QCE Unit 3 Topic 2: Global Economic Issues

Unit 3: International Economics

Comprehensive Study Guide with 20 Multiple Choice Questions

SECTION 1: KEY CONCEPTS & TERMINOLOGY

1.1 Globalisation and Integration

- Globalisation: The growing integration of economies through trade, investment, technology, finance and the movement of people.
- Economic integration: The process of reducing barriers and coordinating policy between economies (from free trade areas up to full economic union).
- Economic union: The deepest form of integration — a common market plus shared economic policies and institutions (e.g. the European Union).
- Trade liberalisation: The reduction or removal of trade barriers to move toward freer trade.

1.2 Methods of Protection

- Protection: Government measures that shield domestic industries from foreign competition.
- Tariff: A tax on imports that raises their price in the domestic market.
- Quota: A physical limit on the quantity of a good that may be imported.
- Subsidy: A government payment to domestic producers that lowers their costs.
- Non-tariff barriers: Other obstacles such as technical standards, local-content rules, labelling requirements and bureaucratic (customs) delays.

1.3 Agreements and Institutions

- Bilateral agreement: A trade agreement between two countries (e.g. the Australia–US FTA).
- Regional agreement: An agreement among countries in a region or bloc (e.g. AANZFTA).
- Multilateral agreement: A broad agreement among many countries, typically under the WTO.
- Trade creation: When an agreement shifts production from a higher-cost domestic source to a lower-cost partner, raising efficiency.
- Trade diversion: When an agreement shifts imports from a lower-cost non-member to a higher-cost member, reducing efficiency.
- Multinational corporation (MNC): A firm that owns or controls production in more than one country.

SECTION 2: GLOBALISATION — DRIVERS & PATTERNS

2.1 What Has Driven Globalisation

- Technology: containerised shipping, air freight and information and communications technology have slashed the cost of moving goods, services and data.
- Multinational corporations: MNCs organise production and investment across borders and drive global trade and technology transfer.
- Regional trading blocs: agreements that lower barriers among member countries expand cross-border trade.
- Deregulation of financial capital markets: freer movement of capital allows saving and investment to flow across borders.

2.2 The Role of Global Institutions

- World Trade Organization (WTO): sets and enforces the rules of international trade and provides a forum for negotiations and dispute resolution.
- International Monetary Fund (IMF): promotes financial and exchange rate stability and lends to countries in balance of payments difficulty.
- World Bank: provides finance and expertise for development and poverty reduction.
- These non-government institutions underpin the rules-based system that supports globalisation.

SECTION 3: GLOBAL SUPPLY CHAINS & MULTINATIONAL INTEGRATION

3.1 Why Supply Chains Have Globalised

- Location of natural factor endowments: production locates where land, labour, capital or raw materials are cheapest or most suitable.
- Infrastructure and logistics: efficient ports, transport and digital networks make fragmented, cross-border production viable.
- Digital and other innovation: data, automation and communications allow firms to coordinate production spread across many countries.
- Government incentives: tax concessions, special economic zones and investment support attract stages of production to particular nations.

3.2 Implications

- Goods are increasingly “made in the world” rather than in one country, with components crossing borders many times.
- This raises efficiency and lowers prices but also increases exposure to disruption (for example, shocks to shipping or key suppliers).

SECTION 4: METHODS OF PROTECTION

4.1 Tariffs

- A tariff raises the domestic price of an import above the world price.
- Effects shown on a supply and demand diagram: domestic production rises, domestic consumption falls, imports fall, and the government collects tariff revenue.
- A deadweight loss arises from production inefficiency (higher-cost local output) and consumption inefficiency (reduced consumer surplus).

4.2 Quotas

- A quota caps the quantity imported, which raises the domestic price and domestic production much like a tariff.
- Unlike a tariff, the government collects no revenue (unless quota rights are auctioned); the price mark-up (quota rent) accrues to those holding import licences.

4.3 Subsidies

- A production subsidy lowers domestic producers' costs, increasing their output and displacing imports.
- The cost falls on taxpayers rather than consumers, so the domestic price need not rise, but resources are still drawn into less efficient production.

4.4 Non-Tariff Barriers

- Technical standards, local-content requirements, labelling rules and slow customs procedures can restrict imports without an explicit tax.
- They are harder to measure and challenge than tariffs.
- Brettonomics interactives: the Tariff and Import Quota models let students shift supply and demand and read off the effects on price, quantity, imports and welfare.

SECTION 5: PROTECTION vs TRADE LIBERALISATION

5.1 Arguments For Protection

- Infant industry: temporary protection lets a new industry grow to a competitive scale.
- Employment: protecting trade-exposed industries preserves jobs in the short run.
- Anti-dumping: protection guards against foreign goods sold below cost.
- Self-sufficiency and security: maintaining capacity in strategic industries (e.g. food, defence, fuel).
- Diversification: avoiding over-reliance on a narrow range of industries.

5.2 Arguments For Trade Liberalisation

- Allocative efficiency: resources flow to areas of comparative advantage, raising world output.

- Lower prices and higher living standards for consumers.
- Competition and dynamic efficiency: exposure to global rivals drives innovation and productivity.
- Economies of scale from access to larger markets.
- Greater choice and access to technology.

5.3 Weighing the Arguments

- Costs of liberalisation include structural unemployment and adjustment costs concentrated in particular regions and industries.
- Evaluate alternatives using economic criteria — efficiency, economic growth, living standards and resource allocation — and consider different viewpoints (producers, consumers, workers, government) across past, present and future.

SECTION 6: TRADE AGREEMENTS

6.1 Types of Agreement

- Bilateral: between two countries — e.g. the Australia–United States FTA, the China–Australia FTA, and agreements with Japan and Korea.
- Regional: among a group or bloc — e.g. the ASEAN–Australia–New Zealand FTA (AANZFTA) and the CPTPP and RCEP groupings.
- Multilateral: broad, rules-based agreements under the WTO covering many members at once.

6.2 Trade Creation and Trade Diversion

- Trade creation (a benefit): an agreement replaces higher-cost domestic production with lower-cost imports from a partner, improving efficiency.
- Trade diversion (a cost): an agreement shifts imports away from a lower-cost non-member — now disadvantaged by tariffs — toward a higher-cost member, reducing efficiency.
- The net effect of any agreement depends on whether trade creation outweighs trade diversion.

SECTION 7: TRADING BLOCS & AUSTRALIA'S AGREEMENTS

7.1 Key Examples

- Closer Economic Relations (ANZCERTA, Australia–New Zealand, 1983): one of the world's most comprehensive free trade agreements.
- AANZFTA (ASEAN–Australia–New Zealand): a regional agreement linking Australia to the fast-growing ASEAN economies.
- European Union (EU): an example of a full economic union with a single market, common external tariff and shared institutions.
- North American bloc (formerly NAFTA, now USMCA): a regional free trade agreement among the United States, Canada and Mexico.

7.2 Evaluating Bloc Membership

- Benefits: larger markets, investment, lower prices and stronger growth for members.
- Risks: trade diversion, loss of policy independence, and uneven distribution of gains.
- For any agreement, assess the net effect on Australian economic growth using economic criteria — efficiency, growth, living standards and resource allocation — and reach a reasoned decision.

SECTION 8: EVALUATING TRADE POLICY

8.1 A Framework for Judgement

- Use consistent economic criteria: allocative and dynamic efficiency; economic growth; living standards; and resource allocation.
- Weigh short-run adjustment costs (structural unemployment) against long-run efficiency and growth gains.
- Recognise that different stakeholders — consumers, producers, workers, government and trading partners — experience different costs and benefits.
- Support judgements with current data and diagrams, and reach a clear, evidence-based decision about the relative merits of protection versus liberalisation.

MULTIPLE CHOICE QUESTIONS

20 Questions Covering Unit 3 Topic 2 Content

Question 1

Globalisation is best described as:

- A. A government policy of raising tariffs
- B. The growing integration of economies through trade, investment, technology and finance
- C. A fixed exchange rate agreement
- D. The movement of a single country toward self-sufficiency

Question 2

Which institution sets and enforces the rules of international trade and resolves disputes?

- A. The International Monetary Fund
- B. The World Bank
- C. The World Trade Organization
- D. The Reserve Bank of Australia

Question 3

A tariff on imported shoes will, on a supply and demand diagram, cause:

- A. Domestic production to fall and imports to rise
- B. Domestic production to rise, imports to fall and government revenue to be collected
- C. The domestic price to fall below the world price
- D. No change in consumer surplus

Question 4

The key difference between a tariff and an import quota is that:

- A. A quota raises the domestic price but a tariff does not
- B. A tariff generates government revenue, whereas a simple quota does not
- C. A quota always increases imports
- D. A tariff has no effect on domestic producers

Question 5

A government subsidy to domestic producers differs from a tariff because:

- A. It raises the price paid by consumers
- B. Its cost falls on taxpayers rather than consumers

- C. It increases imports
- D. It is a non-tariff barrier

Question 6

Which is an example of a non-tariff barrier?

- A. A 10% tax on imported cars
- B. Strict technical standards and slow customs procedures that restrict imports
- C. A floating exchange rate
- D. A payment to domestic farmers

Question 7

Trade creation occurs when a trade agreement:

- A. Shifts imports from a low-cost non-member to a higher-cost member
- B. Replaces higher-cost domestic production with lower-cost imports from a partner
- C. Raises tariffs on all countries equally
- D. Reduces total world trade

Question 8

Trade diversion is considered a cost of a trade agreement because it:

- A. Increases efficiency by using comparative advantage
- B. Shifts imports from a lower-cost non-member to a higher-cost member, reducing efficiency
- C. Eliminates all tariffs worldwide
- D. Raises government revenue

Question 9

The infant industry argument supports protection on the grounds that:

- A. New industries should be taxed heavily
- B. Temporary protection allows a new industry to grow to a competitive scale
- C. Established industries never need protection
- D. Protection should be permanent

Question 10

Which is an argument FOR trade liberalisation?

- A. It preserves jobs in every industry permanently
- B. It improves allocative efficiency by directing resources to areas of comparative advantage

- C. It guarantees no structural unemployment
- D. It removes the need for an exchange rate

Question 11

The Closer Economic Relations agreement (ANZCERTA) is between Australia and:

- A. The United States
- B. New Zealand
- C. China
- D. The European Union

Question 12

The European Union is often used as an example of:

- A. A bilateral trade agreement
- B. A full economic union with a single market and shared institutions
- C. A non-tariff barrier
- D. A floating exchange rate system

Question 13

Which factor has contributed most directly to the globalisation of supply chains?

- A. Rising tariffs worldwide
- B. Improvements in logistics, infrastructure and digital technology
- C. The abolition of multinational corporations
- D. A fall in world trade

Question 14

A multinational corporation (MNC) is a firm that:

- A. Only exports from its home country
- B. Owns or controls production in more than one country
- C. Is owned entirely by a government
- D. Cannot invest overseas

Question 15

The deadweight loss created by a tariff arises from:

- A. Government revenue collected
- B. Production inefficiency and reduced consumer surplus
- C. An increase in imports
- D. A fall in the domestic price

Question 16

When evaluating whether to join a trading bloc, the most appropriate economic criteria include:

- A. Efficiency, growth, living standards and resource allocation
- B. Only the size of the government budget
- C. Only the level of the exchange rate
- D. The number of tariffs removed, regardless of cost

Question 17

A key risk of deeply globalised supply chains is:

- A. Lower prices for consumers
- B. Greater exposure to disruption such as shipping or supplier shocks
- C. Reduced efficiency in all cases
- D. The elimination of comparative advantage

Question 18

Deregulation of financial capital markets has supported globalisation by:

- A. Preventing capital from crossing borders
- B. Allowing saving and investment to flow more freely across countries
- C. Fixing all exchange rates
- D. Raising tariffs on imports

Question 19

The main role of the International Monetary Fund (IMF) is to:

- A. Enforce trade rules and resolve trade disputes
- B. Promote financial and exchange rate stability and assist countries in balance of payments difficulty
- C. Provide long-term development loans only
- D. Set tariffs for member countries

Question 20

A government decides to remove tariff protection from a domestic manufacturing industry. The most likely short-run cost is:

- A. A permanent fall in living standards
- B. Structural unemployment and adjustment costs concentrated in that industry
- C. An immediate rise in the terms of trade
- D. The elimination of all imports

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Answer Key & Explanations

Q1: B | Q2: C | Q3: B | Q4: B | Q5: B | Q6: B | Q7: B | Q8: B | Q9: B | Q10: B

Q11: B | Q12: B | Q13: B | Q14: B | Q15: B | Q16: A | Q17: B | Q18: B | Q19: B | Q20: B

Detailed Explanations

Q1 (B): Globalisation is integration through trade, investment, technology and finance.

Q2 (C): The WTO sets and enforces trade rules and resolves disputes.

Q3 (B): A tariff raises domestic production, cuts imports and raises government revenue.

Q4 (B): A tariff generates government revenue; a simple quota transfers the mark-up (quota rent) to licence holders instead.

Q5 (B): A subsidy's cost falls on taxpayers, so the consumer price need not rise.

Q6 (B): Standards and customs delays are non-tariff barriers.

Q7 (B): Trade creation replaces higher-cost domestic output with lower-cost partner imports.

Q8 (B): Trade diversion shifts imports to a higher-cost member, reducing efficiency.

Q9 (B): The infant industry argument supports temporary protection to reach competitive scale.

Q10 (B): Liberalisation improves allocative efficiency via comparative advantage.

Q11 (B): ANZCERTA is the Australia–New Zealand agreement.

Q12 (B): The EU is a full economic union with a single market and shared institutions.

Q13 (B): Logistics, infrastructure and digital technology have driven supply chain globalisation.

Q14 (B): An MNC owns or controls production in more than one country.

Q15 (B): Tariff deadweight loss comes from production inefficiency and lost consumer surplus — not the revenue, which is a transfer.

Q16 (A): Efficiency, growth, living standards and resource allocation are the correct criteria.

Q17 (B): Deep supply chains raise exposure to disruption.

Q18 (B): Financial deregulation lets capital flow more freely across borders.

Q19 (B): The IMF promotes financial/exchange rate stability and assists with balance of payments difficulty.

Q20 (B): Removing protection causes short-run structural unemployment and adjustment costs.