



Starters and Plenaries

Theme 4: A Global Perspective

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Teacher's Introduction

Overview

This resource is essentially an activities-only resource that has been designed to support the learning and teaching of Edexcel Theme 4. These useful activities will help to either switch pupils into learning mood at the beginning of the session or wind down and take learning right up to the end of the lesson. Students will build on their understanding of key terms while developing new knowledge that is integral to the specification.

There are 20 activities in this resource, which closely follow the specification order, and can be conducted as individual, group or full-class activities. Teacher's notes, plus an activity-by-activity plan, are provided at the beginning of the resource to give guidance on how to teach the content. Some of this guidance includes additional activities. Here is an example:

Spec. Area	Topic	Activity Description	Notes				Extra Resources	Assessment Objectives				Suggested Use
								AO1	AO2	AO3	AO4	
1.1 Nature of economics	What is economics?	Activity 1 – fill in the missing words followed by a cut out and paste activity.	Individual tasks (but can be done in pairs as well, where students can compare their answers).	✓	✓		Scissors and glue.	X	X			Plenary

The starters and plenaries included are designed to help teachers prevent any breaks in students' learning by encouraging them to recap previously studied topics or begin to learn new ones. Each activity sheet should take between 10 and 20 minutes to complete. The end of the resource includes an answer sheet for students and/or teachers to use in marking.

It is hoped that this resource, as well as offering support for teaching the essential elements of the Edexcel examination, will help students build on any knowledge they already have.

Happy teaching!

December 2017

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* resulting from minor specification changes, suggestions from teachers and peer reviews, or occasional errors reported by customers

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Activity-by-activity Plan

Spec. Area	Topic	Activity Description	Notes			
4.1 International Economics	Globalisation	Activity 1 – quick questions.	Tasks may be done individually or in pairs.	✓	✓	
	Specialisation and trade	Activity 2 – questions.	Individual tasks but check each other's work in pairs.	✓	✓	
	Pattern of trade	Activity 3 – quick research task followed by a discussion task.	Tasks 1a and 2 can be done individually. Task 1b is a small group task (3–5 student).	✓		
	Terms of trade	Activity 4 – short questions including calculations.	Tasks may be done individually or in pairs.	✓	✓	
	Trading blocs	Activity 5 – short (revision) questions.	Tasks may be done individually or in pairs.	✓	✓	
	Restrictions on free trade	Activity 6 – short questions, including a discussion task.	Tasks 1 and 3 may be done individually. Task 2 should be done in small groups (3–5 student).	✓		
	Balance of payments	Activity 7 – fill in chart from the short questions.	Tasks may be done individually or in pairs.	✓	✓	

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Spec. Area	Topic	Activity Description	Notes				Ex
4.1 International Economics (cont.)	Exchange rates	Activity 8 – some questions, including true/false statements and drawing a diagram.	Tasks may be done individually or in pairs.	✓	✓		
	International competitiveness	Activity 9 – a few discussion topics.	Tasks may be done in pairs or small groups.		✓	✓	
4.2 Poverty and inequality	Absolute and relative poverty	Activity 10 – quick starter questions.	Tasks may be done individually.	✓			
	Inequality	Activity 11 – quick questions.	Tasks may be done individually.	✓			
4.3 Measures of development	Human Development Index (HDI)	Activity 12 – quick question.	Tasks may be done individually.	✓			
	Alternative measures of development	Activity 13 – quick questions.	Tasks may be done individually.	✓			

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Spec. Area	Topic	Activity Description	Notes				Ex
4.3 Measures of development (cont.)	Factors influencing growth and development	Activity 14 – a game of Pictionary followed by a multiple choice question task. 	Tasks need to be done as whole class activities. For task 1, split the class into two groups. One individual can draw a word in the group, while the rest of the group try and guess the answer. A different person from each group should come up every time. For words, use the list provided in spec. point 4.3.2a. Write each term/phrase on a different piece of paper and put them in a bowl for students to draw from.			✓	You (or s the c (for w to t
	Strategies influencing growth and development	Activity 15 – match up task followed by a question on the buffer stock scheme.	Tasks may be done individually.	✓			
	Strategies influencing growth and development	Activity 16 – group work on the buffer stock scheme. 	Group work Split the class into two groups. One group will focus on market-oriented strategies of growth and development, while the other group will focus on interventionist strategies of growth and development.			✓	
	Alternative strategies influencing growth and development	Activity 17 – creating a short presentation task followed by filling in a table task. 	Both tasks may be done in pairs or small groups. For task 1, split the class into groups of twos or threes. Assign each group with a different strategy (from the list provided on the sheet) to create a presentation on.		✓	✓	Stud acce com Inter pres creat

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Spec. Area	Topic	Activity Description	Notes				Ext
4.4 The financial sector	Role of financial markets	Activity 18 – quick questions.	Individual activity.	✓			
	Market failure in the financial sector	Activity 19 – fill in the chart activity.	Individual activity.	✓			
	Role of central banks	Activity 20 – research followed by short questions.	Can be done in pairs or individually.	✓	✓		Student access and...

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Activity 1 – Globalisation

1. a) List as many characteristics of globalisation as you can think of.

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b) Describe globalisation in your own words.

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2. Discuss, in pairs, how and why globalisation has increased dramatically in

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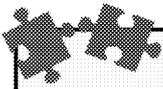
3. Fill out the table below to suggest the impact of globalisation on the following

	Individual countries	Individual governments	Producers	Consumers
Costs				
Benefits				

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Activity 2 – Specialisation and

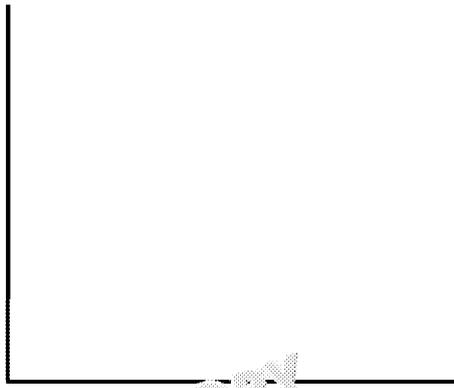
Answer all questions individually, then swap your paper with your partner to

1.

	Garments Production	Laptops Production
Country A	500	100
Country B	200	50

The table above shows how Country A and Country B can allocate resources and produce goods. Using information provided in the table above.

a) Show the above information on a diagram in the space provided below.



b) Which country has an absolute advantage in the production of garments?

c) Which country has an absolute advantage in the production of laptops?

d) Which country has a comparative advantage in the production of garments?

e) Which country has a comparative advantage in the production of laptops?

f) What can we deduce from all the information in the table above?

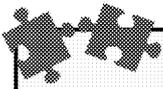
2. List some of the advantages and disadvantages of specialisation and trade.

Advantages	Disadvantages
	

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Activity 3 – Pattern of trade

1. a) Define the following terms:

- Trade creation =
- Trade diversion =

b) In small groups, give examples of countries / groups of countries that have experienced trade creation and trade diversion. (Hint: think of countries that have experienced trade diversion.)



2. Briefly explain how the following influence the pattern of trade between countries:

- Comparative advantage

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- Emerging economies

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- Trade agreements

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- Changes in relative exchange rates

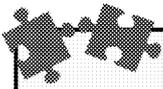
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Activity 4 – Terms of trade

1. What do we mean by terms of trade?

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2. Suppose that over the past 20 years the index of import prices has fallen 10% and the index of export prices has risen by 8%. What will be the change in the terms of trade?

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3. Briefly explain how the following factors affect terms of trade:

- Relative inflation rates



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- Relative productivity rates

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- Relative exchange rates



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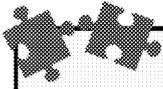
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Activity 5 – Trading blocs

1. i) Name the types of trading blocs that the following explanations refer to.

There is free movement of goods and services and each member can trade with non-members.

a)



There is free movement of goods and services and all members set a common trade policy for non-members.

b)

There is free movement of goods and services, as well as all factor inputs, and all members adopt a single trade policy for non-members.

c)

There is free movement of goods and services, as well as all factor inputs, and all members adopt a single trade policy for non-members. Moreover, all members adopt a single trade policy for non-members.

d)



ii) Name an example for each type of trade bloc (write in the space provided).

2. What are the costs and benefits of regional trade agreements?

Advantages	Disadvantages

3. What is the role of the World Trade Organization (WTO)?



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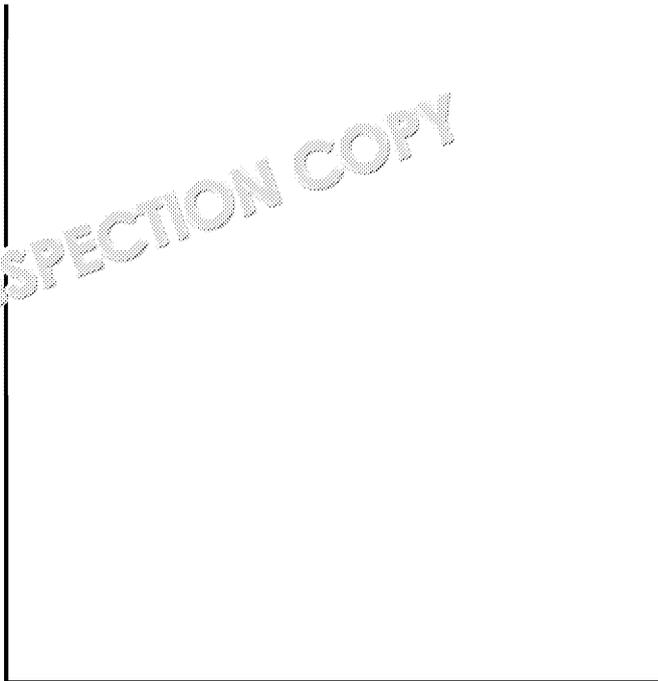
Activity 6 – Restrictions on free

1. List some of the reasons that provoke countries to restrict free trade.

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2. In small groups, discuss the various ways in which countries can restrict free trade. Give examples of those measures.

3. Draw a tariff diagram below.



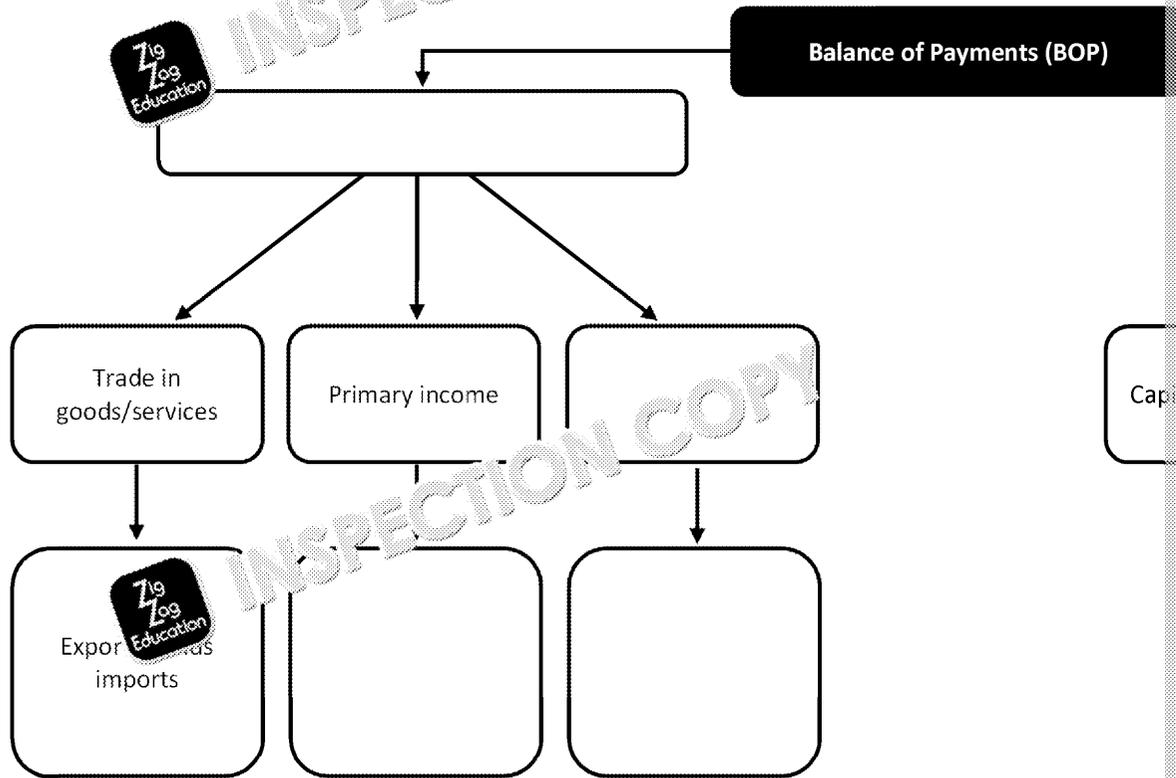
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Activity 1 – Balance of payments

1. Fill in the diagram below:



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Activity 7 – Balance of payments

2. List any three causes of current account deficit and surplus.

Causes of C/A deficit	Causes of C/A surplus
	

3. a) Identify the three main measures to reduce a current account imbalance.

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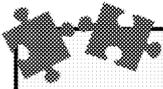
- b) Now give an example for each policy.

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Activity 8 – Exchange rate

1. Name the three types of exchange rate regimes.

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2. State whether the following statements are true or false:

A	Managed exchange rates is an exchange rate regime whereby the value of the domestic currency is pegged against another currency
B	Floating exchange rate is an exchange rate regime whereby the price mechanism determines the value of the domestic currency.
C	Under a floating exchange rate regime, a fall in the value of a currency is referred to as depreciation in the currency.
D	Under a fixed exchange rate regime, a rise in the value of a currency is referred to as appreciation in the currency.

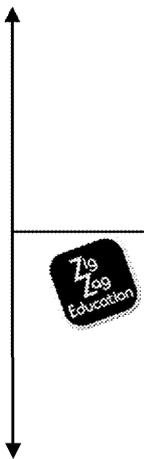
3. How does speculation influence the exchange rate?

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4. Write down the equation of the Marshall Lerner condition.

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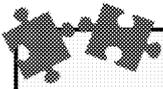
5. Draw the J curve below:



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Activity 9 – International compet

1. a) Discuss what we mean by international competitiveness.

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b)  Discuss how international competitiveness can be measured.

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c) Now briefly explain how international competitiveness can be affected by:

- Relative unit labour costs



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- Relative export prices

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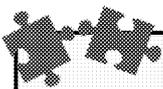
2. Discuss issues with international competitiveness. What is the main problem with international competitiveness? And why?



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Activity 10 – Absolute and relative

1. What do you think is the difference between the following:

- Absolute poverty =
- Relative poverty =

2. In your opinion, how are the following measured:

- Absolute poverty =
- Relative poverty =

3. Name any four factors that may affect relative and absolute poverty with

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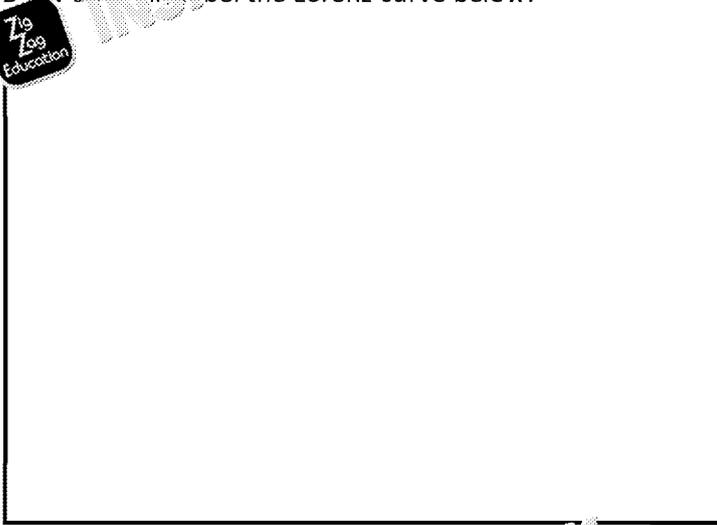


Activity 11 – Inequality

1. What do you think is the difference between the following:

- Wealth =
- Income =

2. a) Draw an axis for the Lorenz curve below:



b) What is the formula of the Gini coefficient?

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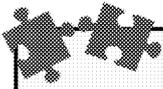
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Activity 13 – Alternative measures of development

1. List and explain any three alternative indicators of development.

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Activity 15 – Strategies influencing growth and development

1. Match up the words and their definitions.

Aid
 Primary products
Human capital
Joint ventures
Microfinance
Primary products

Typically financial assistance provided to help with poverty, wars, economic instability, etc.
Skills and expertise that a worker possesses.
A business project that two or more people invest in together without giving up their individuality.
These are essentially raw materials.
Small loans given to poor individuals who are otherwise deprived of such facilities.
This is not only concerned with rising living standards, economic growth and the degree of freedom and accountability.

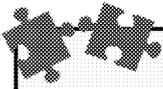
2. Using a diagram, explain the buffer stock scheme.



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Activity 16 – Strategies influencing growth and development

1. Each person will name and explain any one market-oriented or interventionist (or a combination of the two) strategy of growth and development (from the list of strategies in the group you are) strategy of growth and development. Once the first person has finished, they will pass the sheet of paper back for the next person to continue the task.

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Activity 17 – Alternative strategies in growth and development

- In pairs or groups, prepare a short presentation, using post-its, on any one strategies of growth and development:
 - Industrialisation: Lewis model
 - Development of tourism
 - Development of primary industries
 - Fair trade coffee
 - Relief

Make sure to add relevant case studies.

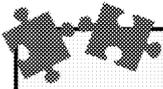
- Fill in the table below:

	World Bank	International
Logo		
Founded (year)		
Headquarters		
Role		

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Activity 18 – Role of financial market

1. a) What is meant by the financial market?

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.....

b) Unjumble the following words.



• rre. p. c kmtrea

.....

• Lptiaca rkamte

.....

• Gnfrei hgcnex aekmtr

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c) Briefly explain **three** roles of the financial market:

1.

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3.

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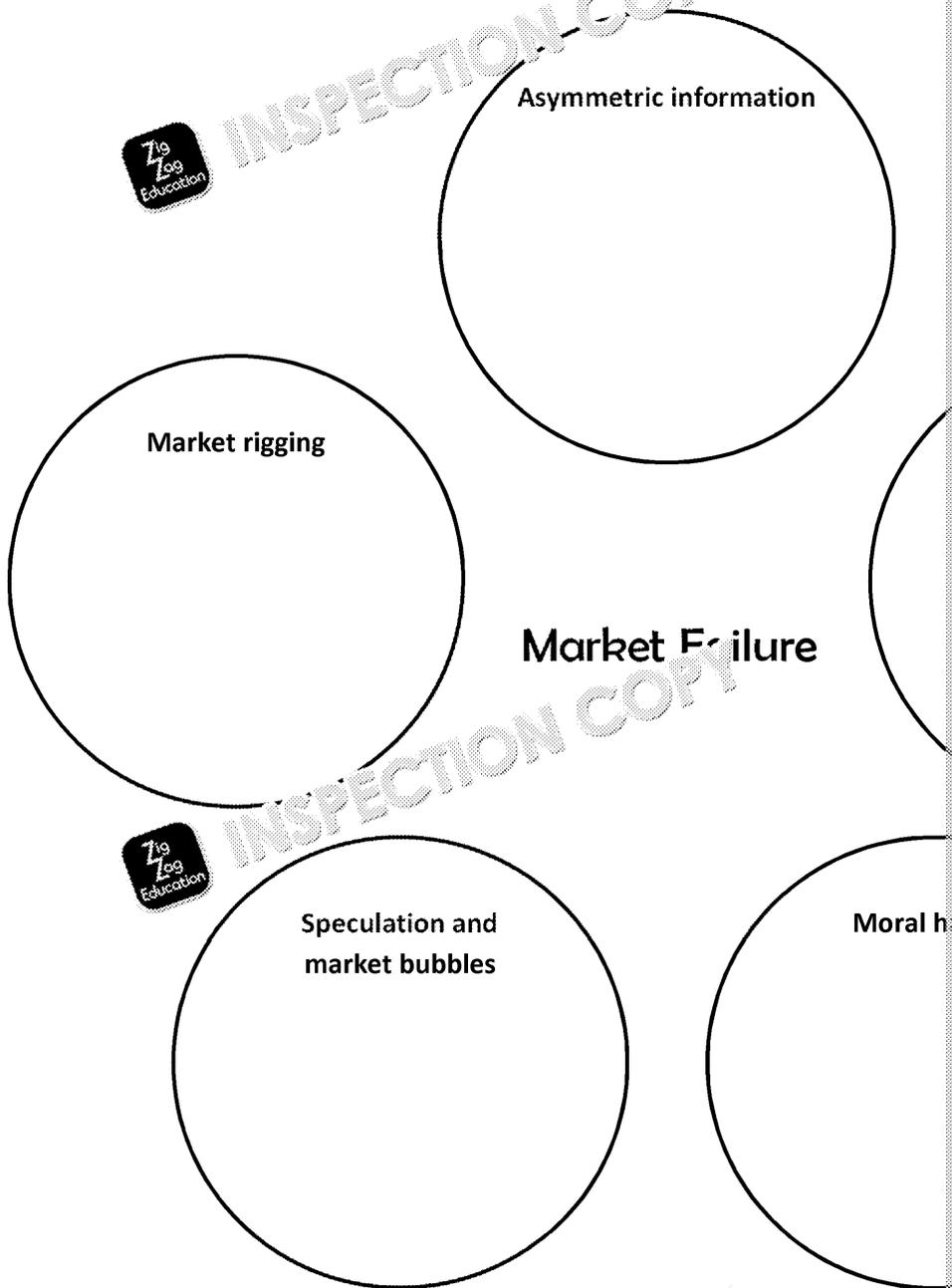
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Activity 19 – Market failure in financial sector

1. Fill in the chart below by adding explanations on how the following factors contribute to market failure.



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Activity 20 – Role of central banks

1. Research and find out the names of the central banks of the following countries they are based:

	England	Spain	Russia	
Name of central bank				
Headquarters				

2. State whether the following statements are true or false:

A	Central banks can lend to commercial banks.
B	Commercial banks can lend to central banks.
C	Central banks set the level of taxation in the economy.
D	The government sets the interest rate in the economy.
E	The central bank is the 'lender of last resort'.
F	Governments lend to central banks.
G	Central banks can change the level of money supply in the economy.

3. List the four main functions of central banks:

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-
-
-

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Answers

Activity 1 – Globalisation

1. a)
 - Increased trade
 - Increased interdependence
 - More foreign direct investment (FDI) and transnational companies (TNCs)
 - Easy access to factor inputs
 - Immigration
 - Cultural exchange
 - Political integration
 - Information technology, e.g. Internet
- b) This is due to the increase in economic and cultural integration and interdependence.
2.
 - Better means of communication (e.g. Internet) and transport
 - World Trade Organization (WTO) – reduction in trade barriers
 - Creation of TNCs
 - Mobility of people

3.

	Costs	
Individual countries	Some see a decline in some industries due to cheap imports. Increased interdependence between economies means that economic downturn in one big economy can negatively impact other economies.	Export industries
Individual governments	Access to cheap labour from abroad could mean that local unemployment rises.	Increased revenue for governments
Producers	They face more competition.	Access to cheap raw materials Producers can reduce costs
Consumers	Homogenisation of culture. Consumers might pay higher prices if globalisation leads to monopoly.	More choice. Lower prices.
Workers	Low wages (exploitation). Workers might have redundancies if globalisation produces <i>structural change</i> .	More job opportunities
Environment	More pollution.	More growth means more resources is more research and development energy, etc.

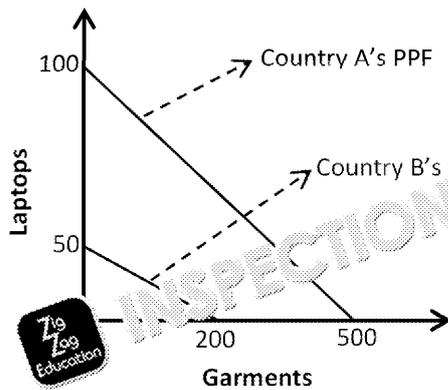
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Activity 2 – Specialisation and trade

1. a)



b) A

c) A

d) Country A needs to give up the production of one-fifth units of laptops to produce 1 unit of garments. Country B needs to give up the production of one-quarter units of laptops to produce 1 unit of garments.

e) Country B needs to give up the production of 4 units of garments to produce 1 unit of laptops. Country A needs to give up the production of 5 units of garments to produce 1 unit of laptops.

f) It can be deduced that country A should produce garments and country B should produce laptops. Country A has a lower opportunity cost in producing their respective goods.

2.

Advantages	
<ul style="list-style-type: none"> Countries can consume bundles that are outside their PPF Greater choice for consumers Cheaper goods for consumers Greater efficiency Firms experience economies of scale World market leads to higher profits Increased growth Higher standards of living 	<ul style="list-style-type: none"> Countries become more dependent on trade Terms of trade may change Over-reliance on exports Unwanted goods can be imported at very low prices May widen the rich-poor gap Bad for 'infant industries'

Activity 3 – Pattern of trade

- a)

 - Trade creation = Create new trade
 - Trade diversion = Divert trade from old to new partners

b) If countries establish a free trade area among themselves, but erect a common tariff against non-members, countries that are part of the agreement will face both trade creation and trade diversion. Students could choose any country from the European Union Customs Union as an example that has experienced trade creation and diversion (e.g. France, Germany).
- Comparative advantage** decides the exports and imports of all countries. Developing countries produce value goods, such as agricultural goods, while developed countries have a comparative advantage in producing goods, such as cars.
 - Emerging economies** have helped increase global trade. These economies have a comparative advantage in raw materials: these countries export raw materials. This has made them a hub for trade.
 - Growth of trading blocs and bilateral **trading agreements** increases the level of trade by reducing or eliminating trade barriers. However, they do tend to reduce trade with non-members.
 - Exchange rate** of one currency in terms of another (relative exchange rate) affects the flow of trade from that country. For example, a higher exchange rate reduces imports, while exports of the other country increase.

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Activity 4 – Terms of trade

1. The terms of trade calculate the amount of imports that can be bought from a country using the ratio of the price of exports to the price of imports.

2. $ToT = \frac{108}{97} \times 100 = 111.3$

This suggests that the terms of trade have improved by 11.3%.

- 3.
- Relative inflation rates
 - If country A has higher inflation than country B, then its goods will be more expensive. This will also affect its exports. This will improve the terms of trade, ceteris paribus.
 - Relative productivity rates
 - If country A is more productive than country B, this means country A can produce more using the same level of resources compared to country B. This difference will improve country A's terms of trade, as it can lower its costs and improve its international trade.
 - Relative exchange rates
 - If country A's exchange rate goes up, it would mean that you can now buy more of one unit of country A's currency. This will make country A's goods seem more expensive. This will improve trade.

Activity 5 – Trading blocs

1. (i) and (ii)
- a) Free trade area, NAFTA
 - b) Customs union, EU
 - c) Common market, EU
 - d) Monetary union, Eurozone

2.

Advantages	Disadvantages
<ul style="list-style-type: none"> • No tariffs on imports • Greater price transparency • No need to account for ER fluctuations, which hurt competitiveness (note this is only true for monetary unions) • Attract FDI → good for growth • Productivity gains from specialisation via trade agreements • Increased trade • Increased trade creates more jobs • Countries gain from economies of scale 	<ul style="list-style-type: none"> • No control over monetary policy • Not true for monetary unions • Some members will be less efficient • Non-members may be disadvantaged

3. The WTO encourages free trade by promoting a policy of **trade liberalisation**. It promotes negotiations and settlement of any trade issues between member countries.

Activity 6 – Restrictions on free trade

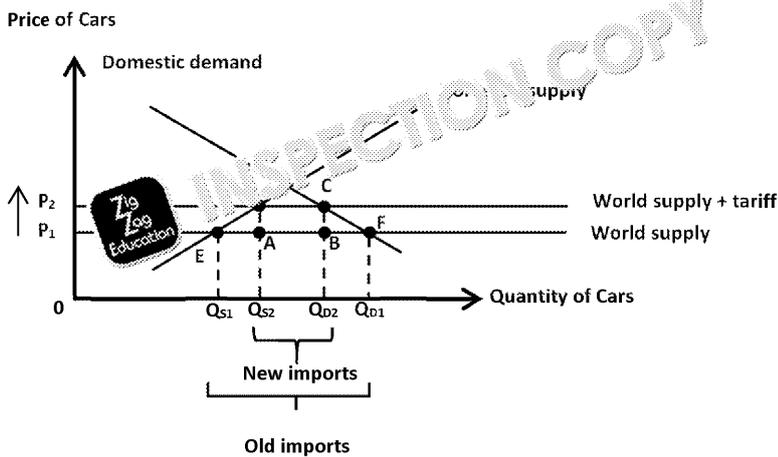
- 1.
- Protecting local industries:
 - Infant industries are new industries that need time to mature out
 - Sunset industries are in decline but they may be useful
 - Infant industries are used to be self-sufficient in industries, such as defence and energy
 - Protection against 'dumping' from very cheap imports
 - Protecting jobs
 - Less dependency
 - Correct current account deficit
 - Avoid competition
 - Retaliation

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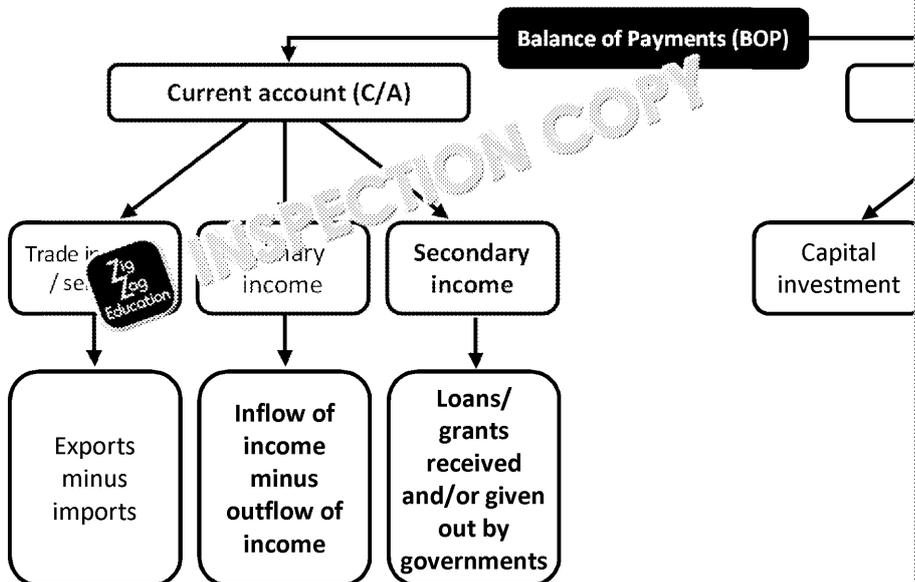
2.
 - Tariffs – the UK’s custom duty is an example of a general tariff on imports.
 - Quotas – an extreme example of a quota could be the US–Cuba embargo that blocks all trade.
 - Subsidies – Common Agricultural Policy (CAP).
 - Non-tariff barriers, e.g. health and safety legislation.

3.



Activity 7 – Balance of payments

1.



2.

Causes of C/A deficit	Causes of C/A surplus
<ul style="list-style-type: none"> • High inflation rate → cheap imports • Relatively low labour productivity → increased average cost → cheap imports • Higher exchange rate → cheap imports • High domestic growth → increased demand for imports 	<ul style="list-style-type: none"> • Protectionist measures • Low inflation → cheap exports • Lower exchange rate • Low domestic growth • Relatively high labour productivity → cheap exports

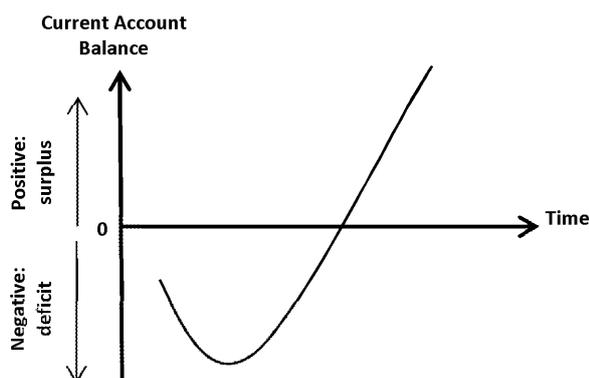
3.
 - a)
 - Expenditure-reducing policies
 - Expenditure-switching policies
 - Supply-side policies
 - b)
 - Expenditure-reducing policies = increasing income tax
 - Expenditure-switching policies = trade barriers
 - Supply-side policies = spending on education and training

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Activity 8 – Exchange rates

1.
 - Floating
 - Fixed
 - Managed
2.
 - a) F (fixed exchange rate)
 - b) T
 - c) T
 - d) F (revaluation)
3. If people speculate (nada) the value of the pound will fall, they will sell their pounds for a high price of dollars. Thus, as demand for pounds decreases, it depreciates against dollars.
4. $PE_{\text{Export}} < PE_{\text{Imports}} > 1$
- 5.



Activity 9 – International competitiveness

1.
 - a) A country's ability to sell its domestic goods abroad, while competing with other countries.
 - b)
 - Relative unit labour costs
 - Relative export prices
 - c)
 - Relative unit labour costs: if domestic labour is more productive and/or gets paid less than a foreign country, then the domestic country is said to be more internationally competitive.
 - Relative export prices: if domestic exports are cheaper than exports of any other country is said to be more internationally competitive (i.e. it can export more).
2. Over-reliance on one export item can be a huge problem for a country. World demand for one export good or, in the case of agriculture, natural calamities can significantly reduce export income. It is very important for countries to diversify their economies.

Activity 10 – Absolute and relative poverty

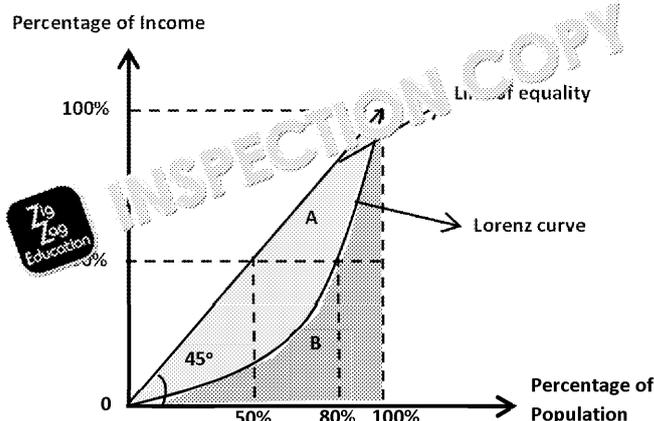
1.
 - Absolute poverty = A state where a person is unable to meet basic needs over a long period (e.g. food, clothing).
 - Relative poverty = A state where a person can meet basic needs but earns considerably less than the average person.
2.
 - Absolute poverty = Measured by calculating the proportion of people living under a certain income level, typically \$2 a day.
 - Relative poverty = In Britain any person earning less than 60% of the median income is considered to be in relative poverty.
3.
 - Growth rate
 - More trade
 - More FDI
 - Income tax

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Activity 11 – Inequality

1.
 - Wealth is a stock concept. Assets, such as a house, are examples of wealth.
 - Income is a flow concept. Liquid cash is a prime example of income.
2. a)



b)
$$\text{Gini coefficient} = \frac{\text{area A}}{\text{areas A+B}}$$

Activity 12 – Human Development Index (HDI)

1.
 - Education index = Average + expected years of schooling
 - Life expectancy index = Life expectancy at birth
 - Income index = GNI per capita
2. $\text{GNI} = \text{GDP} + \text{net income received}$
- 3.

Advantages of HDI	Disadvantages of HDI
<ul style="list-style-type: none"> • No weight on any one measure. It is multidimensional. • Uses two measures for education. • Measures variables that are considered to improve society. 	<ul style="list-style-type: none"> • Using averages may mask inequalities. • Certain factors are excluded, such as equality, ecological sustainability, etc.

Activity 13 – Alternative measures of development

1.
 - **Inequality-adjusted HDI (IHDI)**
 - IHDI basically adjusts HDI for inequalities.
 - If inequality for any of the three measures (education, income, health) is high, the IHDI will be lower than a country's HDI value.
 - **Multinational poverty (MP)**
 - This, too, is a multidimensional measure, which means it incorporates a range of factors.
 - It not only looks at poverty in terms of income but also the facilities available in a country. It looks at things such as sanitation, crime, water, etc.
 - **Head count ratio**
 - This simply counts the number of poor people in a country.
 - Poverty is based on anyone earning under \$2 a day at PPP.

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Activity 14 – Factors influencing growth and development

- Examples may include corruption, poor governance, wars, natural disasters.

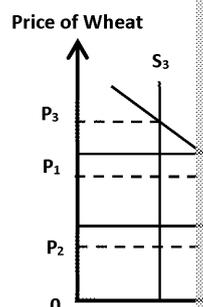
Activity 15 – Strategies influencing growth and development

1.

Aid	Typically financial assistance provided to countries in need due to instability, etc.
Development	This is concerned with rising growth rates but also with social and health indicators, and the degree of freedom.
Human capital	Skills and expertise that a worker possesses.
Joint ventures	A business project that two or more firms undertake together, sharing individuality.
Microfinance	Small loans given to poor individuals or groups, as they are not otherwise.
Primary products	These are essentially raw materials.

2. As mentioned before, commodities face great variation in prices (price volatility) due to disasters and inelastic demand and supply.

- This means farmers' incomes are under threat. Also, it makes it hard for them to plan ahead due to this uncertainty. This can be particularly harmful for countries that rely heavily on agriculture.
- Thus, some governments introduce buffer stock schemes to control this price volatility – and with it farmers' incomes and living standards.
- Buffer stock schemes set a price range within which the price of commodities is allowed to fluctuate. Beyond these limits, the government intervenes. The upper price limit is known as a price ceiling, while the lower limit is known as a price floor.
- Suppose a country has had a very good year for agriculture. This will mean that supply is significantly higher compared to the previous year (from S_1 to S_2). This pushes the price down. Below the price floor, the government steps in and buys up enough wheat to raise the price back up to P_1 , which is within the permitted range.
- Now, suppose a country is severely affected by flooding – and this has destroyed crops. This means that the supply decreases (from S_1 to S_3), which pushes the price up. Above the price ceiling, the government will release (or sell) some of its wheat stock into the supply (from S_3 to S_1), which pushes the price back down to P_1 .
- However, the main issue with buffer stock schemes is that storing perishable items is expensive.
- Also, there are unnecessary transportation costs.
- It is hard to incorporate all the producers of commodities into the scheme – which may mean that it does not work and for it to have a positive effect on the economy.



Activity 16 – Strategies influencing growth and development

1. **Market-oriented strategies:**

1. *Trade liberalisation*

This is about reducing trade barriers, such as tariffs and subsidies, to encourage trade and promote growth. This is because employment opportunities will be created in the export sector. This will mean higher wages and tax revenue, which will result in higher standards of living. All these factors mean that the choice for consumers in terms of cheap goods and services is likely to increase.

2. *Promotion of FDI*

FDI creates jobs in developing countries, which can help reduce poverty. More jobs will be spent in the economy. This will benefit firms and the economy as they will be able to collect more taxes to spend on things such as education and health. FDI is also a way for developing countries to gain expertise and benefit from world-class equipment.

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3. *Removal of government subsidies*
Although subsidies are used to help certain firms or industries to grow, they do not have competitiveness in order to survive. For this, they need to ensure low prices for consumers. In this manner, the most efficient firms survive and inefficient firms' resources are allocated fairly and efficiently.
4. *Floating exchange rate systems*
Switching from a fixed to a floating exchange rate system will mean that the firms will decide the value of a country's currency. The main benefit of this is that imports will become cheaper. As a result, imports will fall and exports will rise. This will increase demand. Moreover, higher earnings from exports will translate into higher wages for workers, higher revenues and private investment for firms.
5. *Microfinance schemes*
Microfinance refers to providing small loans (microcredit) to poor people.
6. *Privatisation*
Privatisation is about selling state-owned businesses to the private sector. It is argued to be more efficient than the public sector. This is because the main motive of the firms is to order to maximise profits, firms are encouraged to reduce costs. This suggests that firms will try to keep costs to a minimum. Also, profit-maximising firms have the capacity to invest in research and development. Finally, privatisation increases people's disposable incomes. Tax revenue will also rise, which will mean more money for the government.

Interventionist strategies:

1. *Development of human capital*
Human capital can be developed by investing in education (and other training to develop current skills). Improving human capital will improve a country's productivity, making it able to produce more goods and services. Moreover, this reduces the average price of domestic goods competitive internationally. As a result, demand for exports will rise.
2. *Protectionism*
This is about enforcing trade barriers, such as tariffs and quotas. Doing so will protect local competition and so local industries will have a chance to mature and become profitable. They can then easily compete globally. As a result, local employment will also be protected – vital for developing countries.
3. *Managed exchange rates*
This is about allowing the forces of demand and supply to dictate the exchange rate, with only light intervention. For example, decreasing the interest rate means that money flows abroad, where the reward for saving is much higher (i.e. higher interest rate). This causes the domestic currency, thereby lowering its value. This is good for the economy as it makes exports more attractive (as they will appear cheaper). As a result, exports rise and imports fall, reducing the trade deficit.
4. *Infrastructure development*
Good infrastructure is essential for development. It reduces the costs of firms and encourages potential firms to start their business, as good infrastructure might make their high sunk costs more viable.
5. *Promoting joint ventures with global companies*
Joint ventures with global companies will equip domestic firms with greater expertise. Domestic firms may be able to benefit from the advanced marketing of foreign firms. This opens up new opportunities domestically, which will increase consumer spending – leading to more growth.
6. *Buffer stock schemes*
Commodities face great variations in price (price volatility) due to reasons such as changes in demand and supply. This means farmers' incomes are under threat. Also, it means that prices are unpredictable. This can be particularly harmful for countries that rely on exports of commodities. A buffer stock scheme is a range within which the price of commodities is allowed to fluctuate. If the government intervenes. The upper price limit is known as a price ceiling, while the lower price limit is known as a price floor. Thus, some governments introduce buffer stock schemes to control this price volatility and to protect incomes and living standards.

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Activity 17 – Alternative strategies influencing growth and development

2.

	World Bank	International Monetary Fund
Logo		
Founded	1945	
Headquarters	Washington D.C., USA	
Role	This is a global institution that gives out long-term grants/loans to developing countries. These grants (or loans) range from humanitarian aid to developmental aid.	This is a global institution that gives out short-term loans to developing countries. It monitors the global economy (policy making).

Activity 18 – Role of financial markets

- The financial market is a market where people buy and sell commodities, bonds, and securities.
 - Money market
 - Capital market
 - Foreign exchange market
 - Allows people to save their money, so others can borrow while the savers earn interest.
 - Provides funds to those who want to invest. People's savings are used to fund businesses and infrastructure.
 - People can also borrow money to buy certain goods and services, e.g. property.
 - Assists in the buying and selling of currency. Currencies are often bought and sold in the foreign exchange market.
 - People can buy currency in the future at a rate decided today for protection against exchange rate instability.
 - Provides market for equities (i.e. shares and bonds). The stock market is used to raise capital for firms. Similarly, government bonds can be sold to raise capital for the government.

Activity 19 – Market failure in the financial sector

1.

Market Failure	
Asymmetric information	Borrowers may know more than the lenders, for example, they may have more information about the quality of their loans. Lenders may end up giving loans to borrowers who are high risk (adverse selection): this will negatively affect the entire economy.
Externalities	If financial markets see excessive risky practices, this can signal a crisis. For example, every taxpayer had to pay for the financial losses in the 2008 Financial Crash.
Moral hazard	If people/institutions are insured against losses, they are likely to take on more risk. For example, banks tend to feel that they are taking on excessive risks, since 'they are insured' by the government. In the 2008 recession, the taxpayers bailed out banks.
Speculation and market bubbles	Excessive trading can create 'market bubbles'. This means that the price of an asset rises sharply, due to inflated expectations (speculation). However, eventually, there will be a fall in expectations of a fall in the asset's value. Thus, people will try to sell their assets, increasing the supply in the market, lowering the price. This leads to a market crash, which causes AD to fall.
Market rigging	This involves the illegal manipulation of something (generally a market). For example, market rigging can take place while setting interest rates or the exchange rate. This can be done by manipulating confidential information about their borrowers and are in a position to benefit from the manipulated changes in the exchange rate.

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Activity 20 – Role of central banks

1.

	England	Spain	Russia
Name of central bank	Bank of England	Banco de España	Bank of Russia
Headquarters	London	Madrid	Moscow

- 2.
- a) T
 - b) F
 - c) F
 - d) F
 - e) T
 - f) F
 - g) T

- 3.
- Sets the monetary policy
 - Lends to the government
 - Lends to other banks
 - Regulates the banking industry

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