DOT POINT

HSC ECONOMICS

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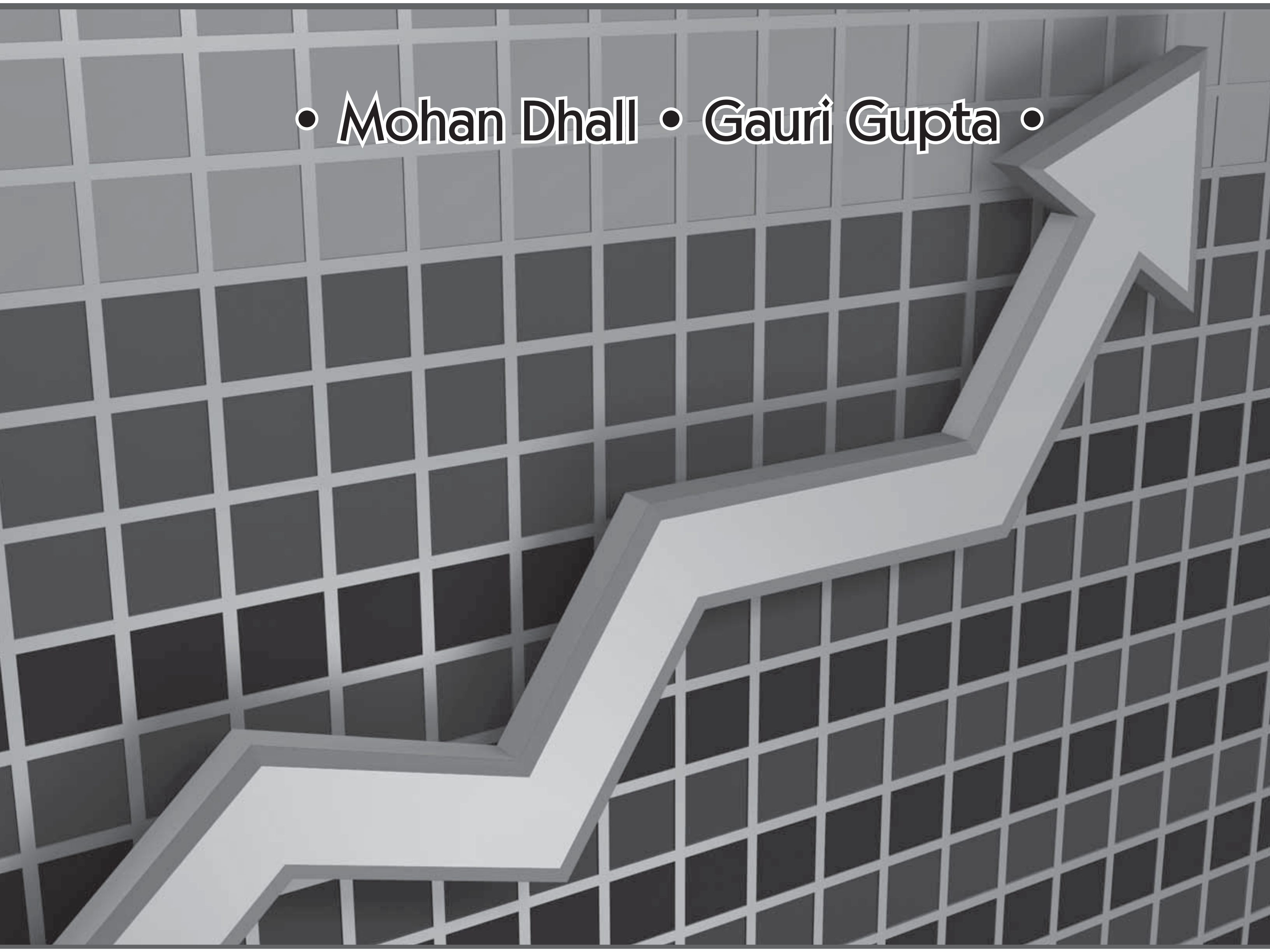

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Contents

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Introduction

What the book includes

This book provides questions and answers for each dot point in the Board of Studies syllabus for the following topics in the Year 12 Economics course.

- The Global Economy
- Australia's Place in the Global Economy
- Economic Issues
- Economic Policies and Management

Format of the book

The book has been formatted in the following way:

1. Main topic statement from syllabus.

1.1 Syllabus requirement.

1.1.1 First question for this syllabus requirement.

1.1.2 Second question for this syllabus requirement.

The number of lines provided for each answer gives an indication of how many marks the question might be worth in an examination. As a rough rule, every two lines of answer might be worth one mark.

How to use this book

Completing all questions will provide you with a summary of all the work you need to know from the syllabus. You may have done work in addition to this with your teacher as extension work. Obviously this is not covered, but you may need to know this additional work for your school exams.

When working through the questions, write the answers you have to look up in a different colour to those you know without having to research the work. This will provide you with a quick reference for work needing further revision.

Verbs to Watch

account, account for
State reasons for, report on, give an account of, narrate a series of events or transactions.

analyse
Identify components and the relationships among them, draw out and relate implications.

apply
Use, utilise, employ in a particular situation.

appreciate
Make a judgement about the value of something.

assess
Make a judgement of value, quality, outcomes, results or size.

calculate
Determine from given facts, figures or information.

clarify
Make clear or plain.

classify
Arrange into classes, groups or categories.

compare
Show how things are similar or different.

construct
Make, build, put together items or arguments.

contrast
Show how things are different or opposite.

critically (analyse/evaluate)
Add a degree or level of accuracy, depth, knowledge and understanding, logic, questioning, reflection and quality to an analysis or evaluation.

deduce
Draw conclusions.

define
State the meaning of and identify essential qualities.

demonstrate
Show by example.

describe
Provide characteristics and features.

discuss
Identify issues and provide points for and against.

distinguish
Recognise or note/indicate as being distinct or different from, note difference between things.

evaluate
Make a judgement based on criteria.

examine
Inquire into.

explain
Relate cause and effect, make the relationship between things evident, provide why and/or how.

extract
Choose relevant and/or appropriate details.

extrapolate
Infer from what is known.

identify
Recognise and name.

interpret
Draw meaning from.

investigate
Plan, inquire into and draw conclusions about.

justify
Support an argument or conclusion.

outline
Sketch in general terms; indicate the main features.

predict
Suggest what may happen based on available data.

propose
Put forward a point of view, idea, argument, suggestion for consideration or action.

recall
Present remembered ideas, facts or experiences.

recommend
Provide reasons in favour.

recount
Retell a series of events.

summarise
Express concisely the relevant details.

synthesise
Put together various elements to make a whole.

The Global Economy

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Australia's Place in the Global Economy

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Economic Issues

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Economic Policies and Management

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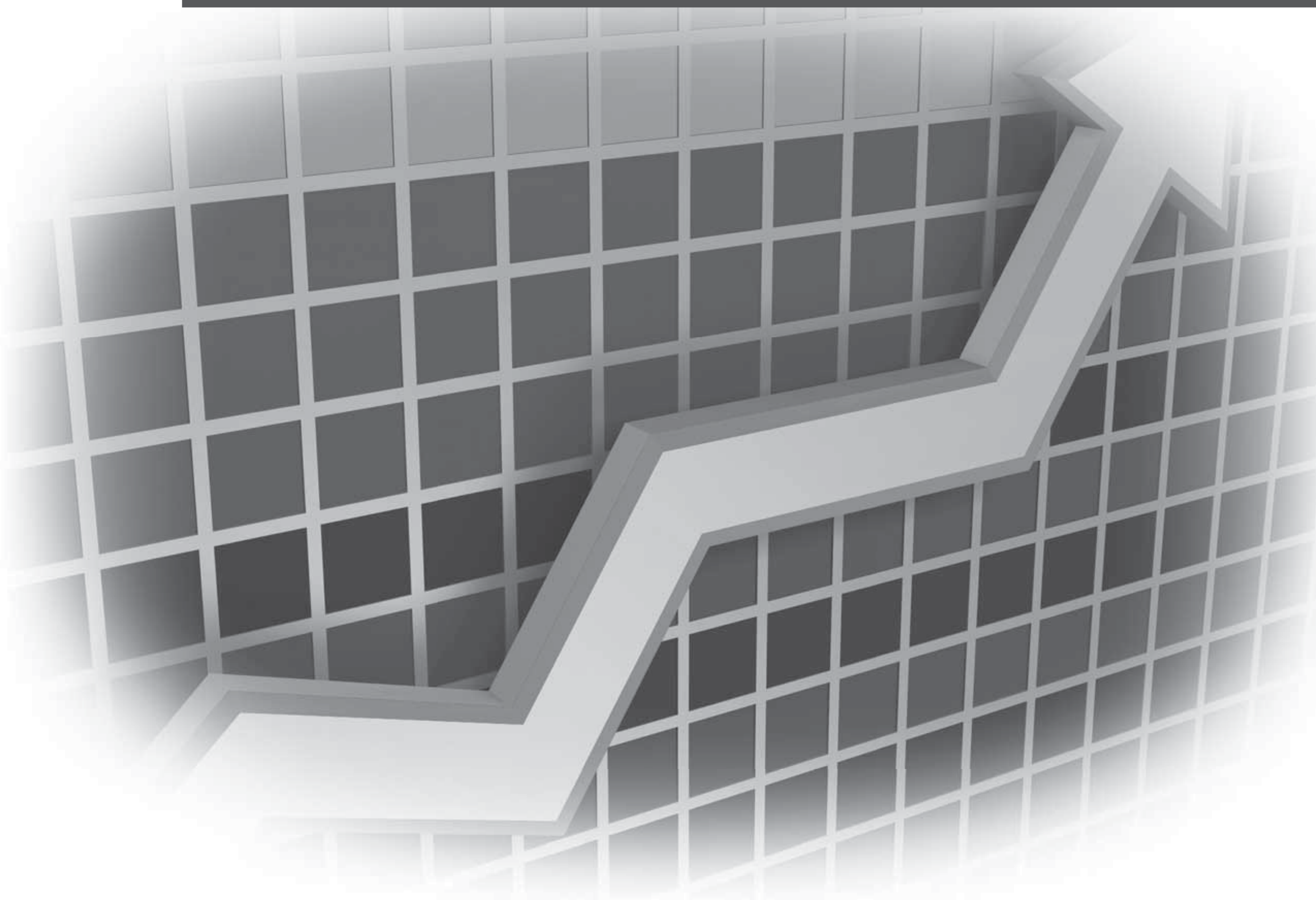
DOT POINT

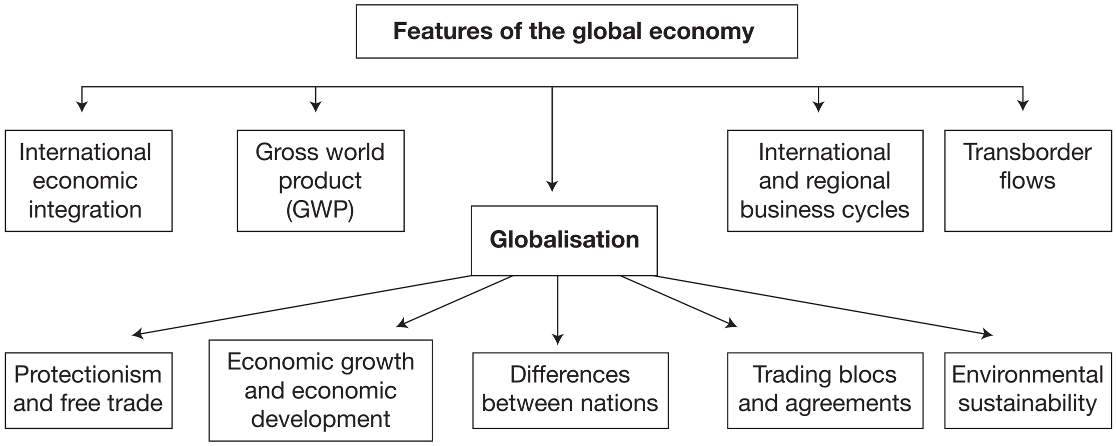
The Global Economy



Notes

1. International economic integration.

1.1 The global economy.



1.1.1 Identify FOUR (4) factors relevant to the global economy.

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1.1.2 Outline why it is important to classify nations as being advanced, developing and emerging.

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1.1.3 Identify TWO (2) benefits of global trade.

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1.1.4 Identify the reason for nations wanting to trade in a global market.

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1.2 Gross world product.

1.2.1 Define the term 'gross world product'.

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Use the information below and your own knowledge to answer the questions that follow.

Features of the global economy in 2009-2010

2009 marked the first year in the post-World War II era that global output – and per capita income – declined; output contracted nearly 1% year-over-year, compared with average increases of about 3.5% per year since 1946. And global trade plummeted nearly 25% from 2008's level, the largest single year drop since World War II. Among major countries, the biggest GDP losses occurred in Russia (–7.9%), Mexico (–6.5%), Japan (–5.3%), Germany (–5.0%), United Kingdom (–4.8%), and Italy (–4.8%), while China (+8.7%), India (+6.5%), and Indonesia (+4.5%) recorded the biggest gains. In 2009, global per capita income fell about 2% to US$10 500, as global unemployment rose from just over 7% in 2008 to nearly 9% in 2009 – underemployment, especially in the developing world, remained much higher. World external debt dropped more than 6% from the previous year, as new international lending disappeared. The global recession was a result of widespread uncertainties in the financial markets, bank failures, tighter credit, falling home prices, collapsing asset prices, lowered consumer confidence, and the drop in trade. In response to these conditions, many, if not most, countries pursued expansionary monetary and fiscal policies, and attempted to avoid protectionist policies. By the second half of 2009, the global economy appeared to be making halting, but forward steps.

The world economy now faces a major new challenge, together with several long-standing ones. The fiscal stimulus packages put in place in 2009 required most countries to run budget deficits – government balances deteriorated for 14 out of every 15 countries. Treasuries issued new public debt – globally, worth about $4 trillion – to pay for the additional expenditures. To keep interest rates low, many central banks monetised that debt, injecting large sums of money into the economies. In early 2010, excess capacity existed in product markets, and inflation was not an immediate threat. However, when economic activity picks up, central banks will face the difficult task of containing inflation without raising interest rates so high they snuff out further growth.

Source: https://www.cia.gov/library/publications/the-world-factbook/geos/xx.html; accessed on 28.07.2010.

1.2.2 Identify the source of the information provided above.

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1.2.3 Identify SIX (6) nations which suffered a decline in GDP in 2009.

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1.2.4 Identify THREE (3) nations which experienced GDP growth in 2009.

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1.2.5 Identify the cause of the global recession in 2008-2009.

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1.2.6 Identify and distinguish between the TWO (2) components of gross world product.

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1.2.7 Use the information below and your own knowledge to answer the questions that follow.

	2007 (US $billion)	2008 (US $billion)	2009 (US $billion)	2010 (US $billion)
Advanced economies	36 615	38 115	–3.8%	+0.6%
Developing and emerging economies	29 585	31 454	+1.5%	+4.7%
World (purchasing power parities, PPP)	66 190	69 569	69 809	73 200
World (market exchange rates)	55 392	61 221		

Sources: http://www.imf.org/external/pubs/ft/weo/2010/01/pdf/text.pdf and http://www.imf.org/external/pubs/ft/weo/2009/update/02/index.htm; both accessed on 29.07.2010

(a) Calculate the percentage increase in GDP between 2007 and 2008 for the following.

Advanced economies.

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Developing and emerging economies.

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(b) Determine the value of GDP for each of the following.

Advanced economies, GDP value 2009.

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Advanced economies, GDP value 2010.

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Developing and emerging economies, GDP value 2009.

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Developing and emerging economies, GDP value 2010.

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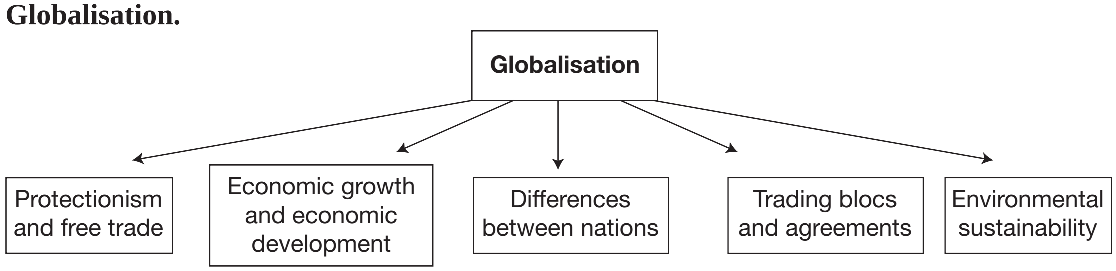
1.2.8 Define the following terms.

Market exchange rates.

Purchasing power parity.

1.3 Globalisation.



1.3.1 Define the following terms relevant to globalisation.

Protectionism.

Economic growth.

Trading bloc.

Environmental sustainability.

1.3.2 Briefly describe the general trend in the following transborder flows since World War II.

Goods and services.

Labour.

Foreign direct investment (FDI).

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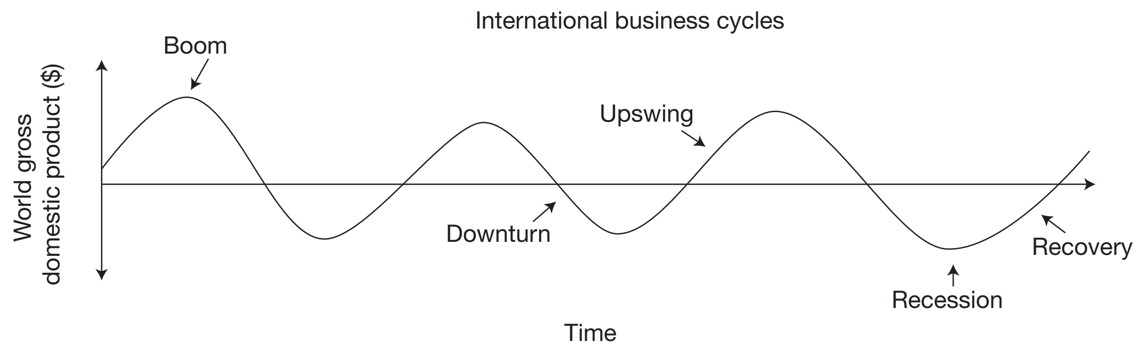
1.4 International and regional business cycles.



1.4.1 Outline features of each of the following aspects of the international business cycle, referring to investment, consumption, business and consumer confidence (sentiment), interest and employment levels.

Boom.

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Downturn.

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Recession.

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Recovery.

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1.4.2 Compare and contrast international and regional business cycles.

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Notes

2. Trade, financial flows and foreign investment.

2.1 The basis of free trade.

2.1.1 Distinguish between comparative and absolute advantage.

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2.1.2 Define the term trade liberalisation.

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2.1.3 Define the term foreign direct investment.

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Use the information below and your own knowledge to answer the questions that follow.

Global trends for FDI

Global foreign direct investment (FDI) flows began to bottom out in the latter half of 2009. This was followed by a modest recovery in the first half of 2010. Global inflows are expected to pick up to over $1.2 trillion in 2010, rise further to $1.3 to $1.5 trillion in 2011, and head towards $1.6 to $2 trillion in 2012. The current recovery is taking place in the wake of a drastic decline in FDI flows in 2009. After a 16% decline in 2008, global FDI flows fell a further 37% to $1114 billion, while outflows fell some 43% to $1101 billion. FDI flows contracted for almost all major economies, except for a few FDI recipients such as Denmark, Germany and Luxembourg.

Source: UNCTAD World Investment Report 2010: Investing in the Low-Carbon Economy.

2.1.4 Outline the event that occurred over the period 2008-2009 which affected world economic growth.

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2.1.5 Describe the trend in global inflows anticipated over the period 2010-2012.

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2.1.6 Explain the relationship between FDI and globalisation.

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Use the information below and your own knowledge to answer the questions that follow.

Nation	Global FDI Inflows	
	2008 (US $billion)	2009 (US $billion)
United States	316	130
China	108	95
France	62	60
United Kingdom	91	46
Germany	24	36
India	40	35
Singapore	11	17

Global FDI inflows, selected economies 2008-2009, UNCTAD World Investment Report 2010

2.1.7 For each of the following nations, calculate the percentage fall in FDI over the period 2008-2009.

United States.

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China.

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France.

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United Kingdom.

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2.1.8 Account for the difference in FDI falls between China and India, and the United States and United Kingdom.

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2.1.9 Describe how economies such as those of Germany and Singapore grow whilst others decline.

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2.1.10 Define the term transnational corporation (TNC).

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2.1.11 Referring to the quote below, outline the importance of TNCs for global and domestic employment.

> 'An estimated 80 million workers were employed in TNC foreign affiliates in 2009, accounting for about 4% of the global workforce. The largest number of foreign-affiliate employees is now in China, with 16 million workers in 2008 accounting for 20% of the world's total employees in foreign affiliates'.

Source: UNCTAD 2010, Global Trends in FDI, p17.

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Use the information below and your own knowledge to answer the questions that follow.

> Transnational corporations from China, the Russian Federation, India and Brazil are collectively known as BRIC. They have become dynamic investors and share the following common features:
>
> They have developed various ownership-specific advantages that allow them to be competitive in foreign markets as well as their own markets. In organising their expansion abroad, Brazilian, Chinese, Indian and Russian TNCs have sought to establish portfolios of locational assets as increasingly important sources of their international competitiveness.
>
> Initially, firms from BRIC expanded mainly into their own region, often into countries in which they had close cultural links. A growing number of TNCs have ventured further afield in search of new markets and resources.
>
> A large number of TNCs from BRIC are motivated by strategic considerations rather than short-term profitability, reflecting the role of state-owned enterprises in the outward FDI of the group. The majority of Chinese TNCs are state-owned and some Brazilian, Indian and Russian TNCs are also state-controlled (Petrobras, ONGC Videsh and Gazprom, for instance).
>
> Many of the TNCs headquartered in BRIC have become truly global players as they possess brand names, management skills and competitive business models. Some of them are CITIC (China), Gazprom (Russian Federation), Vale SA (Brazil) and Tata (India).

Source: UNCTAD Global Trends in FDI, pp. 6-7.

2.1.12 Identify the meaning of the term BRIC.

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2.1.13 Describe the TNC trends arising from BRIC economies.

2.2 Role of international organisations.

International organisations and global trade

- World Trade Organisation (WTO)
- The World Bank
- International Monetary Fund (IMF)
- United Nation Commission for Trade and Development (UNCTAD)
- International Labour Organisation (ILO)

Regional trading blocs/ Government economic forums
- European Union
- NAFTA
- APEC
- ASEAN
- Mercosur
- ECOWAS

Various regional banks
- African Development Bank
- Asian Development Bank
- Central Bank of Central African States
- Central Bank of West African States
- Eastern Caribbean Central Bank

2.2.1 Distinguish between United Nations bodies and government economic forums.

2.2.2 Outline THREE (3) roles of the World Trade Organisation (WTO).

2.2.3 Identify the role and purpose of UNCTAD.

2.2.4 Identify TWO (2) goals of the International Labour Organisation (ILO).

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Use the information below and your own knowledge to answer the questions that follow.

World Bank

The World Bank was established in 1944. The World Bank is a vital source of financial and technical assistance to developing countries around the world. Its mission is to fight poverty with passion and professionalism for lasting results and to help people help themselves and their environment by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors. We are made up of two unique development institutions owned by 187 member countries: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).

International Bank for Reconstruction and Development (IBRD)

The International Bank for Reconstruction and Development (IBRD) aims to reduce poverty in middle-income and creditworthy poorer countries by promoting sustainable development through loans, guarantees, risk management products, and analytical and advisory services.

International Development Association (IDA)

IDA is one of the largest sources of assistance for the world's 79 poorest countries, 39 of which are in Africa. It is the single largest source of donor funds for basic social services in the poorest countries. IBRD and IDA share the same staff and headquarters and evaluate projects with the same rigorous standards. It is the single largest source of donor funds for basic social services in the poorest countries. IDA lends money (known as credits) on concessional terms. This means that IDA credits have no interest charge and repayments are stretched over 35 to 40 years, including a 10-year grace period. IDA also provides grants to countries at risk of debt distress.

Sources: http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,pagePK:50004410~piPK:36602~theSitePK:29708,00.html and http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTIBRD/0,,menuPK:3046081~pagePK:64168427~piPK:64168435~theSitePK:3046012,00.html; accessed on 03.08.2010

2.2.5 Outline the role and importance of the World Bank.

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2.2.6 Outline the role and importance of the IBRD for poverty reduction.

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2.2.7 Outline the role and importance of the IDA for global economic development.

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2.3 Influence of government economic forums.

Government Economic Forums

European Union (EU)
Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

G7, G8 and G20
G7: Canada, France, Germany, Italy, Japan United Kingdom, United States. G8 = G7 + Russia. G20 = G8 + Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, Republic of Korea, European Union (EU) and Turkey.

Economic Community Of West African States (ECOWAS)
Benin, Burkina Faso, Cabo Verde, Cote d'Ivorie, Gambia, Ghana, Guinee, Guinee Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togoloese Republic.

North American Free Trade Agreement (NAFTA)
Canada, Mexico and the United States of America.

Asia-Pacific Economic Cooperation (APEC)
Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong (China), Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, The Philippines, Russia, Singapore, Chinese Taipei, Thailand, The United States, Vietnam.

Association of South East Asian Nations (ASEAN)
Burma, Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand and Vietnam.

Mercosur (Southern Common Market)
Argentina, Brazil, Paraguay, Uruguay.

2.3.1 Identify SEVEN (7) different government economic forums.

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2.3.2 Use the information below and your own knowledge to answer the question that follows.

The European Union (EU)

The European Union aims to be a fair and caring society, committed to promoting economic prosperity and creating jobs by making companies more competitive and giving workers new skills. With its neighbours and others, the EU works to spread prosperity, democratic progress, the rule of law and human rights beyond its frontiers. The European Union is the world's biggest trading power and a major donor of financial and technical assistance to poorer countries.

Source: http://europa.eu/abc/keyfigures/index_en.htm; accessed on 03.08.2010.

Outline the role and importance of the European Union to globalisation and to fostering economic growth in member nations.

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2.3.3 Use the information below and your own knowledge to answer the questions that follow.

Asia-Pacific Economic Cooperation (APEC)

Asia-Pacific Economic Cooperation, or APEC, is the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region. APEC is the only intergovernmental grouping in the world operating on the basis of non-binding commitments, open dialogue and equal respect for the views of all participants. Unlike the WTO or other multilateral trade bodies, APEC has no treaty obligations required of its participants. Decisions made within APEC are reached by consensus and commitments are undertaken on a voluntary basis. APEC has 21 members – referred to as 'Member Economies' – which account for approximately 40.5%[1] of the world's population, approximately 54.2%[1] of world GDP and about 43.7%[2] of world trade.

[1] Sources: The APEC Region Trade and Investment 2008. [2] Sources: The APEC Region Trade and Investment 2008 World Trade [Trade in goods and services (exports + imports). Source: http://www.apec.org/apec/about_apec.html

(a) Outline the role of APEC.

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(b) Describe the importance of APEC to its member economies.

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2.3.4 Use the information below and your own knowledge to answer the questions that follow.

> **ASEAN**
>
> Established in 1967, the Association of Southeast Asian Nations (ASEAN) aims to accelerate economic growth, social progress and cultural development in the region and to promote regional peace and stability through the rule of law and adherence to the principles of the United Nations Charter. The ASEAN Charter, which entered into force on 15 December 2008, provides a legal and institutional framework to support the realisation of ASEAN's objectives, including regional integration. ASEAN comprises ten countries: Burma, Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand and Vietnam. ASEAN has ten Dialogue Partners: Australia, Canada, China, EU, India, Japan, New Zealand, Republic of Korea, Russia and the United States. The United Nations Development Program (UNDP) also has dialogue status.

Source: http://www.dfat.gov.au/asean/index.html; accessed on 03.08.2010

(a) What do the letters ASEAN represent?

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(b) Describe the aims of ASEAN.

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2.3.5 Use the information below and your own knowledge to answer the questions that follow.

> **The Economic Community Of West African States (ECOWAS)**
>
> The Economic Community Of West African States (ECOWAS) is a regional group of fifteen countries, founded in 1975. Its mission is to promote economic integration in 'all fields of economic activity, particularly industry, transport, telecommunications, energy, agriculture, natural resources, commerce, monetary and financial questions, social and cultural matters ...'

Source: http://www.comm.ecowas.int/sec/index.php?id=about_a&lang=en; accessed on 03.08.2010

(a) What do the letters ECOWAS represent?

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(b) Describe the aims of ECOWAS.

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2.3.6 Use the information below and your own knowledge to answer the questions that follow.

North American Free Trade Agreement (NAFTA)

The North American Free Trade Agreement (NAFTA) is a regional agreement between the Government of Canada, the Government of the United Mexican States and the Government of the United States of America to implement a free trade area. Article 102 of the NAFTA states the following.

The objectives of this Agreement, as elaborated more specifically through its principles and rules, including national treatment, most-favoured-nation treatment and transparency, are to:

- Eliminate barriers to trade in, and facilitate the cross-border movement of goods and services between the territories of the Parties.
- Promote conditions of fair competition in the free trade area.
- Increase substantially investment opportunities in the territories of the Parties.
- Provide adequate and effective protection and enforcement of intellectual property rights in each Party's territory.
- Create effective procedures for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes.
- Establish a framework for further trilateral, regional and multilateral cooperation to expand and enhance the benefits of this Agreement.

Source: http://www.nafta-sec-alena.org/en/view.aspx?x=283#What%20is%20the%20NAFTA; accessed on 03.08.2010

(a) What do the letters NAFTA represent?

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(b) Describe the SIX (6) aims of NAFTA.

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2.3.7 Use the information below and your own knowledge to answer the questions that follow.

> **Group of 20 (G20)**
>
> The Group of Twenty (G20) Finance Ministers and Central Bank Governors was established in 1999 to bring together systemically important industrialised and developing economies to discuss key issues in the global economy. The G20 is the premier forum for our international economic development that promotes open and constructive discussion between industrial and emerging-market countries on key issues related to global economic stability. By contributing to the strengthening of the international financial architecture and providing opportunities for dialogue on national policies, international co-operation, and international financial institutions, the G20 helps to support growth and development across the globe.

Source: http://www.comm.ecowas.int/sec/index.php?id=about_a&lang=en; accessed on 03.08.2010

(a) What does the acronym G20 represent?

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(b) Describe the aims of the G20.

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2.3.8 Use the information below and your own knowledge to answer the questions that follow.

> **Mercosur**
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> Mercosur, the 'Common Market of the South,' is the largest trading bloc in South America. Mercosur's primary interest has been eliminating obstacles to regional trade, like high tariffs, income inequalities, or conflicting technical requirements for bringing products to market. Some countries, like Brazil, want to keep Mercosur focused on regional trade. Other countries, like Venezuela, which has yet to attain full membership in the bloc, would like to expand the group's mandate to political affairs. The creation of a new regional organisation in 2008, the Union of South American Nations (Unasur), has raised further questions about Mercosur's utility. The Mercosur trade bloc's purpose, is to allow for free trade between member states, with the ultimate goal of full South American economic integration. The trade bloc's 'grand aspiration is to unify the Southern Cone and then all of South America in an economic bloc,' says Katherine Hancy Wheeler, a research associate with the Council on Hemispheric Affairs. 'It gives them more trading security.' Mercosur's full members include Argentina, Brazil, Paraguay, and Uruguay. Venezuela's entry as a full member is still pending ratification by Brazil and Paraguay. Brazil is the region's largest economy with a gross domestic product (GDP) of over $1.6 trillion in 2008.

Source: http://www.cfr.org/publication/12762/mercosur.html#p2 accessed on 03.08.2010

(a) What does the term Mercosur stand for?

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(b) Describe the aims of Mercosur and identify its members.

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2.4 Trading blocs, monetary unions and free trade agreements.

2.4.1 Define the following terms, referring to examples.

Trading blocs.

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Monetary unions.

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Free trade agreements.

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2.4.2 Describe the importance of trading blocs such as the EU and NAFTA to their member nations.

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2.4.3 With reference to the EU and the euro (€) explain the features of a monetary union.

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2.4.4 Outline TWO (2) features of a free trade agreement (FTA).

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2.4.5 Use the information below and your own knowledge to answer the question that follows.

Australia's free trade agreements:

- Australia – New Zealand: ANZCERTA
- Singapore – Australia: SAFTA
- Thailand – Australia: TAFTA
- Australia – United States: AUSFTA
- Australia – Chile FTA
- ASEAN – Australia – New Zealand Free Trade Area: AANZFTA
- Current FTA negotiations: China, The Gulf Cooperation Council (GCC), Japan, Korea and Malaysia.

The Government announced on 18 August 2009 that Australia would commence negotiations on a new regional trade and economic integration agreement with the Pacific Forum. Known as the PACER Plus negotiations, these will involve Australia, the Cook Islands, the Federated States of Micronesia, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, the Republic of the Marshall Islands, Samoa, the Solomon Islands, Tonga, Tuvalu and Vanuatu. Australia's primary objective with PACER Plus is a more sustainable and prosperous Pacific.

Source: http://www.daff.gov.au/market-access-trade/fta; accessed on 03.08.2010

Explain the benefits of FTAs, referring to TWO (2) of Australia's free trade agreements.

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2.4.6 Use the information below and your own knowledge to answer the questions that follow.

When trading blocs trade with trading blocs …

The EU and the Mercosur group of South American countries relaunched talks on 17 May aimed at creating the world's largest trading bloc. Discussions continued in Buenos Aires last week (29 June-2 July). The two blocs held nearly five years of talks between 1999 and 2004 over establishing a free-trade zone, but failed to reach an agreement partly due to differences over agriculture. Mercosur – Brazil, Argentina, Paraguay and Uruguay – and the 27-country EU will hold a first round of talks in July 2010.

Source: http://www.euractiv.com/en/trade/eu-trade-chief-touts-benefits-mercosur-deal-news-496159; accessed on 03.08.2010

(a) Explain the reason for the talks between the EU and Mercosur.

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(b) Identify the benefits of an alliance between the EU and Mercosur.

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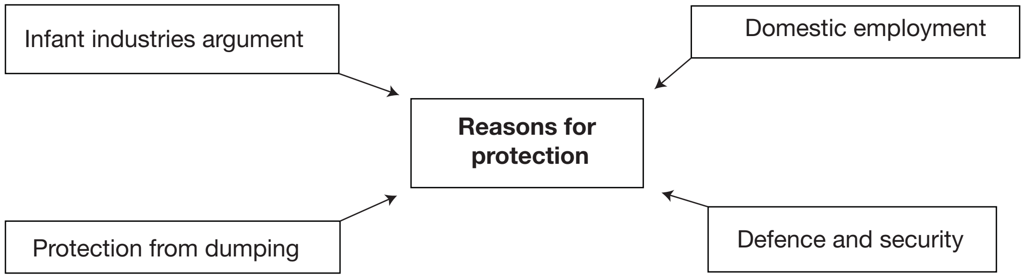
3. Protection.

3.1 Reasons for protection.



3.1.1 Identify FOUR (4) reasons for protection.

3.1.2 Outline the infant industries argument as a means for justifying protectionism.

3.1.3 Explain the effect that allowing foreign goods and services into a nation has on domestic labour.

3.1.4 Use the information below and your own knowledge to answer the question that follows.

> **Dumping and antidumping (AD)**
>
> Dumping is the sale of goods in foreign markets at prices below those charged for comparable sales in the home market or that are below the cost of producing the goods. An antidumping duty is a special levy imposed on imported merchandise to protect an affected domestic industry from injury caused by sale of dumped goods in the importing country.

Source: http://www.nafta-sec-alena.org/en/view.aspx?x=283#What%20is%20dumping

Distinguish between dumping and antidumping.

3.1.5 Describe how a nation's markets can become vulnerable when subject to dumping.

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3.1.6 Explain the relationship between protectionism and defence and security.

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3.1.7 Use the information below and your own knowledge to answer the questions that follow.

The Foreign Investment Review Board

The Board examines proposals by foreign interests to undertake direct investment in Australia and makes recommendations to the Government on whether those proposals are suitable for approval under the Government's policy. The main functions of the Board are:

- To examine proposals by foreign interests for investment in Australia and, against the background of the Government's foreign investment policy.
- To make recommendations to the Government on those proposals.
- To advise the Government on foreign investment matters generally.
- To provide guidance to foreign investors so that their proposals may be in conformity with the policy.
- To monitor and ensure compliance with foreign investment policy.

The Board's functions are advisory only. Responsibility for the Government's foreign investment policy and for making decisions on proposals rests with the Treasurer.

Source: http://www.firb.gov.au/content/who.asp?NavID=48; accessed on 03.08.2010

(a) Outline the role of the Foreign Investment Review Board (FIRB).

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(b) Examine the effect of government discretion on decisions involving foreign investment in Australia.

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3.1.8 Identify the role of the *Foreign Acquisitions and Takeovers Act* 1975 (Cth)

The *Foreign Acquisitions and Takeovers Act 1975* (Cth) and the regulations: *Foreign Acquisitions and Takeovers Regulations 1989* (Cth)

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3.1.9 Examine the effect on innovation within the domestic economy that would follow the relaxing of protection.

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3.1.10 Examine the effect on choice and efficiency in the domestic economy that would follow the relaxing of protection.

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3.1.11 Explain what is meant by the term ‘structural reform’ which can accompany the relaxing of protection.

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3.1.12 Distinguish between unilateral and multilateral trade agreements as a means of managing the transition from a protected economy to one engaging in free trade.

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3.2 Methods of protection and the effects of protectionist policies.

3.2.1 List FIVE (5) different forms of protection.

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3.2.2 Describe how subsidies work to protect domestic producers.

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3.2.3 Explain why a government may impose a tariff on imported goods.

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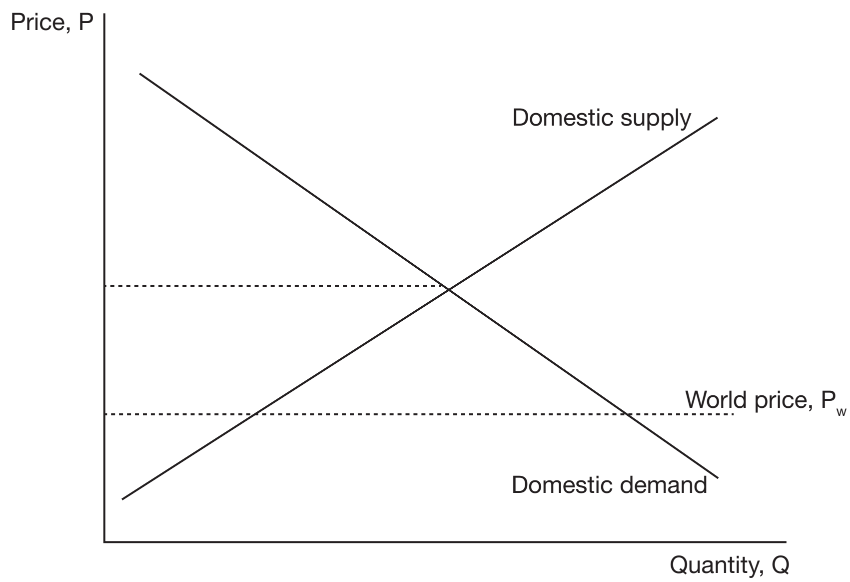
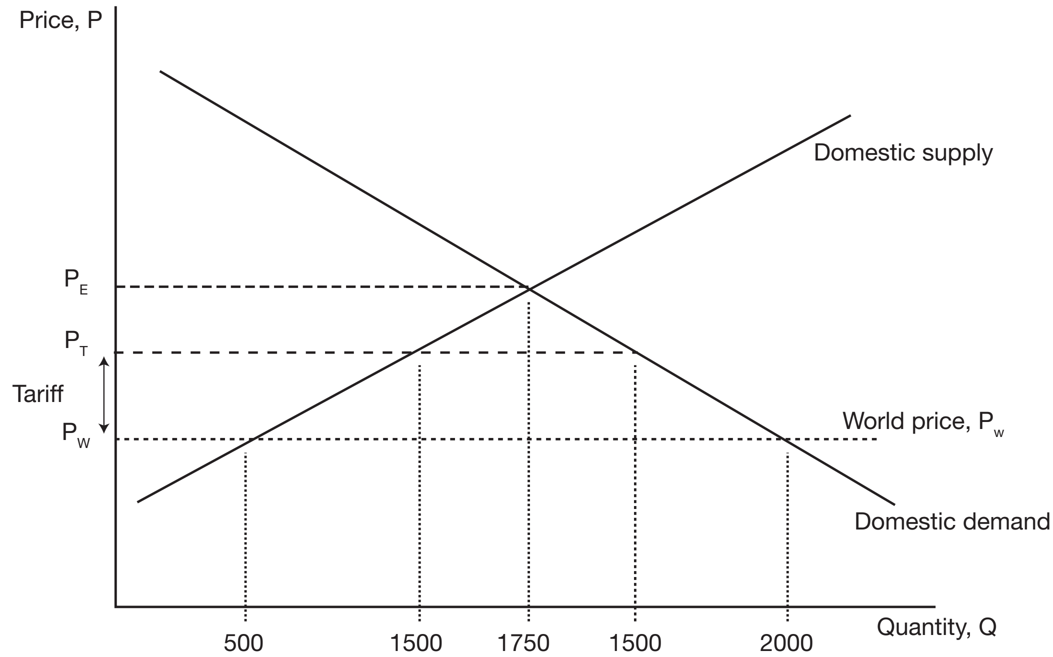
3.2.4 On the graph below draw the effect of a tariff on imported goods.



3.2.5 Use the information in the graph below to answer the following questions.



Note: Not drawn to scale

(a) On the graph mark the equilibrium price at $15, the tariff price at $10 and the world price at $5.

(b) Calculate the amount that domestic producers would produce and the revenue they would earn at the world price.

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(c) Calculate the amount that domestic producers would produce and the revenue they would earn at the new price with a tariff.

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(d) Calculate the amount that international producers would supply and the revenue they would earn at the world price.

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(e) Calculate the amount that domestic producers would produce and the revenue they would earn at the new price with the tariff imposed.

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(f) Determine the value of the tariff generated for the government.

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3.2.6 Explain the effect of local content rules on domestic and international producers.

3.2.7 Outline how quarantine rules can act to restrict imports, referring to examples.

3.2.8 Explain why a government may impose a quota on importers.

3.2.9 Use the information below and your own knowledge to answer the questions that follow.

The US-Australia FTA

The agreement eliminates all US beef tariffs over time, with the previous in-quota tariff of 4.4 US cents/kg eliminated from 1 January 2005 and the 26.4 per cent over-quota tariff will be reduced to zero over 18 years. There is to be an 18-year phase out of the out-of-quota duty beginning in year 9, with one-third of the duty phased out in years 9-13 and the remainder in years 14-18. The Agreement also provides for increasing quota access during the 18 year tariff elimination period. From year 19, all Australian beef will be free to enter the US market without tariff or quota restrictions and subject only to a price-based safeguard.

Source: http://www.daff.gov.au/market-access-trade/fta/ausfta; accessed on 03.08.2010.

(a) What is an FTA?

(b) Distinguish between a tariff and a quota.

(c) When will the quota on Australian beef imports to USA be lifted and what effect will this have on the US beef market?

4. Globalisation and economic development.

4.1 Differences between economic growth and economic development.

4.1.1 Distinguish between economic growth and economic development.

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4.1.2 Classify the following as either a measure of economic growth (G) or a measure of economic development (D).

- A 5% rise in gross domestic product. ( )
- Unemployment falling to 4.7%. ( )
- Expected life expectancy rising to 87-years for men. ( )
- The number of doctors per 100 000 people rises from 53 to 67. ( )
- The literacy rates for adult females is 68%. ( )
- A rising trend in foreign investment. ( )
- Per capita income falling by 3%. ( )
- The fall in infant mortality rates from 4 in 10 000 to 3.2 in 10 000. ( )
- A rise in interest rates from 6% to 6.5%. ( )
- The average annual national wage rising to $25 100 per person. ( )
- The rate of internet and telephony coverage increasing to 87% nationally. ( )
- The amount of foreign aid donated as a proportion of GDP is 0.00%. ( )
- GDP per capita falls by 2% to $33 030. ( )
- The amount of energy consumed rises 5% to 3000 kwH per capita. ( )
- Inflation runs at 18% per annum. ( )
- The number of homes with running water at 66%. ( )
- Fertility rates (births per woman) have remained at 7%. ( )
- 30 new schools have been built nationally over the past year. ( )
- Level of urbanisation has increased from 24% to 37% in the past 10 years. ( )
- Corruption perceptions index (as measured by Transparency International) is 0.93. ( )
- The per capita rise in income over the past 3 years has been 5.4%. ( )

4.1.3 With references to examples distinguish between low income, middle income and high income economies.

Low income economies.

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Middle income economies.

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High income economies.

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4.1.4 Use the information below and your own knowledge to answer the questions that follow.

Country	GDP per capita ($US) 2009*	GDP Ranking	Life expectancy	Human Development Index (HDI) /1.000	HDI Ranking
Qatar	68 872	3	75.5	0.910	33
United States	46 381	9	79.1	0.956	13
Australia	45 587	11	81.4	0.970	2
Poland	11 288	49	75.5	0.880	41
Malaysia	6897	67	74.1	0.828	66
Indonesia	2329	117	70.5	0.734	111
Vietnam	1060	137	74.3	0.725	116

Source: IMF and the Human Development Report 2009; *nominal values

(a) Referring to TWO (2) economic indicators, describe the difference between nations that have a high level of economic development and those that have a low level of development.

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(b) Outline the relationship between per capita incomes and HDI rankings.

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4.2 Distribution of income and wealth.

Use the information below and your own knowledge to answer the questions that follow.

Category	Nation	GDP per capita ($US) 2007	Population on below US$2 per day 2000-2007	Gini coefficient /100*
Very high human development	Australia	34 923	-	35.2
	Singapore	35 163	-	42.5
High human development	Poland	11 072	< 2%	34.9
	Mexico	9715	4.8%	48.1
Medium human development	China	2432	36.3%	41.5
	Indonesia	1918	16.7%	39.4
Low human development	Timor Leste	373	77.5%	39.5
	Niger	294	76.1%	43.9

* 0 = absolute equality; 100 = absolute inequality

4.2.1 Outline the significance of measuring the GDP per capita of nations.

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4.2.2 Explain the importance of measuring the proportion of a population living on less than $2 per day.

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4.2.3 Explain how the Gini coefficient is significant to determinations of income distribution.

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4.2.4 Describe the role of foreign aid in the alleviation of poverty.

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4.2.5 From the point of view of income equality, is a Gini coefficient of 35.2/100 or 48.1/100 better? Explain your answer.

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4.3 Income and quality of life indicators.

Use the information below and your own knowledge to answer the questions that follow.

Development classification	Nation	GDP per capita (PPP) 2007 ($US)	HDI /1.000	HDI Ranking	Life expectancy at birth	Probability of NOT surviving to age 40 (% of cohort)
Very high human development	Norway	53 433	0.971	1	80.5	-
	Australia	34 923	0.970	2	81.4	-
High human development	Bahrain	29 723	0.895	38	75.6	2.9%
	Chile	13 880	0.878	43	78.5	3.1%
	Mexico	14 104	0.854	54	76.0	5.0%
Medium human development	Thailand	8135	0.783	86	68.7	11.3%
	Philippines	3406	0.751	105	71.6	5.7%
	Indonesia	3712	0.734	111	70.5	6.7%
Low human development	Timor Leste	717	0.489	162	60.7	18%
	Ethiopia	779	0.414	171	54.7	27.7%
	Niger	627	0.340	182	50.8	29%

Source: Human Development Report 2009

4.3.1 List TWO (2) nations that have very high levels of human development.

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4.3.2 List TWO (2) nations that have high levels of human development.

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4.3.3 List TWO (2) nations that have medium levels of human development.

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4.3.4 List TWO (2) nations that have low levels of human development.

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4.3.5 Identify the various HDI cut off values for classifying nations as low, medium, high or very high development.

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4.3.6 Explain how life expectancy is a quality of life indicator.

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4.3.7 Describe the trend in the probability of *not* surviving to age 40 as the HDI value changes.

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4.3.8 Outline the relationship between GDP and life expectancy.

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4.3.9 Use the information below and your own knowledge to answer the questions that follow.

> Norway and Australia have over 30% of 25-year-olds receiving a tertiary education, whereas in Bahrain, Mexico and Chile the rates are below 15%. In Timor Leste, Ethiopia and Niger the rate is below 2.5%.

Source: Human Development Report 2009

(a) Referring to specific indicators, explain the relationship between incomes and educational levels.

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(b) Describe a relationship between investment in education and increased life expectancies.

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4.3.10 Assess the value of compiling economic data on incomes and quality of life.

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4.4 Developing economies, emerging economies, advanced economies.

Stages of economic development

Developing economies | Emerging economies | Advanced economies

4.4.1 Identify THREE (3) characteristics of developing economies.

4.4.2 Identify THREE (3) features of emerging economies.

4.4.3 Outline THREE (3) characteristics of developed economies.

4.4.4 Classify the following nations as developing (DVG), emerging (E) or developed (DD).

- Brazil ( )
- China ( )
- Australia ( )
- Turkey ( )
- Canada ( )
- Germany ( )
- Ghana ( )
- Sweden ( )
- Afghanistan ( )
- Vietnam ( )
- New Zealand ( )
- Malaysia ( )

4.5 Reasons for differences between nations.

4.5.1 Define the term endowment.

4.5.2 Explain the relationship between economic growth and economic development.

4.5.3 Define the term 'trickle down' effect.

4.5.4 Outline the importance of infrastructure investment on economic development.

4.5.5 Describe the effect of industrialisation on each of the following.

(a) Economic growth.

(b) Economic development.

4.5.6 Outline the effect of saving on economic growth.

4.5.7 Outline the effect of high population growth on emerging economies.

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4.5.8 Describe the benefit of migration for advanced economies.

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4.5.9 Use the information below and your own knowledge to answer the questions that follow.

International rank	Nation	Corruptions Perception Index (CPI) score /10	No. of surveys used
1	New Zealand	9.4	6
3	Singapore	9.2	9
8	Australia	8.7	8
17	United Kingdom	7.7	6
18	United States	7.7	8
55	South Africa	4.7	8
56	Malaysia	4.5	9
79	China	3.6	9
84	India	3.4	10
111	Indonesia	2.8	9
178	Myanmar	1.3	4

Source: http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table; accessed on 05.08.2010

(a) Identify a relationship between level of economic development and corruption.

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(b) Describe the effect of corruption on economic growth and economic development.

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4.6 Effects of globalisation.

Effects of globalisation

Economic development
- Changes to quality of life
- Life expectancy
- Literacy
- Infant mortality
- Distribution of income

Economic growth
- GDP per capita
- Inflation
- Role of TNCs
- FDI, including M&A (mergers and acquisitions)
- Employment levels
- Structural changes
- Interest rates

Environmental effects
- Climate change
- Cost of regulation and compliance
- Access to resources

Other effects
- International trade
- Trading blocs and trade agreements
- Labour mobility
- International convergence

4.6.1 With reference to statistics and nations where relevant, describe the following effects of globalisation.

Creation of trading blocs.

The increasing trade in goods.

The increasing trade in services.

Trends in foreign direct investment.

The creation of bilateral and multilateral trade agreements.

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Reduction in protectionism.

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Trends in migration and labour flows.

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International convergence.

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Environmental impacts.

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4.7 Trade, investment and transnational corporations.

	Net cross-border M&A sales (%)				Greenfield investments (%)			
Host region/economy	2007	2008	2009	2010	2007	2008	2009	2010
World	100	100	100	100	100	100	100	100
Developed economies	74	72	69	66	52	46	46	49
Developing economies	22	23	23	25	42	47	48	45
South-East Europe and the CIS	4	5	8	9	6	7	6	6

Source: UNCTAD cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com), cited in World Investment Report 2010, p4

4.7.1 Define the term 'merger and acquisition'.

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4.7.2 Explain the trend in net cross-border M&A sales for the period 2007-2010, referring to different host regions.

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4.7.3 Define the term greenfield investments.

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4.7.4 Outline the role of TNCs in encouraging trade and investment.

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4.7.5 Account for the fall in net cross-border M&A sales for developed host economies in the period 2008-2010.

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Use the information below and your own knowledge to answer the questions that follow.

	Value at current prices (billions of dollars)				Annual growth rate (%)				
Item	1990	2005	2008	2009	1991-95	1996-2000	2001-2005	2008	2009
FDI inflows	208	986	1771	1114	22.5	40.0	5.2	–15.7	–37.1
FDI outflows	241	893	1929	1101	16.8	36.1	9.2	–14.9	–42.9
Exports of goods and services	4414	12 954	19 986	15 716	7.9	3.7	14.8	15.4	–21.4

Source: UNCTAD based on its FDI/TNC database (www.unctad.org/fdi statistics); UNCTAD, GlobStat; and IMF, International Financial Statistics, June 2010, cited in World Investment Report 2010, p16

4.7.6 Distinguish between FDI inflows and FDI outflows.

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4.7.7 Distinguish between goods and services.

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4.7.8 Describe the trend in exports of goods and services for the period 1990-2009.

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4.7.9 Explain the change in annual growth in FDI inflows and FDI outflows in the 2008-2010.

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4.7.10 If annual growth is expected to be 2.1% in 2010 calculate the value of exported goods and services for 2010 at current prices.

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Use the information below and your own knowledge to answer the questions that follow.

World Investment Report 2010 – TNCs

- The economic and financial crisis has significantly affected TNCs' operations abroad.
- The collapse of financial markets has curtailed TNCs financing of M&As. Moreover the collapse of stock markets has reduced – and in some cases eliminated entirely – the ability of TNCs to raise equity capital.
- The *Financial Times* includes 124 companies from developing and transition economies in the top 500 largest firms in the world. *Fortune* ranks 85 companies from developing and transition economies in the top 500 largest global corporations.
- TNCs' future plans: companies' perceptions of their business environment are improving according to UNCTAD's *WIPS*. While 47% of *WIPS* respondents were pessimistic regarding their overall business environment in the 2009 survey, only 36% were pessimistic in the 2010 survey.
- Services and primary sector TNCs are more bullish about their medium term investment prospects.

Source: World Investment Report 2010, UNCTAD

4.7.11 Outline the impact of the global financial crisis (GFC) on consumers and their spending.

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4.7.12 Describe THREE (3) effects of the global financial crisis on TNCs.

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4.7.13 Outline the significance of the rise in size and scale of TNCs originating from developing and transition economies.

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4.7.14 Explain the effect of confidence on the investment and borrowing decisions made by TNCs.

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4.8 Environmental sustainability.

Use the information below and your own knowledge to answer the questions that follow.

Environmental Performance Index (EPI)

The 2010 Environmental Performance Index (EPI) ranks 163 countries on 25 performance indicators tracked across ten policy categories covering both environmental public health and ecosystem vitality. In its earlier iteration the EPI was called the ESI (Environmental Sustainability Index) and tracked 21 different environmental indicators including:

- Natural resource endowment.
- Past pollution levels.
- Present pollution levels.
- Environmental management and impact amelioration efforts.
- Contribution to the protection of global commons.
- The capacity of the society to improve its environmental performance over time.

EPI score 100 to 85	EPI score 85 to 70	EPI score 70 to 55	EPI score 55 to 40	EPI score 40 to 25
Iceland 93.5	Norway 81.1	28. Singapore 69.6	100. Eritrea 54.6	155. Haiti 39.5
4. Sweden 86.0	14. United Kingdom 74.2	43. Mexico 67.3	108. Kenya 51.4	158. Niger 37.6
	20. Japan 72.5	50. Philippines	121. China 49.0	160. Angola 36.3
	25. Spain 70.6	51. Australia	129 Sudan 47.1	

Source: http://epi.yale.edu/Countries; and Yale Center for Environmental Law and Policy accessed on 03.08.2010

4.8.1 Define the term 'environmental sustainability'.

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4.8.2 Explain why it is economically responsible to measure the impact on the environment of economic growth.

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4.8.3 Describe the Environmental Performance Index (EPI) and identify SIX (6) of the environmental indicators that it uses in its measurement.

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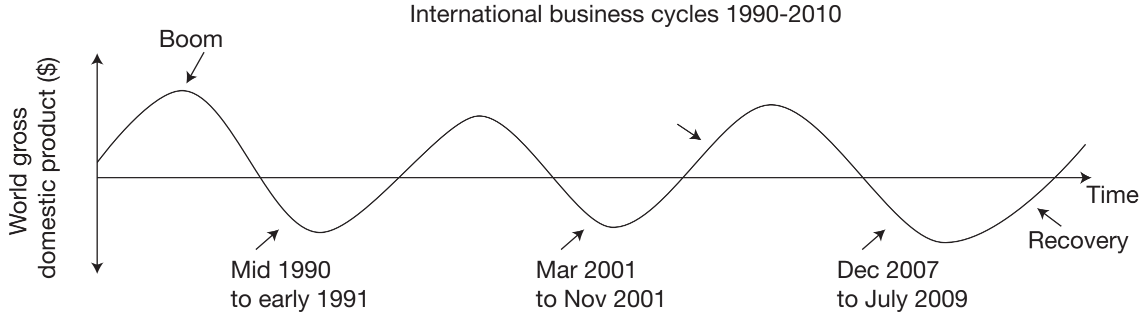
4.9 International business cycles.



4.9.1 Identify FOUR (4) features of a recession.

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4.9.2 Identify FOUR (4) features of a boom which follows a period of sustained economic growth.

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4.9.3 Explain why governments may increase interest rates during periods of economic growth.

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4.9.4 Describe the effect on investment of a reduction in central bank interest rates.

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4.9.5 Identify the impact of expectations on business investment and consumer spending.

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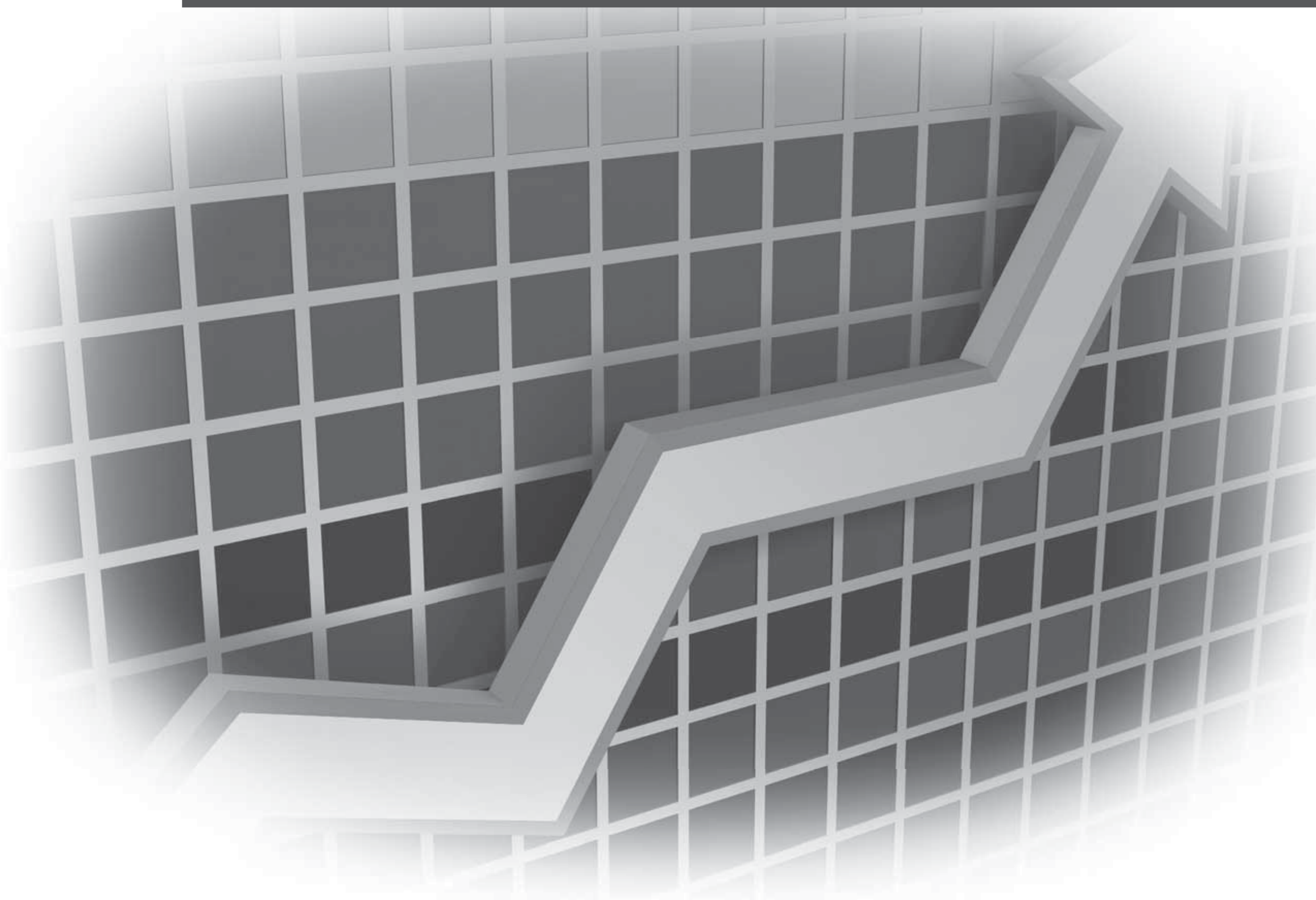
Notes

DOT POINT

Answers



Notes

1.1.1 Four factors relevant to the global economy are international economic integration, gross world product, international business cycle and international flows.

1.1.2 It is important to classify nations into ‘advanced’, ‘developing’ and ‘emerging’ in order to gain a better understanding of the nature and cause of inequalities between the countries and to identify measures to reduce these inequalities.

1.1.3 Two benefits of global trade are cheaper prices and access to a greater variety of goods.

1.1.4 The reason why nations want to trade globally is because of comparative advantage, which enables them to concentrate on the production of goods/services that they can produce efficiently.

1.2.1 Gross world product is defined as the value of output of goods and services produced by all the economies of the world over a given period of time, which is usually a year.

1.2.2 CIA World Fact Book.

1.2.3 Six nations that experienced economic decline in 2009 were Russia, Mexico, United Kingdom (UK), Japan, Germany and Italy.

1.2.4 Three nations which experienced growth in their GDP in 2009 were China, India and Indonesia.

1.2.5 The global recession in 2008-2009 was caused by a number of reasons including a failure of major banks, uncertainties in the global financial markets, tighter credit control, decline in home prices, reduced asset prices, fall in global trade by 25% and lowered consumer confidence.

1.2.6 Two components of GWP are international trade and international investment. International trade is the flow of goods and services between countries while international investment includes foreign direct investment (FDI) which is the flow of funds between countries for economic investments.

1.2.7 (a) Advanced economies: +4.1% ($38 115 billion – $36 615 billion = $1500 billion; 1500/36615 × 100 = 4.1%)

Developing and emerging economies: +6.3% ($31 454 billion – $29 585 billion = $1869 billion; 1869/31 454 × 100 = 6.3%)

(b) Advanced economies GDP 2009: $36 667 billion (100 – 3.8 = 96.2; 96.2% of $38 115 billion)

Advanced economies GDP 2010: $36 887 billion (100 + 0.6 = 100.6; 100.6% of $36 667 billion)

Developing and emerging economies GDP 2009: $31 926 billion (100 + 1.5 = 101.5; 101.5% of $31 454 billion)

Developing and emerging economies GDP 2010: $33 427 billion (100 + 4.7 = 104.7; 104.7% of $31 926 billion)

1.2.8 Market exchange rates are defined as the value of one country’s currency in terms of another at which the currencies can be exchanged in the foreign exchange (forex) market.

Purchasing power parity is a theory which enables a realistic comparison of real incomes between countries by equalising the different price levels in these countries

1.3.1 Protectionism is a policy implemented by a government to protect its domestic producers from the effects of foreign competition. Protectionism results in higher prices for foreign goods.

Economic growth is defined as the increase in value of all goods and services produced in a country over a given period of time which is usually a year.

A trading bloc is a trade agreement between countries located in close geographic proximity in a region where free trade occurs within the member nations but restrictions are imposed for others, e.g. EU.

Environmental sustainability is defined as the ability of nations to satisfy their needs by use of resources which incurs least damage to the environment thereby promoting intergenerational equity where the needs of future generations can also be met.

1.3.2 Goods and services: The flow of goods and services has increased rapidly (in the order of 33 times in volume since World War II) mainly due to the increase in the transnational/multinational corporations (TNCs /MNCs).

Labour: Mobility of labour has also experienced an increase since World War II with the rate of migration from developing countries – for example there were 75 million global migrants in 1965 which rose to 120 million in 2000 and a total of 215 million – or 3% of the world’s population in 2011 (ILO).

Foreign direct investment (FDI): FDI flows around the world have increased hugely since WWII. In the period 1945 to 1960 the US was responsible for three quarters of all FDI. Since 1960 FDI has become a more widespread phenomenon. Firstly, Japan and Europe, and more recently emerging economies such as Brazil, Russia, China and India are engaging in FDI transactions. By 2010 FDI accounted for 20% of global GDP.

1.4.1 Boom: During a boom time in the global economy, investment and consumption levels are high, which are complemented with high levels of business and consumer confidence. Employment levels are also high due to higher economic growth and interest rates tend to increase in order to combat inflation.

Downturn: A downturn in the global economy will be characterised by lower levels of investment and consumption, business and consumer confidence is decreasing as are employment levels. Interest rates exhibit a declining trend due to the weakness in economic growth (as seen for example during the GFC).

Recession: A recession is a period of time when there is negative economic growth for two consecutive quarters. In a recession, investment and consumption levels are extremely low due to lower income levels. Due to an uncertain economic environment business and consumer confidence is down, employment levels are down, and interest rates tend to decline.

Recovery: During a recovery period, investment and consumption levels are rising due to increasing business and consumer confidence. There is a greater level of employment and interest rates tend to be modest or stagnate unless there are inflationary pressures.

1.4.2 The international business cycle refers to the fluctuations in global economic growth (GWP) whereas the regional business cycle involves the ups and downs in the economic growth of a nation (GDP). Hence, the international business cycle tends to be influenced by global economic factors while a region may experience fewer fluctuations in its business cycle due to its restriction to domestic influence. For example, during the GFC, the international business cycle showed a much greater downward swing than Australia.

2.1.1 A country is said to have an *absolute* advantage over another in the production of a good if it uses *lesser resources* than the other country to produce that good; while, it would have a *comparative* advantage in the production of that good if it can produce the good with a *lower opportunity cost*, i.e. it has to forgo lesser amounts of other goods to produce it as compared to the other nation.

2.1.2 Trade liberalisation occurs when countries reduce or abolish barriers to trade like tariffs and subsidies and promote a freer flow of goods and services

2.1.3 Foreign direct investment (FDI) refers to cross-border investment that serves the business interests of the investor in a company that is in a different nation from the investor's country of origin. The parent company aims to gain substantial control over the foreign affiliate company. 'Control' as defined by the UN, is ownership of greater than or equal to 10% of ordinary shares.

2.1.4 In 2008-2009 there was a global financial crisis (GFC) that was caused with the collapse of major American financial institutions (started by Lehman brothers). The impact had an effect all over the world that led to the worst global recession since the Great Depression of the 1930s.

2.1.5 Since the first half of 2010, the world's economy has been improving which has boosted consumer and business confidence. Hence, FDI flows are expected to increase from around $1.2 trillion in 2010 to nearly $2 trillion by 2012.

2.1.6 The flow of FDIs constitutes a measure of globalisation. The volume of FDI flow determines the state of the global economy as increased flow of FDIs will indicate a strong global economic growth.

2.1.7 USA –58.9% ($316 billion – $130 billion = $186 billion; 186/316 × 100 = 58.86%)

China –12.04% ($108 billion – $95 billion = $13 billion; 13/108 × 100 = 12.037%)

France –3.23% ($62 billion – $60 billion = $2 billion; 2/62 × 100 = 3.225%)

UK –49.45% ($91 billion – $46 billion = $45 billion; 45/91 × 100 = 49.45%)

2.1.8 Both China and India experienced a decline in FDI flows of approximately 12% as compared to far greater decline of more than or about 50% for the USA and UK. This disparity can be attributed to the fact that Indian and Chinese investments were concentrated more towards the Asian region than USA.

2.1.9 Germany and Singapore have grown while other economies have shown a decline because of the confidence with which global investors held the financial sector in those nations in particular.

2.1.10 A transnational corporation (also referred to as multinational corporation) is a company which has its main head office in a base country and numerous branches in other countries, e.g. McDonald's, Coca-Cola, Pepsico, Pizza Hut and Domino's.

2.1.11 The expansion of TNCs in foreign lands generates employment in those nations. As is evident from the stimulus, China employs one fifth of the global employees working in foreign companies. Thus the spread of TNCs has generated domestic employment for China. On a global scale as well, TNCs employ 4% of the global workforce.

2.1.12 BRIC is an acronym that stands for Brazil, Russia, India and China, which are all emerging economies characterised by rapid economic growth.

2.1.13 TNCs from BRIC economies are mostly state owned and their strategies have made them competitive in the domestic as well as international markets. Initially, they expanded in their own region but have now widened their scope to other countries. This has enabled them greater access to global markets and resources.

2.2.1 United Nations bodies include a larger membership of nations and their policies have a larger impact than government economic forums that are formed between a few nations only. Therefore, decisions made by United Nations bodies have a more universal application than the government forums whose focus is only their own limited region.

2.2.2 Three main roles of the WTO are to promote freer trade between its 153 member countries, to ensure compliance with the global trade policies and to resolve trade related disputes between the countries.

2.2.3 The primary role of UNCTAD is to help integrate the developing economies into the global economy. It acts as a forum for governmental discussions and undertakes research and data collection and analysis to enable these discussions. It also provides need based technical assistance to least developed countries and to transition economies.

2.2.4 The International Labour Organisation's primary focus is to ensure that there are decent employment conditions for working people in the world in order to promote universal peace and wellbeing. Its main goals are to promote rights at work and provide equitable working opportunities to all men and women.

2.2.5 The primary goal of the World Bank is alleviation of poverty ('make poverty history'). It aims to achieve this outcome through the provision of technical and financial assistance to developing nations. For instance, in 1980s, a railway project was funded by the World Bank for a team of railway experts from all over the world to revamp and develop the rail network of Zambia, Africa.

2.2.6 IBRD aims to reduce poverty by promoting a sustainable development in middle income countries through loans and guarantees. It has been able to accumulate funds from the global financial markets at low costs which enable it to provide low cost finance to its potential borrowers.

2.2.7 IDA provides financial assistance to the world's poorest nations and aims to reduce poverty by providing interest-free credits and grants for programs that boost economic growth. Its aim is to reduce inequalities and improve living conditions in the poor countries through negligible interest charged on its loans and long repayment terms of 35 to 40 years.

2.3.1 Seven government economic forums are Mercosur, ASEAN, APEC, ECOWAS, G7, G8 and G20.

2.3.2 The EU is the world's largest regional trading bloc that aims to promote freer trade between its 27 member nations and providing employment and upskilling opportunities to workers. This makes the nations more competitive and promotes economic growth. It also promotes economic and social welfare in neighbouring countries and provides financial and technical assistance to poorer nations.

2.3.3 (a) APEC is a forum that promotes trade, investment and economic prosperity through mutual respect and dialogue with its member nations in the Asia-Pacific region.

(b) APEC facilitates economic growth and cooperation within its member economies through consensual and voluntary commitments. This key aspect increases the chance of success of the commitments made by the members as decisions are reached through open dialogue.

2.3.4 (a) ASEAN stands for 'Association of South East Asian Nations'.

(b) The main aim of ASEAN is to promote regional integration within its member nations and to promote economic growth and social and cultural development by adhering to the UN Charter.

2.3.5 (a) ECOWAS stands for 'Economic Community of West African States'.

(b) The aim of ECOWAS is to promote greater economic integration between its 15 member countries. Its projects have a primary focus on road construction and telecommunications, and development of agricultural, energy and water resources.

2.3.6 (a) NAFTA stands for 'North American Free Trade Agreement' that is a FTA between Canada, USA and Mexico.

(b) The six aims of NAFTA are: 1. To promote freer trade across borders by promoting trade liberalisation and removal of barriers. 2. To enhance investment opportunities in the member nations. 3. To encourage fair competition in the countries. 4. To ensure protection and enforcement of intellectual property rights. 5. To implement the agreement effectively and resolve disputes, if any. 6. To promote further regional and multilateral cooperation.

2.3.7 (a) G20 represents Group of 20 countries which was formed in 1999 following the Asian financial crisis.

(b) G20 promotes constructive discussions regarding key issues concerning global economic stability. Its main aim is to help industrialised and emerging economies to stabilise the global financial market through discussions and dialogue between member nations.

2.3.8 (a) Mercosur stands for 'common markets of the south' and is the largest trading bloc in South America.

(b) The primary focus of Mercosur is to allow for freer trade in the region by removing trade barriers between member states, with the ultimate goal of full South American economic integration. The full members of Mercosur are Argentina, Brazil, Paraguay and Uruguay. Venezuela is awaiting the grant of full membership.

2.4.1 A trading bloc is an agreement between nations (intergovernmental agreements) made for the purpose of freeing trade between member nations and representing the interest of bloc members in global trade negotiations.

Monetary unions are formed when two or more countries integrate into a single market to either adopt a common currency or enter into an agreement to maintain a constant exchange rate between their currencies, e.g. the euro of the EU.

Free trade agreements (FTAs) are consensual treaties between two or more nations to have stronger trade relations by reducing barriers to trade and permitting freer flow of goods and services across their borders. For example, the AUSFTA which is a FTA between Australia and USA.

2.4.2 Trading blocs such as the EU and NAFTA help support their member nations in promoting freer trade and encouraging competition. This enables the members to gain a greater variety of goods at competitive prices. It helps to enhance economic growth in the member countries and increases the standard of living of the people living in those nations.

2.4.3 Monetary unions have a single currency that is monitored by a central bank. The EU is monitored by the European Central Bank (ECB). It is the responsibility of the ECB to maintain the euro's purchasing power to ensure price stability in the euro area. Inflation is measured through a common index called the Harmonised Index of Consumer Prices (HICP) and the ECB's Governing Council is responsible to formulate a common monetary policy for the euro area.

2.4.4 Two features of an FTA are that it reduces trade barriers between the concerned countries and enables a freer flow of goods and services between them.

2.4.5 Free trade agreements help to provide a greater variety of goods at lower prices due to lower tariffs. This helps improve international competitiveness. For example, AANZFTA is a comprehensive FTA between ASEAN, Australia and New Zealand that aims to eliminate tariffs between its signatories on a wide range of goods, in particular agricultural and food products. Similarly, with the advent of TAFTA, Thailand's high tariff barriers were reduced considerably thereby benefiting Australia's agri-food sector.

2.4.6 (a) EU and Mercosur group are holding discussions to form the world's largest trading bloc. The main purpose is to establish a free trade zone between the member countries.

(b) The talks for an alliance between EU and Mercosur are aimed to establish a free trade zone to allow free flow of goods and services within the member countries to enable higher economic growth in those nations.

3.1.1 Four reasons for trade protection are: to prevent dumping; to protect domestic employment; to protect infant and sunrise industries; and for defence and security reasons.

3.1.2 Countries protect their infant industries from foreign competition by placing a trade barrier to provide support to those industries in their initial stages of development. In their infancy stage, industries are yet to experience economies of scale and thus experience high production costs. But just like an infant who requires less support as it grows, infant industries require protection only for a short period of time till they become efficient.

3.1.3 When foreign goods and services are allowed into a nation this often results in the undesirable outcome of domestic unemployment. Domestic industries are forced to close when they find that their costs of production and hence their prices are higher than the cheaper foreign goods.

3.1.4 Dumping occurs when a country sells goods to another nation at prices below the local market of that importing nation; while anti-dumping is action taken by the importing country if its domestic industry has been affected negatively by the dumping. A tariff, known as the anti-dumping duty is then imposed by the importing country in order to protect its domestic industry.

3.1.5 A nation's markets, when subject to dumping, can become anti-competitive in the domestic market as they struggle to compete with unrealistically low prices. This could result in loss of business and eventual shut down which would generate unemployment in that nation.

3.1.6 A country may protect certain industries for defence and security reasons in order to retain their control over those sectors. Another aspect to protectionism is that free trade can encourage international dialogue and cooperation thus assisting with issues such as defence and international security.

3.1.7 (a) The Foreign Investment Review Board (FIRB) acts like an advisory body for the government by scrutinising the potential foreign direct investment proposals.

(b) Foreign direct investment (FDI) in Australia is crucial for its economic expansion and growth and thus higher standards of living due to the low level of domestic savings. FDI is considered as a stable investment as it is more long term than portfolio investment. Hence it is important for the government to have discretion regarding foreign investment in Australia.

3.1.8 The role of the federal *Foreign Acquisitions and Takeovers Act* 1975 is to regulate foreign acquisition of land and to monitor the quantum of foreign control in certain businesses.

3.1.9 The relaxation of trade protection exposes domestic firms to foreign competition. Therefore, they have to become more efficient to combat foreign competitive prices. A major factor that increases efficiency is innovation. The domestic firms will have to incorporate innovative measures in order to increase efficiency.

3.1.10 The reduction in protection would enable greater flow of goods and services across nations. This would facilitate access to a wider range of goods thereby providing greater consumer choice. Relaxation of protection also increases competition and leads to efficiency in domestic markets as the firms have to face international competition.

3.1.11 Relaxation of trade protection can facilitate a *structural reform* in the economy. Structural reform is achieved through innovation and technological advancement due to cheaper inputs and foreign competition (technical efficiency). Also, by reallocating resources (allocative efficiency) into the more profitable sectors of the economy.

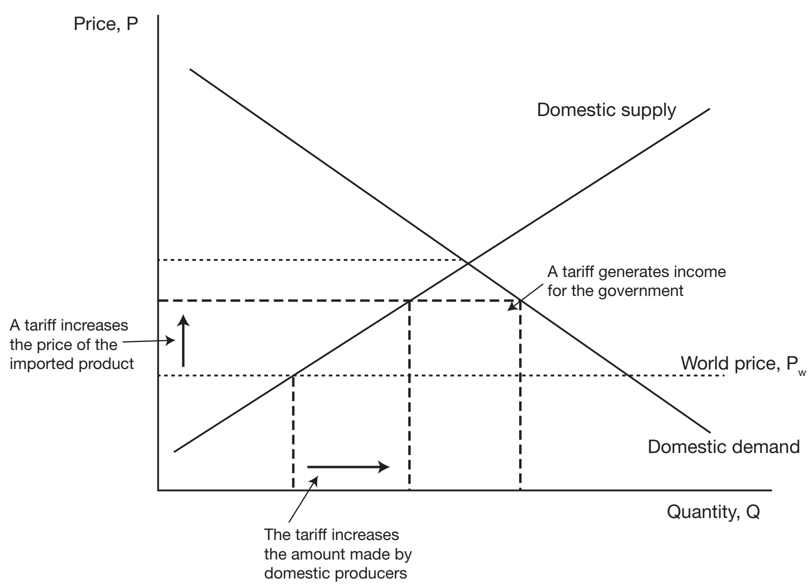
3.1.12 A unilateral trade agreement occurs when one nation decides to reduce its trade barriers (e.g. tariffs) without waiting for other nations, thus gaining the advantages of free trade immediately. A protected economy can open its economy to free trade via multilateral trade agreements. However, multilateral trade agreements take time to negotiate and are often staged, thus allowing for time to elapse between protection and having free trade.

3.2.1 Trade protection can take the form of tariffs, subsidies, quotas, local content rules or export incentives.

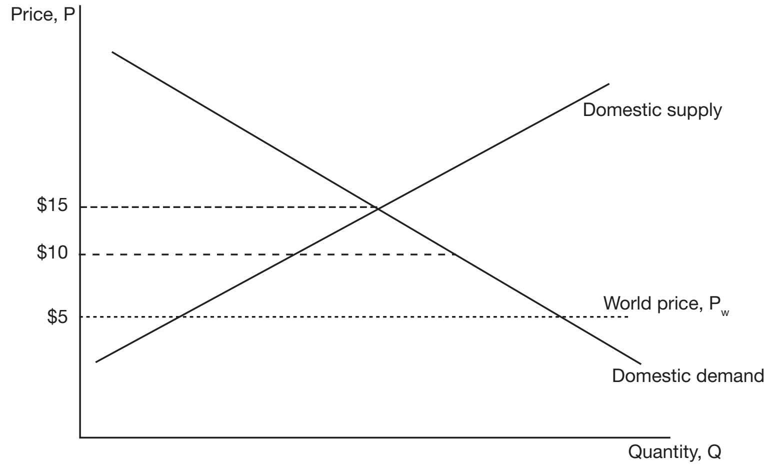
3.2.2 Subsidies are cash payments made by a government to domestic industries to help them lower their costs. This enables them to sell their goods in the global market at cheaper prices that are internationally competitive.

3.2.3 A tariff may be imposed by a government to protect its domestic industries from foreign competition as the tariff would increase the price of the imported good. This would in particular assist infant industries who are still struggling to establish themselves. Tariffs also generate revenue for the government as they are a tax on imports.

3.2.4



3.2.5 (a)



(b) At world price P_w of \$5, domestic producers produce 500 units and hence will earn revenue of \$2500 (5 × 500).

(c) At tariff price P_t of \$10, domestic producers supply 1000 units and hence will earn revenue of \$10 000 (10 × 1000).

(d) The total domestic demand is 2000 units. International producers would produce 2000 units less the number supplied by domestic business (500 units). That is the international producers would supply 1500 units.

(e) At the tariff price of \$10 domestic producers would make 1000 units. The units sell for \$10 each so the total revenue would be \$10 000.

(f) The value of the tariff generated by the government would be the taxation amount imposed on international supply ((1500 units – 1000 units supplied by domestic producers = 500 units). That is, 500 units × \$5 (the value of the tariff which brings the price from \$5 to \$10) = \$2500.

3.2.6 Local content rules refer to the imposing of a requirement of international producers entering a domestic market to use domestic suppliers in aspects of their production. Local content rules provide some degree of protection to domestic producers while the international producers have to comply with the requirement and hence lose a portion of their revenue since the product is not wholly provided by the importer.

3.2.7 Quarantine rules prohibit entry of certain goods and services if they are considered a threat to the domestic goods in some respect, generally in the form of harmful bacteria or pests. For example, recently, the ban on New Zealand apple imports was lifted by the WTO. Australia has appealed the decision as the quarantine authorities suspect that New Zealand apples pose a risk of spreading the 'fire blight' disease that adversely affects the trees.

3.2.8 A quota restricts the quantity of a good that can be imported in a country. It is used as a means of trade protection by the government to protect its domestic producers by permitting only a limited amount of the good into the country.

3.2.9 (a) An FTA is a free trade agreement that encourages free trade between nations that are party to the agreement.

(b) A tariff is a tax on imports that results in an increase in the price of the good while a quota restricts the quantity of the good that can be imported. A tariff generates revenue for the government while a quota only limits the quantity of inflow of the good.

(c) The quota on Australian beef will not be subject to any trade barrier in the US in 'year 19'. Since the AUSFTA commenced in 2005, this should be the year 2024. US beef producers will have face unrestricted competition from Australian beef and hence ensure competitive prices.

4.1.1 Economic growth refers to the sum total of all goods and services produced in a country over a given time period. Economic development, or economic welfare, also includes the standards of living of the people, the level of income distribution, environmental quality, education levels and health facilities available.

4.1.2 G: A 5% rise in gross domestic product, a rising trend in foreign investment; a rise in interest rates from 6% to 6.5%; the amount of foreign aid donated as a proportion of GDP is 0.00%; the amount of energy consumed rises 5% to 3000 kwH per capita.

D: Unemployment falling to 4.7%; expected life expectancy rising to 87-years for men, the number of doctors per 100 000 people rises from 53 to 67-years of age; the literacy rates for adult females is 68%; per capita income falling by 3%; the fall in infant mortality rates from 4 in 10 000 to 3.2 in 10 000; the average annual national wage rising to \$25 100 per person; the rate of internet and telephony coverage increasing to 87% nationally; GDP per capita falls by 2% to \$33 030; inflation runs at 18% per annum; the number of homes with running water at 66%; fertility rates (births per woman) have remained at 7%; 30 new schools have been built nationally over the past year; level of urbanisation has increased from 24% to 37% in the past 10 years; Corruption Perceptions Index (as measured by Transparency International) is 0.93; the per capita rise in income over the past 3 years has been 5.4%.

4.1.3 Economies are classified as low, middle or high income economies by the World Bank based on their GNI per capita.

Low income economies are those with a GNI per capita of $995 or less. For example, Zambia and Nepal are low income economies with GNI per capita of $1230 and $1110 respectively.

Middle income economies are those with a GNI per capita of $996 to $12 195 (lower middle income, $996 to $3945; upper middle income, $3946 to $12 195). For example, Brazil and Mexico are upper middle income economies with a GNI per capita of $10,070 and $14 340; while India and Pakistan fall under the lower middle income category with GNI per capita of $2930 and $2590.

High income economies are those with a GNI per capita of $12 196 and above. For example, Australia and Canada are high income economies with a GNI of $37 250and $38 710 respectively.

4.1.4 (a) The per capita income of Qatar is $68 872 while that of Vietnam is only $1060. Similarly, Qatar is ranked 33rd in HDI, a measure of economic development, while Vietnam's HDI rank is 116. Both these indicators highlight the vast difference in the economic development of the two nations. High levels of economic development are associated with excellent infrastructure, schools, health care and social welfare.

(b) HDI is a measure of economic development that ranks countries according to their literacy rates, life expectancy and per capita income levels. As is evident from the table, countries with a high per capita income are ranked highly while those with low per capita income like Indonesia (ranked 111th) have a low rank.

4.2.1 Per capita GDP indicates the living standards of a country and hence the level of human development.

4.2.2 Anyone living on less than $2 a day is living in absolute abject poverty. If a significant proportion of the population lives at that level, it indicates that the country is impoverished – with many people struggling to satisfy their primary needs. The global economic community needs to address this issue.

4.2.3 The Gini coefficient measures the level of inequality in the distribution of income in a country. It is calculated using the Lorenz curve and indicates the degree to which inequality exists in an economy.

4.2.4 Some countries are so poor they cannot afford to borrow, so foreign aid is offered in order to raise their standard of living. Foreign aid is a donation made available to benefit the poorer country and is crucial in alleviation of poverty.

4.2.5 A lower Gini coefficient indicates a lower degree of inequality in the distribution of income. Hence, a Gini coefficient of 35.2/100 is better than 48.1/100 as it indicates a more equitable distribution of income. Perfect equality is indicated by a Gini coefficient of zero.

4.3.1 Norway and Australia have very high levels of human development.

4.3.2 Chile and Mexico have high levels of human development.

4.3.3 Thailand and Indonesia have medium levels of human development.

4.3.4 Ethiopia and Timor Leste have low levels of human development.

4.3.5 The HDI cut-off values can vary from year to year, but from the tableshown, values for very high development are above 0.9, for high human development are between 0.8 and 0.9, medium are between 0.7 and 0.8 and for low development below 0.5.

4.3.6 People who can afford a healthier lifestyle with access to a nutritious diet and who live in a clean environment are more likely to live longer. Also, the higher the level of health facilities available the more likely a person is to live longer. Hence, life expectancy is a good indicator of the quality of life in a country.

4.3.7 As the value of HDI decreases, the probability of not surviving till 40 years of age increases. For example, as seen on the table, the HDI for Bahrain is 0.895 and the probability that its nationals will not celebrate their 40th birthday is only 2.9% as compared to Niger, which has a HDI of 0.340 the probability of people who will not survive till 40 years of age is high at 29%.

4.3.8 A steady rise in GDP of a country implies that the income and consumption levels are high; the government has adequate funds to invest in the welfare of the people including health facilities thereby increasing the life expectancy.

4.3.9 (a) There is a positive relationship between education and income levels. Individuals with higher levels of education are able to earn a higher income and thus afford a better standard of living. Higher education can facilitate innovation thereby leading to enhanced economic growth through growth in productivity levels in the economy. So, in Australia where the incomes are high over 30% of people receive a tertiary education whereas in Niger where incomes are very low less than 2.5% of people receive a tertiary education.

(b) Increased investment in education ensures better employment opportunities for the individuals. This increases their income levels thereby rendering the basic needs, such as access to good health care, affordable. Therefore, high levels of education attainment increase the life expectancy of people in an economy.

4.3.10 Economic data on levels of income and quality of life provides a guideline for the government to prioritise its spending. Thus, this sort of information is crucial for the formulation of government policy as the government can reallocate resources in order to promote welfare in the economy.

4.4.1 Developing economies are primarily agrarian economies with low levels of income and infrastructural development, e.g. Sudan.

4.4.2 Emerging economies are those which are characterised by accelerated economic growth, industrialisation, and high levels of foreign investment, e.g. Brazil and China.

4.4.3 Developed economies experience high levels of income and infrastructural development, accompanied by high levels of investment, e.g. USA and Australia.

4.4.4 DVG: Afghanistan, Vietnam, Ghana.

E: Brazil, China, Malaysia, Turkey.

DD: Australia, Canada, Germany, Sweden and New Zealand.

4.5.1 Endowment is a term that refers to the level of natural resources in an economy. A country rich in capital resources, i.e. it is well endowed with capital resources, is likely to produce more capital-intensive goods. Australia is well endowed with minerals therefore our major trade is of resources.

4.5.2 If a country benefits from a high level of economic growth they can then invest in economic development. High economic growth leads to higher levels of income and therefore the affected country then has adequate resources to invest in its economic development.

4.5.3 The 'trickle down' effect was a concept based on the premise that the riches of the wealthy people in the country will 'trickle down' to the poor as the wealthy people increase investment levels in the economy and generate greater employment for the poorer individuals. This is why some countries provide greater tax benefits to the higher income earners.

4.5.4 Investment in infrastructure is essential to economic development and also to economic growth. Infrastructure includes the provision of essential services which are basic to economic development: electricity and power, clean running water, telephone and internet connectivity, gas, roads and transportation hubs.

4.5.5 (a) An increase in industrialisation would lead to a rise in economic growth in the long run due to increased efficiency and productivity and output levels in the economy.

(b) Greater level of industrialisation could have a negative impact on economic development due to increased pollution levels, decreased quality of environment and a rise in unemployment levels due to the shift to more capital intensive production. However, in the long run with higher levels of economic growth, income levels may increase raising the living standards of the people.

4.5.6 Economic growth is usually accompanied by higher income levels. Higher incomes could increase the savings potential of the economy as individuals now have more money. Thus, higher economic growth leads to higher levels of savings. Higher savings in turn lead to a greater capacity to invest and grow.

4.5.7 High population growth can impede the rapid economic growth of an emerging economy as the economy would like to allocate resources to areas which would promote growth. For example, China is an emerging economy but its prosperity is hampered by its vast population level.

4.5.8 Advanced economies can benefit from migration when they have low levels of population and skills in the economy. For example, Australia has a low level of population thereby resulting in skills shortages in a number of areas. These shortages can be overcome by skilled migration that would be advantageous in promoting economic growth.

4.5.9 (a) Corruption is a huge impediment to economic development as is evident from the data in the table. A greater level of corruption which is indicated by a low Corruption Perception Index implies low level of economic development.

(b) A high level of corruption impedes economic growth as well as economic development. For example, Indonesia has a high level of corruption with a CPI of 2.8 as compared to Australia's CPI of 8.7. The HDI for Indonesia is only 0.734 as compared to Australia's 0.970. This indicates the vast variation in development. Similarly, Australia has a higher economic growth with a GDP of $930 billion as compared to Indonesia's GDP of $521 billion.

4.6.1 Creation of trading blocs: The process of globalisation has lead to formation of trading blocs as it enables freer trade between the member countries to the exclusion of others. For example, the EU is a trading bloc with 27 members which encourages trade within its member nations. More regional blocs have been established like NAFTA and others are under negotiations.

The increasing trade in goods: Globalisation has not only increased the volume of goods that are traded across national borders but also led to specialisation. The direction of trade flows have also been greatly impacted with increased globalisation with the increase in the number of trade agreements changes in the direction of trade.

Increased trade in services: Trade in services has also increased enormously with financial, accounting, administrative, educational, health, tourism and other services being exchanged in very high volume.

Trends in FDI: There has been a large increase in the amount of foreign direct investment in developing and emerging nations. This has come about as nations source low cost supplies and labour and seek proximity to natural resources. Apart from recession (such as precipitated by the GFC) and economic crises (such as the Asian economic crisis) the volume of FDI has increased annually since WWII.

The creation of bilateral and multilateral trade agreements: Globalisation has enabled creation of a number of free trade agreements to promote freer trade between countries. These trade agreements are bilateral, as well as between a number of countries – multilateral. Australia's number of bilateral agreements has increased from CERTA (with New Zealand) to AUSFTA (with USA) in 2005 to the more recent ones of TAFTA (with Thailand), CAFTA (Chile) and SAFTA (Singapore). Multilateral agreements like the WTO are all aimed at promoting greater flow of goods and services across national boundaries.

Reduction in protectionism: The greater flow of goods and services across nations has been facilitated with the reduction in protectionist policies by these countries. There has been a significant reduction of tariffs, for example, Australia has removed its tariffs on motor vehicles that has enabled the import of foreign cars.

Trends in migration and labour flows: It has become easier for people to migrate to other countries or seek employment in international markets due to globalisation.

International convergence: International convergence has been evident with the advent of globalisation with the nations having closer trade relations and also due to the development of a unified market.

Environmental impacts: Globalisation has led to the deterioration in environmental quality due to rising levels of pollution with the establishment of industries and deforestation and greenfield developments. It has also led to a global call for responses including carbon trading and carbon emissions reduction schemes.

4.7.1 The term merger and acquisition (M&A) does not have a formal or legal definition but refers to transactions that involve buying and selling businesses, and any resultant restructuring activities between the entities. M&As include mergers and takeovers where usually the acquisitions are carried out by larger companies taking over smaller ones, while the mergers are between companies of equal value.

4.7.2 For the period 2007-2010, net cross-border M&A sales have reduced on the developed countries falling from 74% to 66%, while those of developing countries increased from 22% to 25% in the same period. South-east Europe and the CIS showed the greatest percentage increase in M&A sales between 2007 and 2010 more than doubling from 4% to 9%. This can be attributed to the greater impact of the GFC felt by the advanced nations. For example, even when compared to 2009, the M&A cross border transactions in the Australasia region have declined by 23% this year as businesses are more cautious.

4.7.3 Greenfield investments are an alternative means of investment to M&A, where businesses invest in new areas where there were no pre-existing structures or facilities. The concept is similar to greenfield developments where the areas developed were farmlands previously.

4.7.4 In the past two decades the number of TNCs and their affiliates has more than doubled. Transnational corporations (TNCs) facilitate and encourage trade and investment flows by expanding their operations worldwide as they seek new markets and aim to increase their productive capacities.

4.7.5 The global financial crisis (GFC) of 2008 has been the major cause for the fall in net cross-border M&A sales for developed host economies from 72% in 2008 to 66% in 2010. Many developed economies reeled under recession as they struggled to recover from the impact of the GFC. Many businesses closed down while others lost confidence in the international financial markets and adopted a conservative approach in their investments. Even now, as the economies are recovering, businesses are still cautious in their investments with the increase in the number of withdrawals of prospective M&A activities.

4.7.6 FDI inflows occur when foreign investors invest in domestic companies thereby providing expansion opportunities to local businesses. FDI outflows occur when domestic businesses invest in foreign companies in expectation of high rates of returns.

4.7.7 Goods are physical commodities that can be seen and felt and are tangible. They are homogenous and can be traded further when the purchaser gains ownership of the goods bought. Services are intangible, heterogeneous and once used cannot be traded further.

4.7.8 Since 1990, the trade in goods and services has been on the rise and has nearly doubled due to increased globalisation which has facilitated freer trade across national borders. However, there was a sharp decline in the exports of goods and services with the advent of the GFC in 2008 when the otherwise steadily rising annual growth rate declined to (–) 21.4% in 2009.

4.7.9 Between 2008 and 2009, FDI inflows fell from $1771 billion to $1114 billion while the FDI outflows fell from $1929 billion to $1101 billion. These falls were due to the uncertainty in the global financial markets following the GFC.

4.7.10 Value of exported goods and services for 2010 at current prices with an expected annual growth rate of 2.1% would be $16 046 billion (102.1/100 × $15 716 billion).

4.7.11 The GFC had a very significant effect on consumers and their spending. Consumers, who are also wage earners, lost confidence in their capacity to have job certainty as unemployment rose and further their capacity to fund debt. Their spending decisions were therefore shaped by caution which caused a downturn in consumer spending.

4.7.12 The GFC has had an adverse impact on the TNCs. One impact is the inability of the TNCs to raise equity capital due to a decline in the stock markets. Another effect is the reduction in the financing of M&As by the TNCs due to the uncertainty in the financial markets. However, with a gradual recovery and the expectation of an improvement in the financial markets, the service sector TNCs have a commanding outlook for their medium term investments.

4.7.13 The increasing number of TNCs originating from developing and transition economies, indicate that the GFC did not have a huge adverse impact on these economies and the recovery of their financial markets is speedy. Their companies are expanding at a rapid rate and a significant number are among the top 500 companies of the world.

4.7.14 Investment and borrowing decisions made by the TNCs are largely impacted by their level of confidence in the global business environment. The TNCs will only further expand their operations if their outlook towards the global financial markets is optimistic. Also, TNCs will attract investment only if there is a congenial financial environment where consumer and business confidence is high.

4.8.1 Environmental sustainability calls for protection of the environment. It demands that the usage of resources is optimised to prevent over usage of the exhaustible resources. The idea is to help promote 'intergenerational equity' where the future generations have an equitable access to the environment.

4.8.2 Economic growth can occur at the expense of the environment. For example, industrialisation increases output levels in the economy and hence boosts economic growth but it also leads to environmental pollution. Hence, it is important to be economically responsible and prevent over-use and abuse of the environment while adopting strategies that promote economic growth.

4.8.3 The EPI is a weighted index that ranks 163 countries based on 25 performance indicators which entail the ecosystem vitality like greenhouse gas emissions and the water quality and pollution impacts on the ecosystem, as well as the environmental public health which includes the impact of water and air pollution on humans. Six key environmental indicators used for the ranking include natural resources endowment, past and present pollution levels, environmental management and efforts to reduce the impacts of damage to the environment, contribution to the protection of global commons and the potential of the society to improve its environmental performance over time.

4.9.1 A recession occurs when economic growth falls for two consecutive quarters. It is characterised by falling real output levels, reduced aggregate demand, increased unemployment levels and a fall in investment levels.

4.9.2 A boom following a period of sustained economic growth has high levels of employment, rising inflation, increased real output levels and rise in investment levels.

4.9.3 Interest rates are generally used to curb an excessive rise in prices. During periods of economic growth, inflation is likely to be high and hence governments combat this issue by increasing interest rates to reduce the disposable incomes of individuals which results in a decrease in the demand for goods and services and hence demand pull inflation.

4.9.4 A reduction in interest rates by the central bank would have an adverse impact on investment as it would serve as a disincentive to invest due to the lower rates of return. Therefore, investors will tend to hold back on their investment or seek alternative investment opportunities overseas. This would hinder expansion of domestic businesses that rely on equity financing.

4.9.5 Expectations refer to how businesses and consumers perceive the future. When there is uncertainty about the economy, business investment will fall as will consumer spending. When the expectation is for growth and a stable economy then business and consumer borrowing rises, business investment increases and consumer spending rises.