several ways, each with good and bad sides.

- **trade** can raise incomes, but many developing countries rely on a few primary exports whose prices swing sharply.
- foreign **aid** 援助 can fund schools and roads, but it may create dependency or be wasted.
- **debt** 债务 owed to other countries can pay for development, but repaying it can drain a poor country's budget.
- **foreign direct investment** 外国直接投资 (FDI) by a **multinational corporation** 跨国公司 brings money, jobs and technology, but profits may flow back abroad and workers may be poorly treated.
- **migration** 移民 of workers can ease unemployment and bring in **remittances** 侨汇 (money sent home), but it can also drain a country of its most skilled people.

Globalisation

globalisation 全球化 is the growing links between countries—in trade, money, technology and people—so that the world acts more like one market. Its causes include cheaper transport and communication, **free trade** 自由贸易 agreements, and the spread of multinational firms.

Countries often join a **trade bloc** 贸易集团—a group that trades freely among themselves (like the European Union).



Globalisation: falling trade and transport costs tie national economies together.

Image: Carsten Steger, CC BY-SA 4.0 (commons.wikimedia.org)

Benefits and costs

Benefits	Costs
lower prices and more choice	some industries and jobs are lost to cheaper countries
faster growth and technology transfer	the gap between rich and poor can widen
larger markets for firms	more pollution and use of resources
poorer countries can industrialise	powerful multinationals may avoid tax and dodge protectionism 贸易保护主义 rules

Globalisation helps developed and developing economies in different ways, but the gains are not shared evenly, which is why it remains so argued about.

Exam tips

- Distinguish **expenditure-reducing** from **expenditure-switching** policies for a deficit.
- Explain the **Marshall-Lerner condition** ($PED_x + PED_m > 1$) and the **J-curve** (the deficit worsens before it improves).
- Compare development with the **HDI** (income, education, health), not GDP alone.
- Evaluate **globalisation** with its winners and losers (growth and choice versus inequality and instability).