ДЕРЖАВНИЙ ВИЩИЙ НАВЧАЛЬНИЙ ЗАКЛАД
«ЗАПОРІЗЬКИЙ НАЦІОНАЛЬНИЙ УНІВЕРСИТЕТ»
МІНІСТЕРСТВА ОСВІТИ І НАУКИ УКРАЇНИ

INTERNATIONAL ECONOMICS

Topic 1. Interconnections in international economy.

1. “International economics” as economical science.
2. Macro- and microparticles of this course.
3. Groups of countries in International economics.
4. The concept of international factors of production division.
5. International production cooperation.

1. INTERNATIONAL ECONOMICS is an economics field of study that applies both macroeconomic and microeconomic principles to international trade, which is the flow of trade among nations, and to international finance, which is the means of making payment for the exchange of goods among nations.

   International economics studies the economic interactions among the different nations that make up the global economy.

   Often these interactions are viewed in terms of the domestic economy and the foreign sector.

ECONOMIC PRINCIPLES

1. People face tradeoffs.
2. The cost of something is what you give up to get it.
3. Rational people think at the margin.
4. People respond to incentives.
5. Trade can make everyone better off.
6. Markets are usually a good way to organize economic activity.
7. Governments can sometimes improve market outcomes
8. A country’s standard of living depends on its ability to produce goods and services.
9. Prices rise when the government prints too much money.
10. Society faces a short-run tradeoff between inflation and unemployment.

Conclusion: International economics is the study of how the production of one nation is purchased by another nation and how the currency of one nation is exchanged for the currency of another nation to pay for this production.

Thus international economics is the application of standard economic principles with one key qualification – the buyers are in one nation and the sellers are in another.

PRODUCTION: The process of transforming the natural resources of the land into consumer satisfying consumption and capital goods using scarce resources.

CURRENCY: Paper usually issued by the national government that are used as money.

International economics is a broad field of study that is divided between two subfields:

– international trade

— international finance.

- International Trade:

This is the study of the flow of goods and services among the nations of the globe. The primary focus is on how and why goods are traded, especially the identification of key principles such as the law of comparative advantage.

LAW OF COMPARATIVE ADVANTAGE:

A basic law that states every nation has a production activity that incurs a lower opportunity cost нести расходы than that of another nation, which means that trade between the two nations can be beneficial to both if each specializes in the production of a good with lower relative opportunity cost.

The starting point for the study of international economics is the trade than takes place among nations, termed either international trade or foreign trade.

The international trade term is the more generic of the two, taking a more global view of the trading process. It focuses on the essential principles of trade among nations, such as the law of comparative advantage.

The foreign trade term is a bit more specific, taking a domestic view of the trading process. It emphasizes the interaction between the domestic economy and the foreign sector, especially assorted trading policies.

The study of foreign trade also gives rise давать начало to three related terms – exports, imports, and net exports.

- Exports are goods (or services) produced by the domestic economy and purchased by the foreign sector. These are goods that flow out of a domestic economy.

- Imports are goods (or services) produced by the foreign sector and purchased by the domestic economy. These are goods (or services) that flow into a domestic economy.

- Net exports are the difference between exports and imports. This is the difference between goods flowing out of the domestic economy and goods flowing into a domestic economy

From the domestic view of foreign trade, the goal of a given nation is usually to promote exports, restrict imports, and thus create the biggest possible net exports difference between exports and imports. This difference between exports and imports is indicated by a nation's balance of trade.

BALANCE OF TRADE is the difference between funds received by a country when exporting merchandise and the funds paid for importing merchandise. The balance of trade is a major part of the current accounts portion of the balance of payments.

A balance of trade surplus results if exports exceed imports, commonly termed a favorable balance of trade.

A balance of trade deficit exists if imports exceed exports, analogously termed an unfavorable balance of trade.

From the global view of international trade, the exports of one nation are the imports of another. When one nation exports another nation imports. The global sum of exports necessarily equals the global sum of imports. For the global economy, net exports are zero.

Tradable goods are those that have export or import potential. The possibility of their being traded abroad sets up a continuous comparison between their price and that of their overseas competitors, verifying that no barriers exist to the substitution of one product for another.

Some goods are non-tradable, either because of their nature or due to high transportation costs per product unit, high tariffs or other restrictions. Examples of internationally non-tradable goods may be found in the sectors of housing, electricity generation, transport, educational services, personal services, etc.

- International Finance: This is the study of the payment for the goods and services traded among nations. This subfield is concerned with identifying the principles important to the exchange of the currencies used to pay for the traded goods, with particular focus on the foreign exchange market.

Another focus of the study of international economics is the policies that governments undertake to either promote exports or restrict imports. With the goal of increasing net exports and "improving" their domestic balance of trade, three of the most common trade policies are:

- **Tariffs**
- **Import Quotas**
- **Subsidies.**

Tariffs are simply taxes on imports. By taxing imports, the price of imports increases relative to domestic production, which discourages препятствовать imports and thus increases net exports. Tariffs work like any other taxes. A tariff or tax is added to the price of the imported good. Suppose, for example, that the price of an imported good is $10. A tariff of $1 would then force importers to sell each good for $11. Domestic producers are usually thrilled with a tariff because the higher price of imports reduces the quantity of imports sold. This means more domestic production is likely to be purchased. Moreover, domestic producers can also raise the price they charge for their goods.

Quotas are legal restrictions on the quantities of goods imported. By limiting the quantity of imports, imports are obviously discouraged and net exports increase.

With fewer imports entering the domestic economy, more domestic production is sold, and in all likelihood, at higher prices.

Quotas are an alternative to tariffs.

• **Subsidies** are payments from the government to individuals or businesses without any expectations of receiving any production in exchange.

Subsidy payment to export producers encourages exports and thus increases net exports.

Domestic producers usually promote the use of government subsidies as a way to be "competitive" with "lower cost" foreign imports. A subsidy gives domestic producers the ability to produce more goods at a lower price and presumably вероятно reduce the number of imports into the country.

OTHER TRADE POLICY ARGUMENTS:

1) Domestic Employment:

A primary argument is to promote or protect domestic employment. If fewer goods are imported, then more goods are produced domestically and more domestic citizens have jobs. However, while imports could be, in principle, produced by domestic workers, eliminating imports is no guarantee that the domestic industry will pick up оправиться от спада the employment slack застой.

2) Low Foreign Wages:

A second argument is to combat противодействовать the low levels of wages paid to foreign workers. Export subsidies or import tariffs would then allow domestic producers to compete. However, low foreign wages are really just an indication that the foreign producers have a comparative advantage.

3) Infant Industry:

Another common argument is to protect an infant industry that is in its early stages of development.

Infant industry is presumably unable to compete with more mature foreign industries. However, trade protection might actually create a "crutch" костыль that prevents the domestic industry from maturing and improving efficiency.

4) Unfair Trade:

Foreign competitors also might be benefitting from unfair trade practices, especially selling imports below production cost, including subsidies from their governments. As such, domestic producers need comparable assistance to remain competitive.

5) National Security:

Imports might need to be restricted to ensure a strong national defense and to keep the country secure. Relying on foreign imports for a critical product might make the country vulnerable.

OUTCOMES:

Positive:

increasing net exports,

benefits of domestic producers due to higher prices and/or greater profits.

Negative:

hurt domestic consumers with higher prices and fewer choices.

2. A Macro-Micro Bridge in INTERNATIONAL ECONOMICS` SCTRUCTURE

The study of international economics is divided into two primary branches of economics – international macroeconomics and international microeconomics.

Standard microeconomics is the study of decision-making by various types of agents under various constraints and in various environments.

International microeconomics examines such decision-making in a world of many different decision-makers, objectives, outputs, and countries.

International macroeconomics reviews and analyses current international macroeconomic and financial issues, policies and events, including:

growth,

inflation,

interest rates,

exchange rates,

asset prices in the global economy;

causes and consequencesпоследствия of trade deficits and external imbalances;

emerging market economies financial crises;

causes of currency, banking and financial crises in emerging market economies and advanced economies (the global financial crisis of 2008-09);

short- and long-term effects of monetary and fiscal policies including unconventional нетрадиционная monetary policies;

the drive to reform the international financial architecture;

emerging markets and advanced economies public and external debt and attempts to restructure it (the"bail-in" versus "bail-out" debate);

the globalization of financial markets.

The Global Players

- Multinational enterprises are organizations that own or control production or services facilities in one or more countries other than the home country.
- Governments.
- A number of multination organizations like:
  - World Trade Organization: WTO is the only global international organization dealing with the rules of trade between nations. The goal is to help producers of goods and services, exporters, and importers conduct their business.
  - North American Free Trade Association: NAFTA includes Canada, the United States, and Mexico. NAFTA was established in 1994 to reduce trade restrictions and promote international trade between the United States and its neighbors to the north and south, Canada and Mexico.
  - European Union: the EU maintains economic dialogues with many countries and institutions in the world. Its ultimate конечная objective is to foster содействовать развитию economic prosperity and stability in the EU and, while serving the Union's interests, also in the rest of the world.
  - International Monetary Fund: The IMF works to foster global growth and economic stability. It

provides policy advice and financing to members in economic difficulties and also works with developing nations to help them achieve macroeconomic stability and reduce poverty.

- The United Nations is an international organization founded in 1945 after the Second World War by 51 countries committed to maintaining international peace and security, developing friendly relations among nations and promoting social progress, better living standards and human rights. 193 member states in 2014.

- Most influential people in the world business.
- Secret organizations like “Skull and bones group”, “Council in international relations”, “The Bilderberg Group”, “Tripartite” трехсторонний договор / triad

THE GLOBAL ECONOMY

The global economy refers to the economy of the world, comprising of different economies of individual countries, with each economy related with the other in one way or another.

A key concept in the global economy is globalization, which is the process that leads to individual economies around the world being closely interwoven переплетены such that an event in one country is bound to affect the state of other world economies.

Advantages of a Global Economy:

✓Improved Quality

Free movement of goods and services across borders improves the quality of the goods and services. This can be attributed partly to the increased competition. Logically, a local manufacturer will be forced to produce better quality goods because now the consumers have the option of buying from foreign companies, which are likely to be of high quality since they are exports.

✓Growth

A global economy leads to high growth. It is very simple: A larger market for producers and a wider variety for consumers. There is increased consumer wealth and thus more trade, leading to even further growth.

✓Uniform standards

Thanks to the global economy it is easier to set the standards for goods and services, with only slight discrepancies различия in different countries, thus making trade much easier and reducing the chances of exploitation.

Disadvantages of a Global Economy:

✓Growth with inequality

Because there are opportunities across borders, there is always a danger of there being high economic growth with a lot of inequality. This is because the wealthy in society are usually better placed to take advantage of the opportunities, thus growing wealthier and leaving the poor with little or nothing.

✓Exploitation of labor

Along with globalization comes a new concept: outsourcing. Outsourcing involves delegating labor from developed countries to the developing ones where the cost of labor is much cheaper. This helps the multinational companies in the developed world to cut on the cost of labor, and make bigger profits. Essentially, for the worker in the underdeveloped country, this is unfair exploitation.

3. GROUPS OF COUNTRIES IN INTERNATIONAL ECONOMICS.

In the World Development Indicators database, all 188 World Bank member countries, plus 26 other economies with populations of more than 30,000, are classified so that data users can aggregate, group, and compare statistical data.

The main classifications provided are by geographic region, by income group, and by the operational lending categories of the World Bank Group. These groupings change from time to time.

a) Geographic regions

Groupings are primarily based on the regions used for administrative purposes by the World Bank. There are two main variants: one which includes low- and middle-income economies only, labeled developing only, and one which includes all economies, labeled all income groups.

b) Income groups

Economies are currently divided into four income groupings: low, lower-middle, upper-middle, and high. Income is measured using gross national income (GNI) per capita, in U.S. dollars, converted from local currency using the World Bank Atlas method.

c) Operational lending categories

Economies are divided into IDA, IBRD, and Blend countries based on the operational policies of the World Bank. International Development Association (IDA) countries are those with low per capita incomes that lack the financial ability to borrow from the International Bank for Reconstruction and Development (IBRD). Blend countries are eligible for IDA loans but are also eligible for IBRD loans because they are financially creditworthy.

For the current 2015 fiscal year, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of $1,045 or less in 2013; middle-income economies are those with a GNI per capita of more than $1,045 but less than $12,746; high-income economies are those with a GNI per capita of $12,746 or more. Lower-middle-income and upper-middle-income economies are separated at a GNI per capita of $4,125.

Lower-middle-income economies ($1,046 to $4,125)

Armenia	Kiribati	São Tomé and Principe
Bhutan	Kosovo	Senegal
Bolivia	**Kyrgyz Republic**	Solomon Islands
Cameroon	Lao PDR	**South Sudan**
Cabo Verde	Lesotho	Sri Lanka
Congo, Rep.	Mauritania	Sudan
Côte d'Ivoire	Micronesia, Fed. Sts.	Swaziland
Djibouti	Moldova	Syrian Arab Republic
Egypt, Arab Rep.	Mongolia	Timor-Leste
El Salvador	Morocco	Ukraine
Georgia	Nicaragua	Uzbekistan
Ghana	Nigeria	Vanuatu
Guatemala	Pakistan	Vietnam
Guyana	Papua New Guinea	West Bank and Gaza
Honduras	Paraguay	Yemen, Rep.
Indonesia	Philippines	Zambia
India	Samoa	

4. THE CONCEPT OF INTERNATIONAL FACTORS OF PRODUCTION DIVISION

The DIVISION OF LABOUR is a system whereby workers concentrate on performing a few tasks and then exchange their production for other goods and services.

ADVANTAGES OF the DIVISION OF LABOUR

To the business:

- Specialist workers become quicker at producing goods
- Production becomes cheaper per good because of this
- Production levels are increased
- Each worker can concentrate on what they are good at and build up their expertise

To the worker:

- Higher pay for specialised work
- Improved skills at that job.

DISADVANTAGES OF the DIVISION OF LABOUR

To the business:

- Greater cost of training workers
-Quality may suffer if workers become bored by the lack of variety in their jobs

To the worker:

- Boredom as they do the same job
- Their quality and skills may suffer
- May eventually be replaced by machinery

Implications of the international division of labour

Advantages

- *Access to a much larger labour force for firms*
- *More competitive labour market drives down labour costs, eg. Wages and working conditions such as sick leave – this leads to falling average costs, increased profits, rising income, employment and economic growth*
- *Increased employment opportunities for employees in developing countries*
- *Increased wages for employees in developing countries*
- *Potential for employees to organise globally to share information and to improve wages and working conditions*

Disadvantages

- *Loss of jobs for employees in the home country*
- *'race to the bottom' of wages due to international competition for employees in import-competing industries*
- *Exploitation of employees in developing countries, leading to poor working conditions, job insecurity, low wages, not just in unskilled or semi-skilled occupations*
- *Employers areable to work outside the industrial relations framework including minimum wages and standards of employment, which can undermine wages and working conditions at home*

FORMS OF THE INTERNATIONAL DIVISION OF LABOUR

a) „Increasing the total output of the economy by organising the manufacture of an article so that each worker gives all his time and attention to performing a single operation" called SPECIALISATION.

TYPES OF SPECIALISATION

REGIONAL

Certain areas have specialised in certain industrial production e.g. coal mining in Yorkshire, pottery in Stoke

INTERNATIONAL

Certain countries have advantages in producing certain goods. They may have natural resources or they may be able to produce goods more cheaply. e.g. Sri Lanka Tea, Japan electronics. They then trade these goods for those produced in other countries.

ADVANTAGES OF SPECIALIZATION:

- greatly increased output at lower costs
- development of special skills and machinery
- the increase of speed
- the saving in time - because operation is continuous (e.g. less changes of tools, materials etc.)

DISADVANTAGES:

- work becomes boring
- quality of workmanship is lower
- administration becomes more complicated
- business risk is higher.