

Unit 7 Review: International Trade & the Global Economy

Only 3 review sessions left!!!

- **REVIEW PACKETS ARE LATE!!!!**
 - **DID I CHECK YOURS OFF YESTERDAY?**
- Today's Plan:
 - Independent / Small group packet work:
 - Unit 6/7: U.S. & World Economy
 - Quiz / Kahoot: U.S. & World Economy
- Warm Up: TAKE PACKET OUT!
 - What is the purpose of “protectionist” economic policies?
 - What factors contribute to the balance of trade for a nation?
 - Explain the theory of comparative advantage.
 - What are some differences between developed and developing nations?

Independent Work Time - Packets

1. Use website, notes, and other resources to complete Unit 3 review packet
2. www.mrggcivics.weebly.com; exam review
 - Then move on to Unit 3
3. Kahoot Quiz on bill of rights & legal system to end class

Regarding Review Packets & Grades

1. PACKETS ARE LATE....

STUDY RESOURCES:

- The packets I gave with info filled in
- **My website** www.mrggcivics.weebly.com
 - **Notes and materials for each unit**
 - “Exam prep” tab has materials (packets) and jeopardy review games

Upcoming Schedule

- Tues 6/2– 3rd period B Day exam
 - **7:30-9:30 – 3rd period review (for us)**
 - 9:36-10:36 – 1st period
 - LUNCH with 4th period
 - 2nd period: 1:00-2:30
- **Wed 6/3: 2nd period Exams: 7:30-11:30am**
 - Lunch with 3rd period
 - 4th period review: 1:36-2:30
- Thurs 6/4: 4th period B day exam
 - **7:30-9:30 – 4th period review**
 - 9:36-10:36 – 2nd period
 - LUNCH with 1st period
 - **3rd period: 1:00-2:30 (our FINAL REVIEW SESSION!)**
- **Fri 6/5: CIVICS & ECONOMICS FINAL EXAM**
 - 7:30-11:30am
- Mon 6/8 – 1st period B day Exams
- **Tue 6/9 – 4th period Final Exam**
- Make Ups:
 - Miss Friday, make it up Monday
 - Miss Monday, make it up Tuesday,
 - Etc.
- **NO RETAKES**
- **No exemptions**
- **EXAM GUIDELINES**
 - **No electronics – either don't bring them or be ready to place them in zip locks with your phones OFF.**
 - **You will be permitted to take an exam without proving to me that your phone is off and stowed.**
- **C&E Exam Format**
 - 120 minute testing period
 - 41 multiple choice
 - 2 Constructed Response (written) questions
- **Exam Content:**
 - **About 50% Economics & 50% civics**
 - **All testing is ONLINE, including written section**

Unit 7: Trade & Economic Interdependence: A Global Economy

Lesson 1: Rich & Poor: Developed & Developing Nations

ESSENTIAL QUESTIONS (WRITE DOWN!):

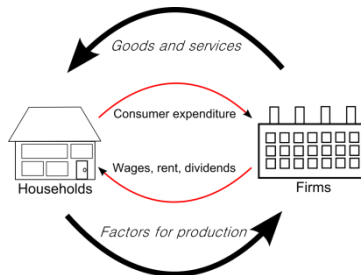
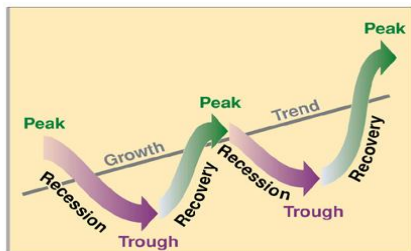
- Why are some nations economically strong while others are more weak?
- **Lesson Vocabulary:**
 - developed nations
 - developing nations
 - export economy
 - service economy
 - manufacturing economy
 - currency exchange rates
 - Group of Eight (G8)
 - outsourcing/offshoring
 - layoffs
 - worker rights
 - human rights
 - trade policy
 - sanctions/embargos
 - Unions
 - Right to work laws
 - Closed shop
 - Open shop

• WARM UP

- What other nations in the world would you consider living in? Why?
- What do you know about nations & the economies in Europe? Africa? Asia? Central & South America?

Lesson Skills:

- I can describe the basic differences between developed and developing nations



The World Economy

- Nations around the world are connected through economics
 - Nations specialize in certain products and trade with each other
 - Some nations have bigger economies than others



Per Capita Income

- Total Gross Domestic Product of a nation divided by its total population
 - Average income for each person in that economy

Country	Per Capita Income
Qatar (first)	\$143,437
United States (10 th)	\$53,042
China	\$9,800
Poland	\$21,100
France	\$40,375
Mexico	\$16,370
Democratic Republic of Congo (last)	\$400

Global Wealth & Poverty

- **Developed nations** – countries that are fairly well off economically, with strong economic growth and relatively high per-capita income
- **Developing nations** – countries that have little power in the world economy, with low per-capita income and low standards of living

Differences in Wealth & Power

Developed Nations

- Combined population around 1 billion people
- Wealthier
 - Large GDP
 - Higher per-capita income
 - Consume 88% of worlds resources
- Manufacturing, information, & service based economies

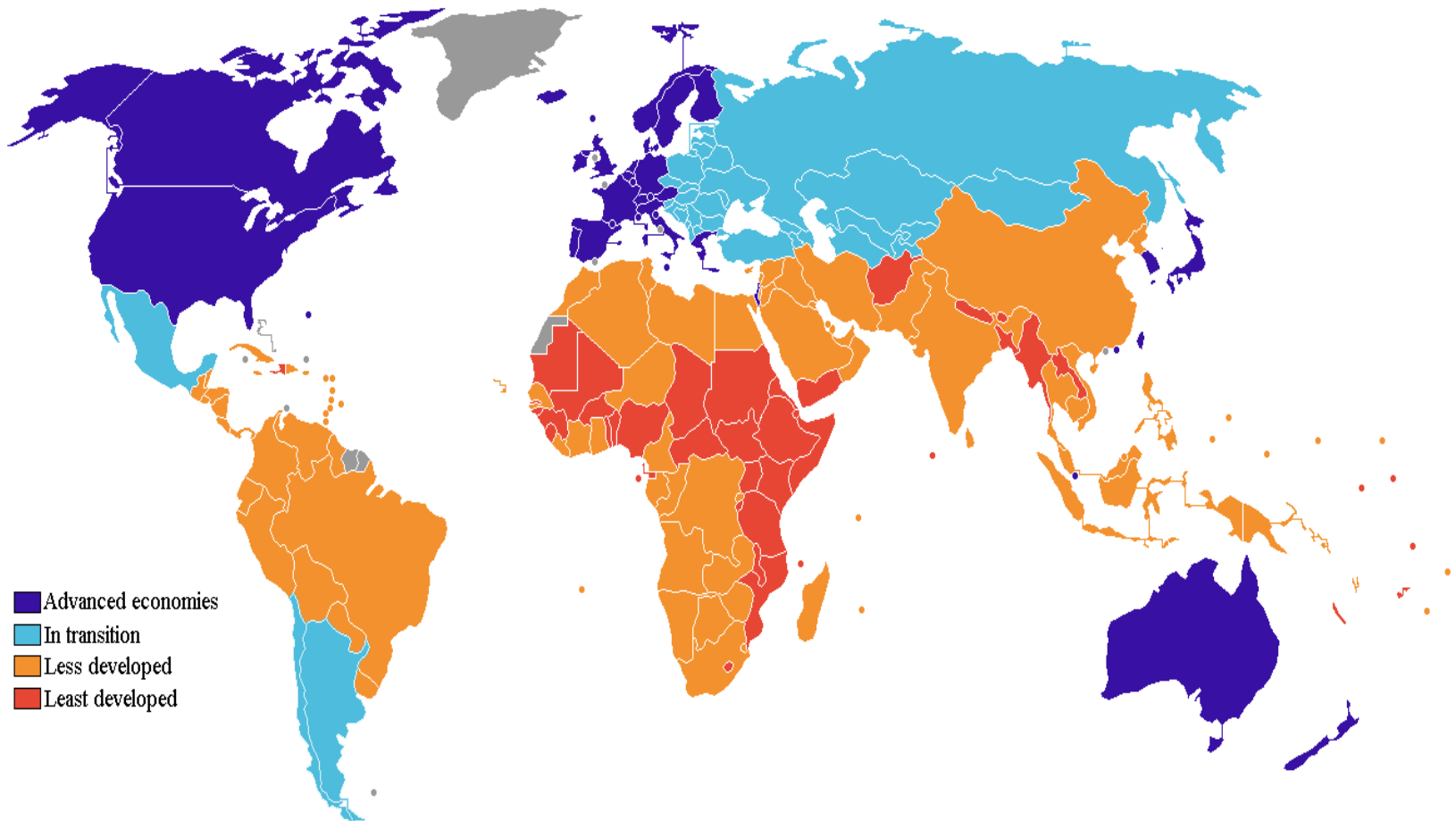
Developing nations

- Combined population around 5 billion people
- Poorer
 - Small GDP
 - Consume 12% of world resources
- Export economies
 - Natural resources are mined and sold to global companies
 - Wealth does not stay in the country



The World Economy

- Nations around the world are connected through economics;



Group of Eight (G8)

- Powerful group of 8 developed nations (created in 1975) that work to control the global financial system:
 - United States
 - France
 - Germany
 - Italy
 - Japan
 - United Kingdom (Britain)
 - Canada
 - Russia

In Industrial Economies

- Division of Labor
 - Every worker does one small part of the big job



Automation

- Replacing human beings with machines
- Less jobs
- Lower production costs



Workers get downsized/laid off



Outsourcing / offshoring

- American factories shut down & jobs go overseas
 - Other countries have cheaper labor and fewer regulations



How does this create a problem for developed economies?

- Job loss – factories shut down as companies move production to cheaper labor markets overseas
- Reduced purchasing power – workers have less money to spend, which can trigger reduced consumer spending



Worker Rights

- Unions – organizations of workers focused on improving wages and working conditions
 - Companies sometimes try to shut unions down by moving production to other countries
 - In the U.S., union membership peaked in the 1970s; average income & purchasing power did as well
 - As union membership has declined, so have American incomes

Unit 7: Trade & Economic Interdependence: A Global Economy

Lesson 2: Comparative Advantage & International Trade

ESSENTIAL QUESTIONS (WRITE DOWN!):

- What are the pros and cons of participating in a market based global economy?

• *Lesson Vocabulary:*

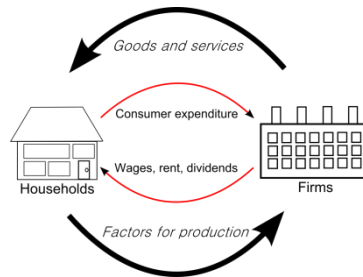
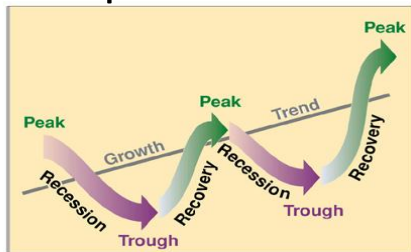
- Globalization
- economic interdependence
- trade policy
- Imports
- Exports
- Commodity
- balance of trade
- trade deficit
- specialization
- absolute advantage
- comparative advantage
- free trade
- free trade agreements
- protectionism
- tariff
- subsidy

• **WARM UP:**

- **What is your understanding of “globalization?”**

Lesson Skills:

- **I can evaluate the effect of monetary policy on the U.S. economy**





Globalization



- Globalization -- the process of international exchange, movement, & integration of ideas, products, technologies, people, and culture
- Globalization influences:
 - Economics
 - Culture
 - Global politics



GLOBALIZATION

GLOBAL WORLD PLANET MEDIA EARTH INTERNATIONAL ...

Economic Interdependence

- The integration of the global economies through trade networks mean that what happens in one nation has an impact on the world economy and the domestic economies around the world
 - Domestic Economy – the economy of one specific nation
 - Global economy – refers to the international market for goods and services

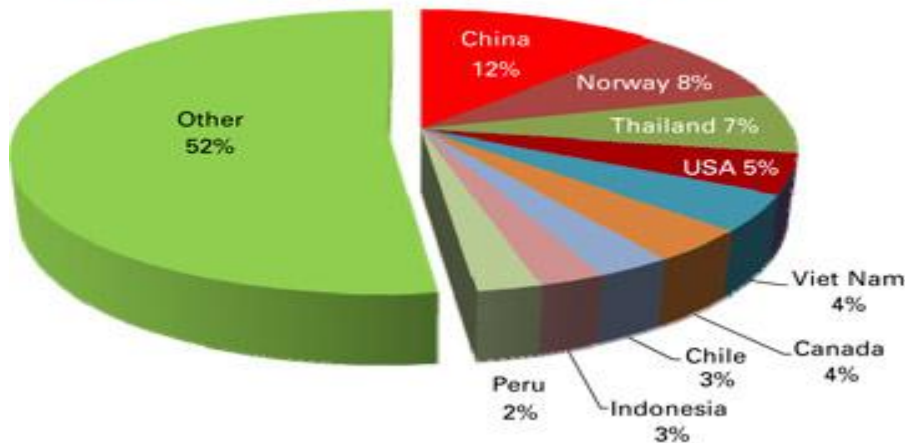


Import & Export Markets

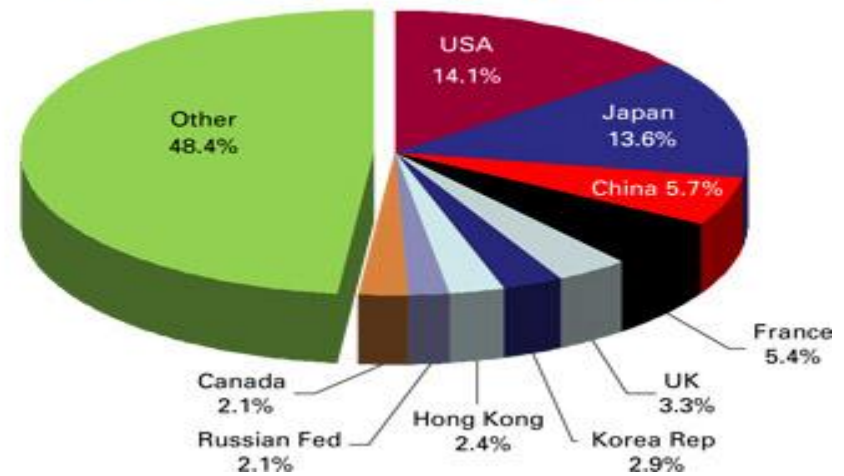
- Imports – products brought INTO a country from a foreign country
 - Allows consumers to purchase products made in other countries

- Exports – products produced domestically but sold in other countries
 - Allows domestic producers access to consumers in foreign markets

2009 Top exporters



2009 Top importers



Commodities & the Global Market

- Commodity – any raw material that can be bought and sold
 - Commodity markets – measure the value of a specific commodity in world trade
 - International changes in supply & demand affect the price and value of specific commodities:
 - these forces are beyond the influence of one single nation or company
- Gold
 - Silver
 - Oil
 - Wheat
 - Etc.



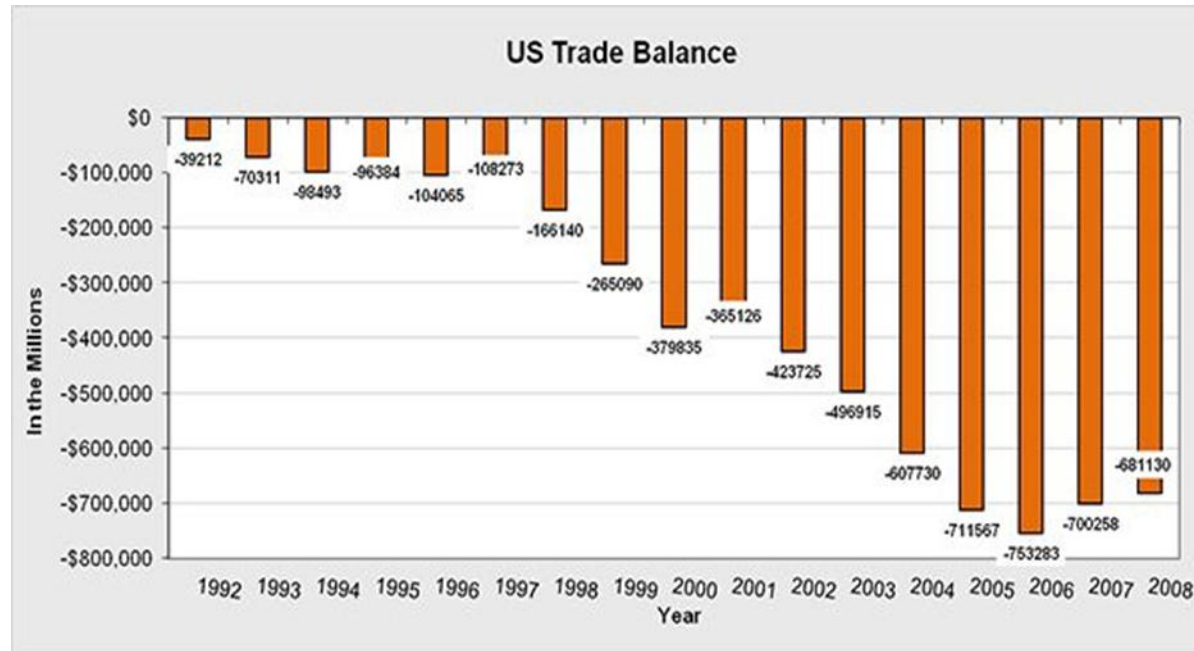
Balance of Trade

- The difference between imports and exports for each nation

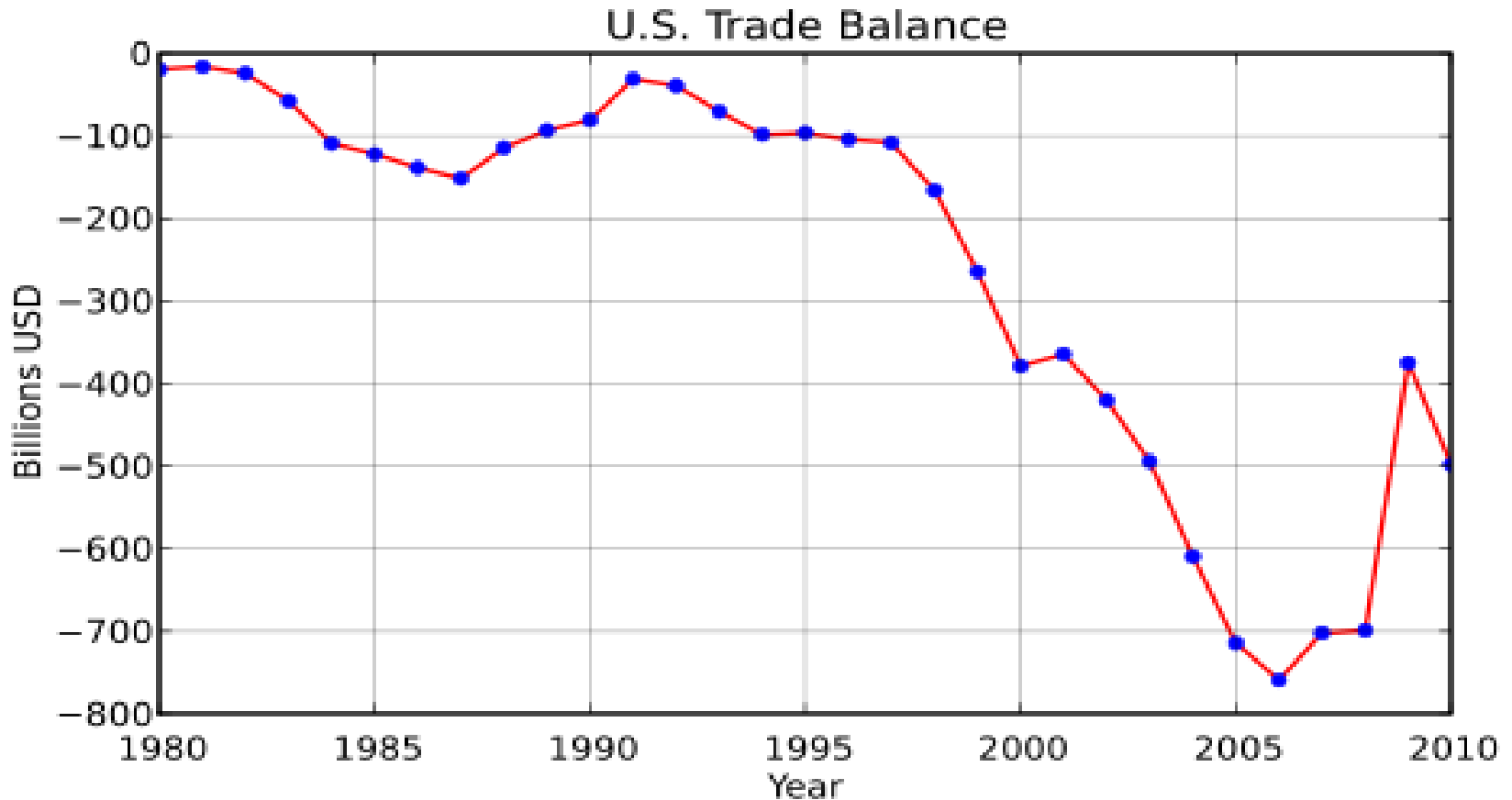


Trade Deficit

- when the total value of IMPORTS is greater than the total value of EXPORTS
- This sends dollars **out** of the domestic economy



During what time period did the U.S. trade deficit get out of control?



Data Source: US Census Bureau Foreign Trade Division

Reasons for International Trade

1. Allows nations to specialize in producing what they are best at making
 - Eg: the U.S. is better at growing wheat than Guatemala or Saudi Arabia
 - Eg: Guatemala is better at growing banana's than the United States or Saudi Arabia
 - Saudi Arabia is better at producing oil than the U.S. or Guatemala
2. Each nation has a **COMPARATIVE ADVANTAGE** in a certain product, and can focus on that while trading for the other items

Corporate Power

- **Multinational corporations – companies that do business in the U.S. but also in many other nations**
 - **Foreign Direct Investment (FDI)**
 - When a corporation invests in building a factory or creating economic value in foreign nations
- **IF THEY WERE NATIONS:**
 - 25 American Corporations have revenues LARGER than the GDP of entire nations
 - Wal-Mart is the 25th largest economy in the world, larger than 157 nations
 - Exxon is the worlds 30th largest economy
 - Others include:
 - Yahoo, visa, e-bay, Nike, Amazon.com, Morgan Stanley, Cisco, Microsoft, Costco, Ford, Proctor & Gamble, Wells Fargo, General Motors, General Electric, Exxon

- Top 10 economies by GDP
 - European Union (\$18.5 trillion)
 - 1. U.S. (\$17.4 trillion)
 - 2. China (\$10.3 trillion)
 - 3. Japan (4.6 Trillion)
 - 4. German (\$3.8 trillion)
 - 5. UK (\$3 trillion)
 - 6. France (\$2.8 trillion)
 - 7. Brazil (\$2.3 trillion)
 - 8. Italy (\$2.1 trillion)
 - 9. India (\$2 trillion)
 - 10. Russia (\$1.8 trillion)



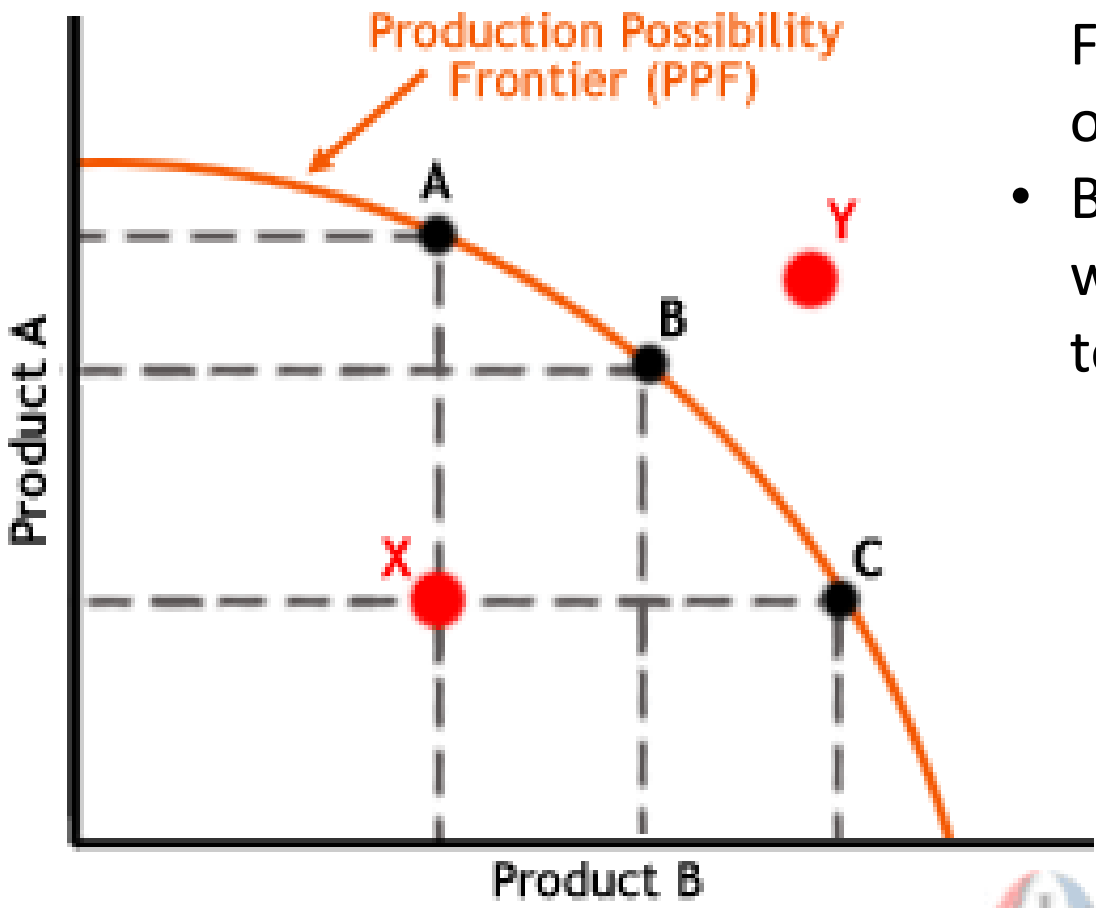
Trade Policy

- Nations have to decide how they will interact with the world economy. Options include:
 - **Isolationism** -- prohibit foreign trade and produce everything at home.
 - **Protectionism** - Permit trade with other countries (some or all), but adopt policies that help protect domestic producers from international competition
 - Tariffs
 - Subsidies
 - **Unrestricted free trade** – eliminate all barriers to trade and allow free market competition between producers of all nations

Absolute vs. Comparative Advantage

- **Absolute advantage**
 - When one country can produce a good more efficiently than another country
- **Comparative advantage**
 - Ability of a nation to produce one good more efficiently than another good
 - Examples:
 - Haiti is good at producing sugar but not at producing cars
 - Japan is good at producing electronics but not at producing steel

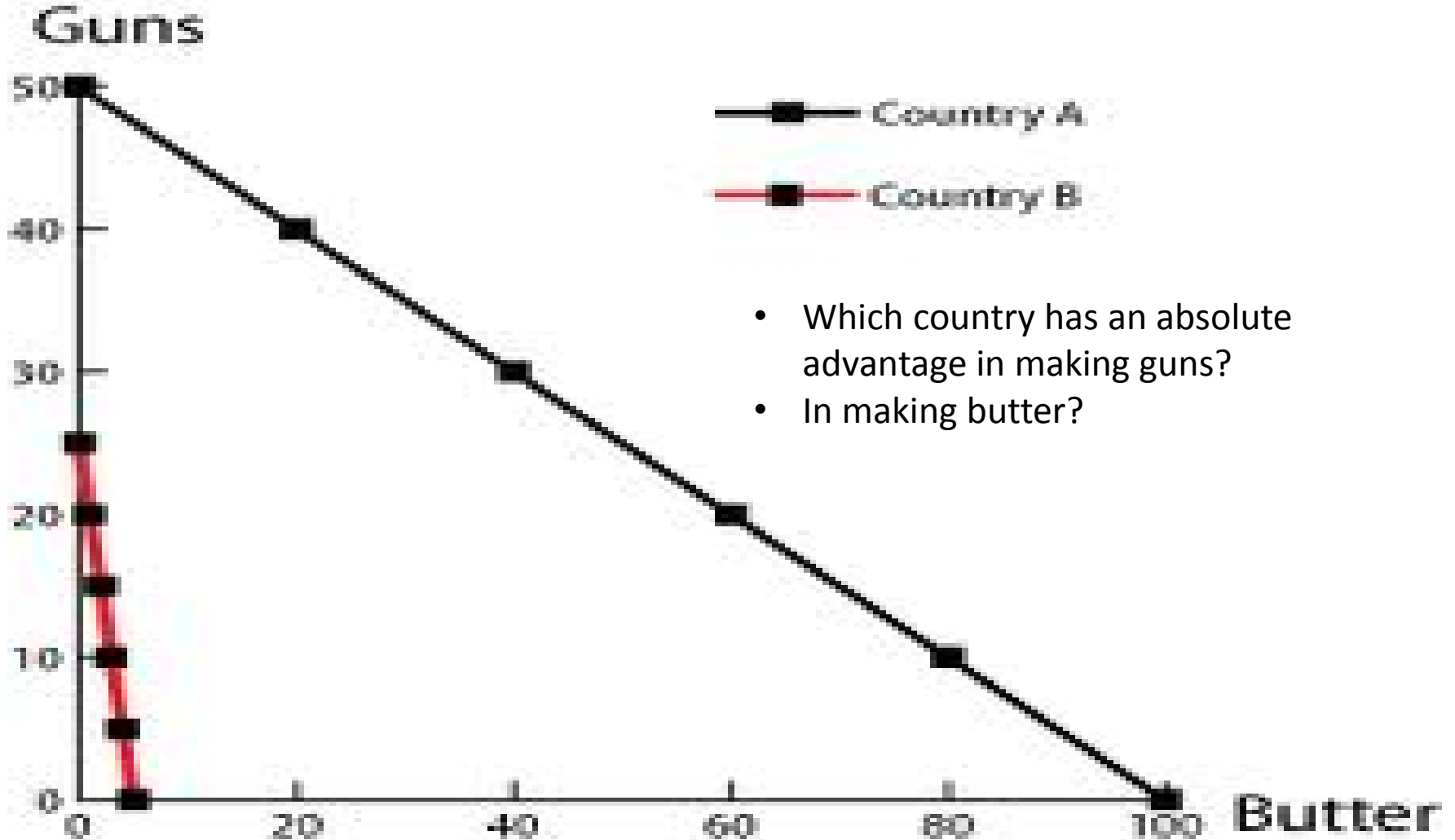
Production Possibility Frontier



- The Production Possibility Frontier is a way of showing opportunity cost.
- Because resources are limited, we make choices about WHAT to produce
 - Making more of product A costs the chance to make product B
 - Specializing in a product can increase efficiency



Production Possibility Curve



- Which country has an absolute advantage in making guns?
- In making butter?

Comparative Advantage

	Guns per day	Butter per day
Country A	50	100
Country B	25	5

- Which country should make guns?
- Which should make butter?

Comparative Advantage: Guns

	Guns per day	Butter per day
Country A	50	100
Country B	25	5

- Making 50 guns costs country A 100 pounds of butter.
 - 1 gun costs country A 2 pounds of butter
- Making 25 guns costs country B 5 pounds of butter.
 - 5 guns costs Country B 1 pound of butter

Comparative Advantage

	Guns per day	Butter per day
Country A	50	100
Country B	25	5

- Country B can produce guns more efficiently.
 - Country B has a competitive advantage in guns

Comparative Advantage

	Guns per day	Butter per day
Country A	50	100
Country B	25	5

- 100 pounds of butter costs country A 50 guns.
 - For Country A the opportunity cost of 1 pound of butter is $\frac{1}{2}$ a gun.
- 5 pounds of butter costs country B 25 guns.
 - For Country B, the opportunity cost of 1 pound of butter is 5 guns
- **Country A is more efficient and should produce butter.**

Unit 7: Trade & Economic Interdependence: A Global Economy

Lesson 3: International Financial Institutions

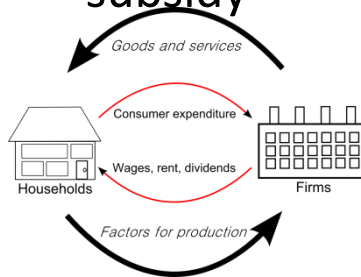
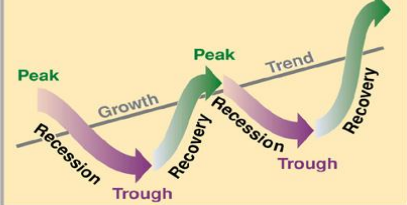
ESSENTIAL QUESTIONS (WRITE DOWN!):

- What are the costs and benefits of international free trade agreements?
- What effect do the World Bank, World Trade Organization, International Monetary Fund have on the world economy?

• *Lesson Vocabulary:*

- World Trade Organization
- World Bank
- International Monetary Fund
- European Union
- NGOs
- International Labor Unions
- NATO
- NAFTA
- Trans Pacific Partnership
- free trade agreements
- protectionism
- tariff
- subsidy

• United Nations



• **WARM UP:**

- **Log into kahoot.it NOW:**
- **Country A can produce 10 calculators or 30 rocking chairs.**
- **Country B can produce 5 calculators or 25 rocking chairs.**
- **Which country has a comparative advantage in calculators? Rocking chairs?**

Lesson Skills:

- **I can distinguish between the functions of the U.N., IMF, World Bank, and WTO**



Human Rights

- What gives people the rights that they have?
 - Think about what Locke and Jefferson said about this
- **United Nations Declaration of Human Rights (1948)**
 - **TASK: Review the rights listed in the declaration. Highlight or star the ones that stand out to you.**
 - What is included here that IS NOT included in the U.S. Constitution?
 - What do you agree with? What do you disagree with?

What is the United Nations anyway?

- **United Nations**

- Created in 1945 after WWII
- **International diplomatic organization that nearly every country in the world is a member of**
 - Each nation sends an Ambassador to represent it in the U.N.
- Works to increase cooperation between nations around the world on issues such as:
 - **Human rights**
 - **Peace & conflict resolution**
 - **Sustainable economic development**

Who runs the United Nations?

- All member nations may vote in the U.N. GENERAL ASSEMBLY, but...
- Most power is held by the U.N. Security Council
 - Security Council members may VETO (block) any proposed action by the U.N.
 - 15 members of the Security Council
 - 5 permanent members – nations that were powerful when the U.N. was created and gave themselves permanent veto-power over anything the U.N. decides to do
 - China, France, Russia, United Kingdom, United States
 - 10 rotating members (all nations have a chance to serve on the security council; they are elected by the general assembly to serve on the Council)

International Financial Institutions

- Government created organizations focused on increasing economic development
 - Generally run by the nations with the most powerful economies
 - EXAMPLES:
 - World Trade Organization
 - World Bank
 - International Monetary Fund
- TASK: 20 minutes – take time do research and learn about each institution; you may split them up in your groups and share information

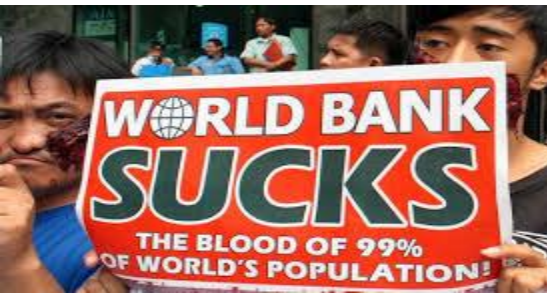
World Trade Organization (WTO)

- Purpose: reduce obstacles to free trade and enforce international trade agreements
 - Nations can sue each other in the WTO if an international trade agreement is violated
- Critique: serves the interests of corporations, and often undermines the rights and needs of workers, consumers, or the environment



World Bank

- Purpose: assists developing nations with economic development projects, such as:
 - Building infrastructure (roads, bridges, access to clean drinking water, generating electricity, etc.)
 - Offers loans to poorer nations that need capital
- Critique: requires nations that accept help to open their markets to foreign companies;
 - this reduces the nation's control over its own economy
 - Forces smaller, poorer countries to go along with what wealthier, more powerful nations want them to do



International Monetary Fund (IMF)

- Purpose: maintain stability of the global economy, reduce poverty through economic growth
- Critiques:
 - Serves the interests of powerful corporations and nations by forcing weaker countries into trade agreements that are bad for workers and the environment



Trade Policy 101

- Nations have to decide how they will interact with the world economy. Options include:
 - **Isolationism** -- prohibit foreign trade and produce everything at home.
 - **Protectionism** - Permit trade with other countries (some or all), but adopt policies that help protect domestic producers from international competition
 - Tariffs
 - Subsidies
 - **Unrestricted free trade** – eliminate all barriers to trade and allow free market competition between producers of all nations

Protectionism

- If a Mexico has cheap labor, can U.S. producers ever compete effectively with Mexico?
 - NOT IF THERE IS FREE TRADE!
- Protectionism -- economic policies designed to protect producers from foreign competition

Protectionist Policies

- Tariffs – taxes on imported goods
 - Raises the cost of foreign goods so domestic producers can compete
- Subsidies – when the government gives money to producers to help them out
 - EXAMPLE: in the past, the U.S. government has given money to wheat farmer in exchange for them NOT growing wheat
 - This prevented overproduction which would have killed prices

Costs & Benefits of Free Trade

- **Benefits**

- Increased economic cooperation
- Lower prices
- Less government interference in the market
- More efficient production

- **Costs**

- Some nations cannot compete effectively and remain poor
- Lower wages for workers
 - Jobs are outsourced to cheaper labor markets
- Companies can move factories to areas with fewer environmental standards

NAFTA (1994)

- North American Free Trade Agreement (1994)
 - Created free trade zone between U.S., Canada, & Mexico
- IMPACT:
 - GDP has increased in each country
 - Mexican farming industry destroyed (cannot survive without subsidies and tariffs)
 - Mexican farmers look for new jobs in U.S. owned factories, or by crossing border into the U.S.

Economic Cooperation: The European Union

- European nations created a unified economic zone in 1998
 - Agreed to use the same currency: the Euro
 - Created a European Central Bank (like our Federal Reserve)
 - Agreed to cooperate on economic issues for the good of all of Europe

Critique of NAFTA/Free Trade

1. The U.S. loses good jobs to countries with cheaper labor
2. Powerful countries have more power in negotiating the treaties:
 - the U.S. still gives subsidies to its farmers, but does not allow Mexico to do so
3. Money and goods can move without restriction, but people cannot
 - If we have free flow of goods, why do we still limit immigration?