The global economy

Pearson Edexcel · International GCSE · Economics

Pearson Edexcel International GCSE in Economics (4EC1), specification Issue 3, February 2026. This topic covers spec sections 2.2.1–2.2.3 in full: globalisation (4 rows), international trade (6 rows) and exchange rates (4 rows). The tariff model reuses the shared curves ($Q_d = 140 - 2P$, $Q_s = 20 + 4P$); the exchange model sits at 5 domestic per foreign currency.

Must-know for this topic:

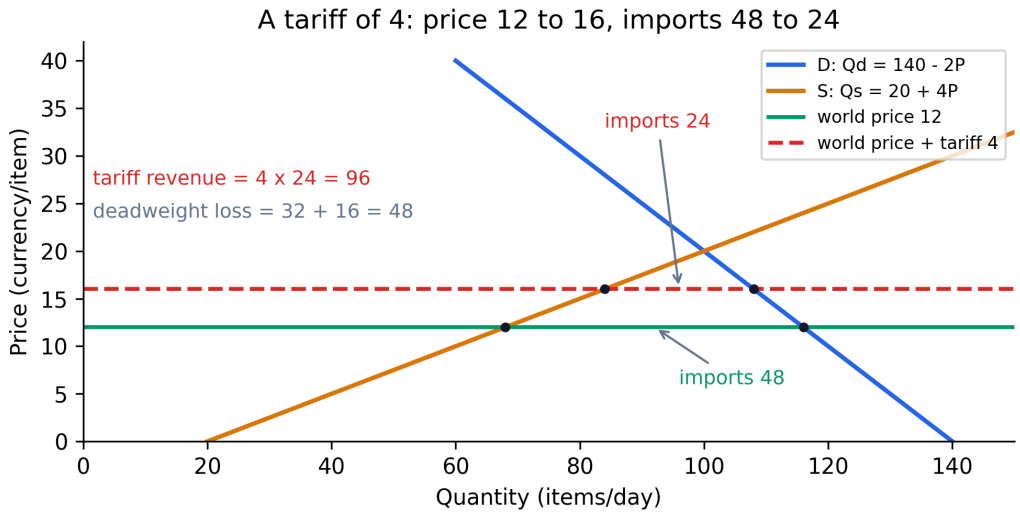
Family	Content
tariff (shared model)	world price 12 → imports 48; tariff 4 → price 16, imports 24, revenue 96, DWL 48
exchange model	demand meets supply at 5 domestic per foreign; import-demand rise → 6.5 (depreciation)
appreciation vs revaluation	market rise vs deliberate fixed-rate rise
MNC/FDI	jobs, infrastructure, skills, capital, tax against tax avoidance, damage, profit outflows

Globalisation

Globalisation is the increased integration and interdependence of economies (2.2.1a). Reasons (2.2.1b): fewer tariffs and quotas, reduced transport costs, reduced communication costs, and the increased significance of MULTINATIONAL CORPORATIONS (MNCs). Impacts (2.2.1c): rising living standards, greater choice, lower prices and cheaper communication – against the closing of traditional industries, harm to workers in exposed industries, and environmental damage, affecting countries, governments, producers, consumers, workers and the environment. A **multinational corporation** operates in more than one country; **foreign direct investment** (FDI) is building or buying productive assets abroad (2.2.1d). MNCs emerge to exploit economies of scale, access natural resources and cheap materials, cut transport and communication costs, and reach customers in different regions. Advantages of MNCs/FDI: creating jobs, investing in infrastructure, developing skills, developing capital, contributing taxes. Disadvantages: avoiding taxes, environmental damage, and moving profits abroad.

International trade

Free trade's advantages (2.2.2a): lower prices and increased choice for consumers, lower input costs, and wider markets for businesses; its disadvantages: foreign competition harming domestic businesses and increasing unemployment in exposed industries. Reasons for protection (2.2.2b): prevent **dumping** (exporting below normal value, usually the comparable home-market price), protect employment, protect infant industries, gain tariff revenue, protect consumers from unsafe products, reduce current-account deficits, and retaliation. Methods (2.2.2c): **tariffs** (import taxes), **quotas** (quantity limits), **subsidies** to domestic producers – each with advantages (revenue, jobs saved, precise quantity control) and disadvantages (higher prices, retaliation, inefficiency). The tariff diagram on the shared model: at the world price 12 imports are $116 - 68 = 48$; a tariff of 4 raises the domestic price to 16 and imports fall to $108 - 84 = 24$, the government collects $4 \times 24 = 96$, and the deadweight loss is $32 + 16 = 48$. **Trading blocs** (2.2.2d) such as the EU favour members (free internal trade, economies of scale) at non-members' expense (trade diversion). The WTO (2.2.2e) negotiates liberalisation, sets trade rules and settles disputes. Trade PATTERNS (2.2.2f): developing countries export primary products and low-cost manufactures; developed countries export services and high-technology goods.

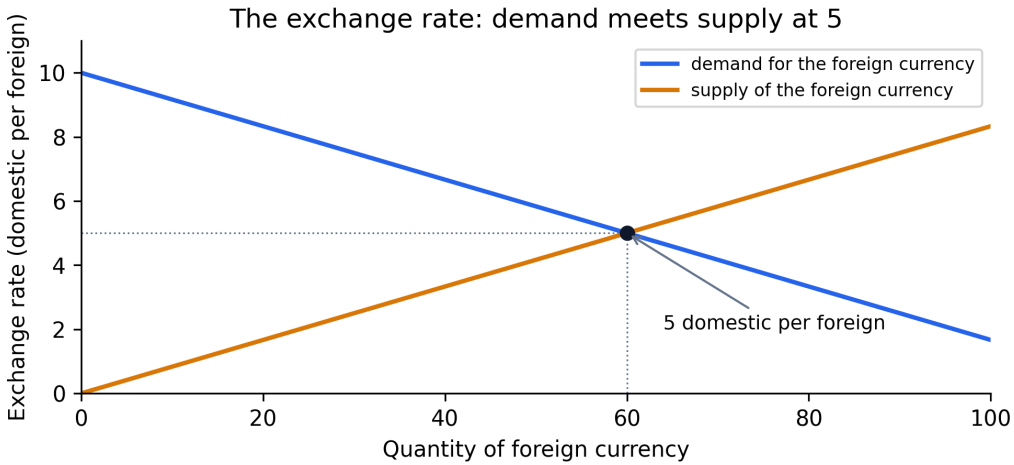


Original model: price 12 to 16, imports 48 to 24, revenue 96, deadweight loss 48.

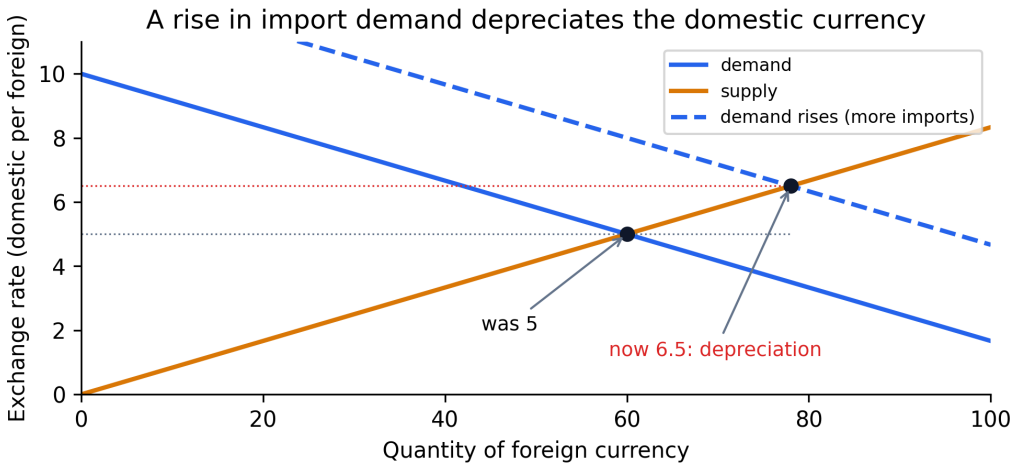
Exchange rates

The **exchange rate** is the price of one currency in another (2.2.3a). It is set by demand and supply of the currency (2.2.3b): interest rates (higher rates attract funds and raise the currency), currency speculators, and the imports and exports of goods and services – buying imports supplies the domestic currency; foreign buyers of exports demand it. The diagram: demand meets supply at 5 domestic per foreign currency. **Appreciation** is a market-driven RISE in a floating exchange rate; a REVALUATION is a deliberate rise under a FIXED rate (2.2.3c). A **depreciation**

is a market-driven FALL; a **devaluation** is a deliberate cut under a fixed rate (2.2.3d). Model: a rise in import demand shifts currency demand right – the rate moves from 5 to 6.5, a DEPRECIATION of the domestic currency: import prices rise (dearer foreign goods), export prices abroad fall, so import demand falls and export demand rises – improving the current account if the elasticities allow, at the cost of imported inflation. An appreciation does the reverse: cheaper imports, dearer exports, current-account pressure.



Original model: the rate is 5 where demand meets supply.



Original model: import-demand growth moves the rate from 5 to 6.5 – the domestic currency depreciates.

Checklist

- Globalisation definition, four reasons, impacts on all groups; MNC/FDI definitions, four emergence reasons, five advantages and three disadvantages (2.2.1).
- Free trade both ways; seven protection motives; tariffs, quotas and subsidies with pros and cons and the diagram arithmetic (48 → 24, 96, 48); blocs and the WTO; trade patterns (2.2.2).
- Exchange-rate definition; the three demand/supply factors with the diagram at 5; appreciation vs revaluation, depreciation vs devaluation; both directions' impacts on import/export prices, demand and the current account (2.2.3).

Boundary notes: Paper 2's data questions use exchange-rate conversions and the tariff arithmetic above. Definitions of the four direction words (appreciation, revaluation, depreciation, devaluation) are one-mark material. All worked numbers are original on the shared models.