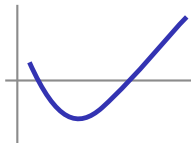


International Economic Issues

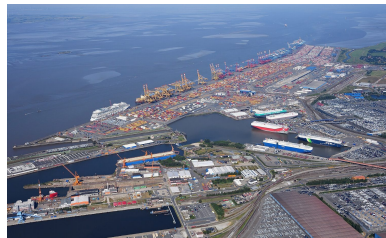
A-Level Economics ■ Topic 11

A-Level Economics



What we will cover

- 1 Correcting an imbalance
- 2 The J-curve
- 3 Measuring exchange rates
- 4 Growth vs development
- 5 Comparing countries
- 6 Globalisation



the world as one market

Correcting an imbalance

expenditure-reducing

支出减少

cut demand → fewer imports

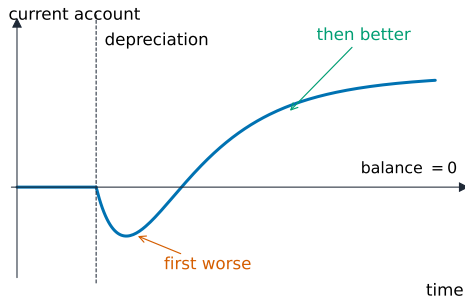
expenditure-switching

支出转换

lower exchange rate
→ home goods

The **Marshall–Lerner condition** 马歇尔勒纳条件: a lower rate helps only if
 $PED_{\text{exports}} + PED_{\text{imports}} > 1$.

The J-curve



The **J-curve effect** J 曲线效应: just after a **depreciation** 贬值, the current account first gets **worse** (imports cost more at once), then **improves** as trade volumes adjust.

Measuring exchange rates

nominal

名义汇率 –
the everyday
market rate

real

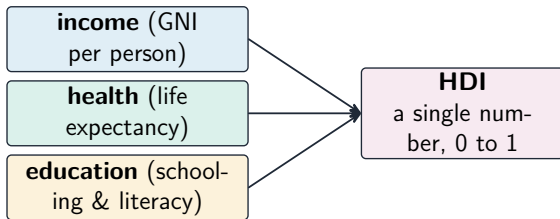
实际汇率 –
adjusted
for prices

trade-weighted

贸易加权汇率 –
average vs all partners

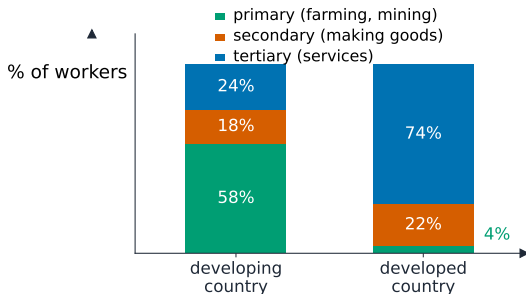
Floating: **appreciation** 升值/**depreciation** 贬值. Fixed: deliberate
revaluation 法定升值/**devaluation** 法定贬值.

Growth vs development and the HDI



Growth 经济增长 is more income;
development 经济发展 is wider – health, education & freedom. The **HDI** 人类发展指数 rolls income, **life expectancy** 预期寿命 & education into one number (0–1).

Comparing countries



A **developed** 发达国家 vs a **developing** 发展中国家 country differ in income, birth rate & life expectancy.

As a country develops, workers shift **primary** 第一产业 → **secondary** 第二产业 → **tertiary** 第三产业.

Relationships between countries

trade – raises income, but volatile primary-export prices

aid 援助 & **debt 债务** – fund development, but risk dependency & repayment drain

FDI 外国直接投资 – money, jobs, technology, but profits may flow abroad

migration 移民 – eases unemployment & sends **remittances 侨汇**, but can drain skills

Globalisation



Globalisation 全球化 ties economies together; countries join a **trade bloc** 贸易集团 (e.g. the EU).

- + lower prices, faster growth, larger markets
- – lost jobs, wider gaps, more pollution

Worked example – Marshall-Lerner

After a depreciation, $PED_X = 0.6$ and $PED_M = 0.7$. Will the current account improve?

- Marshall-Lerner: a depreciation improves the current account only if $PED_X + PED_M > 1$.
- $0.6 + 0.7 = 1.3 > 1 \Rightarrow$ yes, it improves.
- Exports are cheaper abroad and imports dearer at home, and demand responds enough overall.
- In the short run demand is inelastic, so it worsens first: the J-curve.

Add the two elasticities and compare with 1. Sum $\leq 1 \Rightarrow$ the higher import prices outweigh the extra export volume and the account worsens.

Topic 11 – key takeaways

1 J-curve

depreciation: worse first, then better

2 Exchange rates

nominal, real, trade-weighted

3 Development

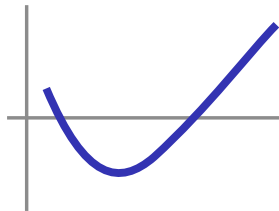
HDI: income, health & education

4 Globalisation

ties economies – gains shared unevenly

Check yourself

- 1 Just after a depreciation, the J-curve first does what?
- 2 Which rate adjusts for prices between countries?
- 3 Name the three parts of the HDI.
- 4 Workers shift from primary to which sectors as a country develops?



Answers 1. gets worse 2. the real exchange rate 3. income, health, education
4. secondary then tertiary