7.1 The global economy

Name: _____ Class: _____ Date: _____ **Total: 23 marks**

KEY WORDS globalisation • exchange rate

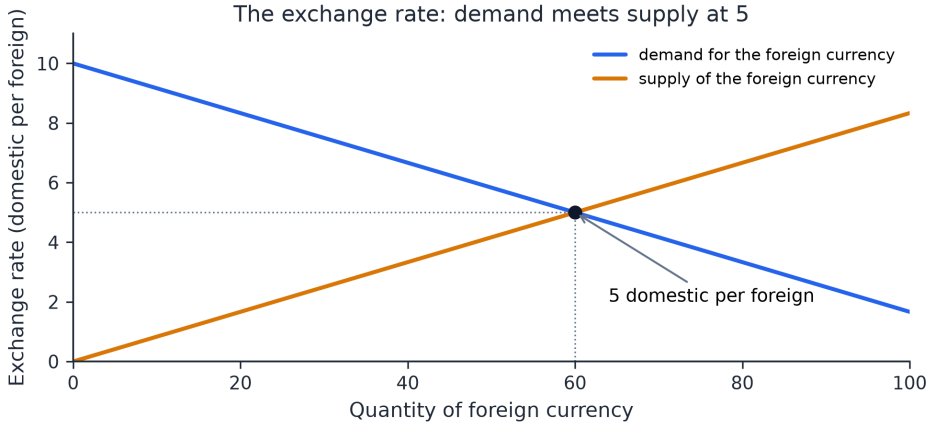
The global economy

Objective

Apply globalisation's causes and MNC/FDI effects, protectionism with the tariff arithmetic, and exchange-rate determination with both movement words (spec 2.2.1–2.2.3).

1 Key knowledge and worked examples

The global economy. Globalisation: fewer trade barriers, cheaper transport and communication, MNCs. Tariff on the shared model: world price 12 → imports 48; tariff 4 → price 16, imports 24, revenue 96, deadweight loss 48. Exchange model: demand meets supply at 5 domestic per foreign; import-demand growth → 6.5 = depreciation (import prices up, export prices abroad down). Appreciation/revaluation: market rise vs fixed-rate rise; depreciation/devaluation: market fall vs fixed-rate cut.



Original model; the rate and its shift are worked in the questions.

2 Practice

2.1 Define globalisation and name any three of its four reasons. [2]

2.2 State any three advantages and one disadvantage of MNCs/FDI for a host country. [2]

2.3 Name any four of the seven motives for protecting domestic industries. [2]

2.4 Distinguish a tariff from a quota. [2]

2.5 Distinguish appreciation from revaluation. [2]

3 Exam-style questions

3.1 *(Original.)* With $Q_d = 140 - 2P$ and $Q_s = 20 + 4P$ and a world price of 12, the government imposes a tariff of 4. Calculate the imports before and after, the government revenue and the total deadweight loss. [5]

3.2 *(Original.)* In the exchange model, demand for the foreign currency rises because imports grow. Explain, with the diagram, the effect on the exchange rate and on the current account. [4]

3.3 *(Original.)* Evaluate one argument FOR and one AGAINST a country joining a trading bloc. [4]

Solutions

2.1 Globalisation is the increased integration and interdependence of economies. Reasons (any three): fewer tariffs and quotas; reduced transport costs; reduced communication costs; increased significance of MNCs.

2.2 Advantages (any three): creating jobs; investing in infrastructure; developing skills; developing capital; contributing taxes. Disadvantage (any one): avoiding taxes; environmental damage; moving profits abroad.

2.3 Any four of: prevent dumping; protect employment; protect infant industries; gain tariff revenue; protect consumers from unsafe products; reduce current-account deficits; retaliation.

2.4 A tariff is a tax on imports (raising their price); a quota is a physical limit on the quantity that may be imported.

2.5 An appreciation is a market-driven rise in a FLOATING exchange rate; a revaluation is a deliberate rise in a FIXED rate.

3.1 Before: $Q_d(12) = 116$, $Q_s(12) = 68$, imports 48. After: price 16, $Q_d = 108$, $Q_s = 84$, imports 24. Revenue $= 4 \times 24 = 96$. Deadweight loss $= \frac{1}{2} \times 16 \times 4 + \frac{1}{2} \times 8 \times 4 = 32 + 16 = 48$.

3.2 The demand curve for the foreign currency shifts RIGHT, so the domestic-currency price of it rises – from 5 to 6.5 in the model: a DEPRECIATION. Import prices rise in domestic currency and export prices fall abroad, so import demand falls and export demand rises – the current account improves IF the demand elasticities are large enough; the cost is imported inflation.

3.3 FOR (any one, developed): trade creation – cheaper partner production replaces dear domestic production, lowering prices; economies of scale from a bigger market; free movement within the bloc. AGAINST (any one, developed): trade diversion – the common external tariff diverts buyers from cheaper world suppliers to dearer partner suppliers; loss of independent trade policy; new barriers against non-members. A judgement weighing which dominates for THIS country earns the evaluation mark.

Local review guidance: both equilibria before revenue or DWL; the direction words used exactly (demand shifts, rate rises, depreciation); (R1 3.3) each argument tied to creation or diversion by NAME. This is authored classroom guidance.