

The global economy

Edexcel IGCSE Economics 4EC1 sections 2.2.1-2.2.3 full package - completes the spec

1. Topic 7 at a glance

Topic 7 at a glance

4EC1 topic 7: spec sections 2.2.1 to 2.2.3 - globalisation (four rows), international trade (six rows) and exchange rates (four rows). The last topic of the spec.

Must-know: globalisation = integration and interdependence, driven by fewer barriers, cheaper transport and communication, and MNCs; the tariff model (price 12 to 16, imports 48 to 24, revenue 96, DWL 48); the exchange model at 5 domestic per foreign, with import-demand growth depreciating to 6.5; the four direction words.

2. Globalisation

Globalisation

Globalisation is the increased integration and interdependence of economies - fewer tariffs and quotas, cheaper transport and communication, more MNCs. Gains: living standards, choice, lower prices, cheaper communication; losses: traditional industries close, workers suffer, environment damaged.

MNCs operate across borders; FDI builds or buys assets abroad. For hosts: jobs, infrastructure, skills, capital, tax - against tax avoidance, environmental damage, profit repatriation.

3. International trade

International trade

Free trade: lower prices and choice for consumers, lower input costs, wider markets - but foreign competition can destroy domestic businesses and jobs. Protection motives: dumping, employment, infant industries, tariff revenue, unsafe products, deficits, retaliation. Methods: tariffs (a tax), quotas (a quantity limit), subsidies.

The tariff model: at world price 12 imports are 48; a tariff of 4 lifts the price to 16, imports fall to 24, revenue 96, deadweight loss $32 + 16 = 48$. Trading blocs favour members (creation) against non-members (diversion); the WTO negotiates, rules and settles; developing countries export primary and low-cost goods, developed ones services and technology.

4. Exchange rates

Exchange rates

The exchange rate is the price of one currency in another, set by its demand and supply: interest rates, speculators, imports and exports. The diagram meets at 5 domestic per foreign.

Appreciation = market rise in a float; revaluation = deliberate rise in a fix;
depreciation = market fall; devaluation = deliberate cut. Import-demand growth shifts demand right: 5 to 6.5, a depreciation - imports dearer, exports cheaper abroad, current account improves if elasticities allow, at the cost of imported inflation. Appreciation does the reverse.

Check yourself

Check yourself

Globalisation's definition, four reasons, impacts by group; MNC/FDI with five advantages and three disadvantages.

Free trade both ways; seven protection motives; the three methods with the tariff arithmetic; blocs, the WTO, trade patterns.

The exchange model at 5; the four direction words; both directions' price and current-account effects.