

Globalisation, trade and international finance

Edexcel IAL Economics WEC14 sections 4.3.1-4.3.3 full package with SAM anchors

1. Topic 7 at a glance

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WEC14 first half: spec sections 4.3.1 to 4.3.3 - globalisation, trade from comparative advantage through terms of trade, blocs and protectionism, and the balance of payments with exchange rates and competitiveness.

Must-know: comparative advantage is the LOWEST opportunity cost (4/2 versus 1/1; trade between 1 and 2 wheat per cloth); terms of trade = export index over import index $\times 100$ (SAM Tanzania $128.9/117.1 = 110.1$); the tariff on the shared model cuts imports 48 to 24, raising 96 with a deadweight loss of 48; Marshall-Lerner and the J-curve govern depreciation.

2. Globalisation

Globalisation

Three characteristics: trade as a share of GDP rising; TNCs and FDI more important; migration rising. Five causes over 50 years: trade liberalisation, bigger trading blocs, political change (Soviet breakdown, China opening), cheaper transport and communications, the rise of TNCs.

FDI seeks markets, resources, cheaper labour and tax breaks; recipients gain investment, jobs, technology and tax revenue but face repatriation and policy influence. Six benefits (growth, revenue, scale, lower prices, choice, living standards) against six costs (displaced and exploited workers, environment, transfer-pricing revenue loss, within-country inequality, TNC influence).

3. Specialisation and comparative advantage

Specialisation and comparative advantage

Specialisation raises total output but concentrates risk. Comparative advantage is the LOWEST opportunity cost, not the most output: with A making 4 wheat or 2 cloth and B 1 or 1, A is absolute in both, but cloth costs A two wheat and B one - B specialises in cloth, A in wheat.

Any trade ratio between the two opportunity costs (1 to 2 wheat per cloth) lets both consume beyond their frontiers: at 1.5, A buys cloth cheaper than 2 and B sells dearer than 1. Assumptions: constant costs, no transport, full employment, mobile factors - and the limitations reverse each.

4. Terms of trade, blocs and protectionism

Terms of trade, blocs and protectionism

Terms of trade = export price index over import price index $\times 100$. SAM Tanzania: 128.9 over 117.1 $\times 100 = 110.1$ - a 10.1 percent improvement; the terms move with relative inflation, productivity, labour costs, the exchange rate and trade prices.

The WTO liberalises through rounds, rules and dispute settlement. Blocs deepen: free-trade area, customs union, common market, economic and monetary union - trade creation against trade diversion. Restrictions: tariffs, quotas, non-tariff barriers, subsidies, justified by infant industries, employment, security, dumping, deficits, revenue. On the shared model a tariff of 4 at world price 12 cuts imports 48 to 24, raises 96, deadweight loss $32 + 16 = 48$.

5. Balance of payments and exchange rates

Balance of payments and exchange rates

Current account plus capital and financial accounts; deficits from lost competitiveness or strong domestic demand; remedies by expenditure reduction, expenditure switching or supply-side competitiveness.

Fixed, managed and floating systems; intervention by currency transactions, interest rates and QE; floating rates move with interest and inflation differentials (PPP), the current account, strength, capital flight, speculation and global shocks. Revaluation and appreciation; devaluation and depreciation. A depreciation helps the current account only under Marshall-Lerner (elasticity sum above one) and after the J-curve delay; it also lifts import prices, FDI inflows, and can trigger competitive depreciations.

6. International competitiveness

International competitiveness

Measured by relative productivity, unit labour costs and export prices; influenced by productivity, human capital, the exchange rate, wage and non-wage costs, regulation, infrastructure and non-price factors.

Raised by education and training, investment incentives, privatisation and deregulation, a lower currency and trade liberalisation. Competitive economies win exports, jobs and FDI; uncompetitive ones run deficits, deindustrialise and must deflate.

Check yourself

Check yourself

Globalisation's characteristics, causes, FDI reasons and impacts; six benefits, six costs.

Comparative advantage with the 4/2 and 1/1 table and the trade ratio; assumptions and limitations.

Terms of trade with the Tanzania calculation; bloc types and trade creation versus diversion; restriction motives, types and the tariff arithmetic (48 to 24, 96, 48).

BoP components and remedies; exchange-rate systems and factors; Marshall-Lerner, the J-curve; competitiveness measures, influences and remedies.