The review questions can be used as a basis for seminar discussion.

Review Questions

1. **Why would it be useful for business to build up knowledge of the global distribution of income and wealth and how it is changing over time?**

   This discussion could start with examining the different ways of measuring income and wealth and the problems associated with these measures (see p. 46 and counterpoint box 2.1 on p. 50). An important distinction to make is that between measuring GDP at current exchange rates and at PPP rates. The table on p. 49 and the learning task on p. 47 could be used to discuss the distribution of income although students will have to do some additional research to discover how the distribution has changed historically. The section, 'The Changing World Economy' on p. 53 and Figs 2.1, 2.2, and 2.3, which compare the situation in 2010/11 and projections for 2050/60, could also be used.

   Students wishing to compare distribution of income across countries could be referred to the CIA Fact book, which provides information on the distribution of family income using the Gini coefficient. The Fact book also contains a glossary containing an explanation of the Gini coefficient.

   Credit Suisse have produced a Global Wealth Report, October 2014, available at: https://www.credit-suisse.com/corporate/en/articles/news-and-expertise/global-wealth-report-2018-us-and-china-in-the-lead-201810.html

   This report looks at global trends in household wealth and in particular focuses on wealth inequality as one of the most widely discussed topics following work from economists such as Picketty mentioned in the text.

   Although the question doesn't ask about welfare this might be a good opportunity to raise the usefulness of measures of GDP as a measure of welfare and the quality of life. The discussion of the Millennium development goals on p. 168, might also be useful.

   In terms of usefulness to business, students should mention the opening up of markets and locations for investment but might also want to mention: more competition; threats to markets, revenues and profits. Students might also want to differentiate, in terms of costs and benefits, between different types of business, (small and large) and between different sectors as the pattern of demand varies according to an economy's stage of development.

2. **Discuss the proposition that happiness does not necessarily increase with increased wealth.**

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Richard Easterlin pointed out in the 1970s that although wealthier people seemed happier than poorer people within a society, wealthier societies seemed no happier than poorer societies. It became known as the Easterlin Paradox (see counterpoint box 2.1).

This should lead to an interesting discussion with the students starting with how happiness might be defined before thinking about how it could be measured. As pointed out in counterpoint box 2.1 Nicholas Sarkozy set up a commission to look at alternative ways of measuring 'societal well being'.
There are links to sources on the Online Resource Centre.

The New Economics Foundation have constructed the 'Happy Planet Index' which measures (or attempts to) the efficiency with which countries convert the earth's finite resources into well being experienced by their citizens. See:
http://happyplanetindex.org/

The point is that, following on from the previous question, there is a tendency to focus on income, and growth in income (because it is easy to measure and understand?) possibly at the neglect of welfare measures and this might (according to some—see Chapter 12) actually jeopardise improvements in welfare.

The London School of Economics is running a project trying to map happiness in the UK through an iPhone app called 'mappiness'. See
http://v1.mappiness.org.uk/

and: https://www.youtube.com/watch?v=dvMYhjuFtt0 to listen to George MacKerron talking about the project and the economics of subjective well being.

3. Analyse and explain the major trends in international trade. Discuss links between these trends and the changing distribution of world income.

Students should be able to distinguish between merchandise trade and trade in services and define the different elements that make up merchandise trade.

As per the book, see pp. 60–2

International trade grew very quickly in the second half of the twentieth century and more quickly than global output, which had been rising at 3 per cent per annum. It has grown especially quickly in the last 30 years at about 7.3 per cent per annum. In 1950, world exports were approximately US$0.5 trillion, rising to US$2.03 trillion dollars in 1980, and about US$22 trillion in 2012. Of this US$2 trillion, most (US$17.9 trillion) was in merchandise trade, and the rest (US$4.4 trillion) was in services. Generally, service trade has grown more quickly than merchandise trade (see Table 2.5). Exports as a percentage of world output were about 13 per cent in 1970, 25 per cent in 2005, and are predicted to be 34 per cent in 2030 (World Bank 2006). The main contributors to this growth have been the reduction of trade barriers, the continuing reduction in transport and communications costs, and, not least, the growth in vertical specialization in production and the establishment of MNC global supply chains.

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According to the IMF growth in world trade has slowed over the last few years as 'trade liberalization momentum has faded and global value chains in several regions have matured'. The organisation also expresses concern about excess current account imbalances—deficits or surpluses in a nation's transactions with the rest of the world that has become increasingly concentrated in advanced economies: deficits in the United States and United Kingdom, and surpluses in countries such as Germany, Japan, Korea, the Netherlands, Singapore, and Sweden. These imbalances, the IMF claim make the global economy more vulnerable to the sudden reversal of capital flows and risk stoking protectionism, with detrimental effects on trade and growth.
See https://www.imf.org/en/Publications/ESR/Issues/2018/07/19/2018-external-sector-report. See also UNCTAD, Current Trends and Challenges in the World Economy at https://unctad.org/en/PublicationsLibrary/tdr2017_en.pdf

Tables 2.5, 2.6, 2.7, 2.8, and the learning Task on P62 are a useful basis for discussion. The outcome of the learning tasks can then be compared with the outcome of review question 1.

Students should recognize that most trade still takes place between the developed nations of North America, Europe, and Japan. However, China and Korea (Republic of) appear in the top ten exporters of merchandise trade, and indeed China heads the list. They joined joined by India in the top ten importers of merchandise trade. India, along with China, now also appears in the top ten exporters and importers of service trade. Given that trade follows markets and as much of the world's wealth is in these markets then the pattern is not surprising. Developing nations, mainly South East Asia, have enjoyed some increase in their share of global service exports from about 23% in 2005 to 29% in 2016. See: https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/WESP2018_Full_Web-1.pdf.

Some emerging market economies (such as Mexico, Saudi Arabia, and Singapore) are moving from peripheral players to major players (defined by the IMF as having exports plus imports of 2% of world trade). Global trade is also becoming more interconnected with the growing role of global supply chains. (see IMF Working Paper November 2018 Measuring Competitiveness in a World of Global Value Chains at: https://www.imf.org/~/media/Files/Publications/WP/2018/wp18229.ashx

This has enabled some developing nations to substantially increase their income, their growth in employment and reduce poverty. African growth in exports since 1980 is about 2% compared with world growth in exports of 6% over the same period and, as a consequence, its income growth remains low. One focus of the discussion could be the growing importance of China.

Students wishing to examine the effects of the global recession on trade and the latest trade figures could be referred to the web site of the WTO and the World Bank and IMF.

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Students might want to consider why it is the least developed nations have not enjoyed the global boom others have. Possible answers, inter alia, are; commodity dependence, volatility of prices, poor infrastructure, weak governance, instability, unskilled labour force, poor education system etc.

4. What are the advantages to countries of foreign trade?

Students should be able to identify the static benefits of trade:

- access to raw materials in which a country is deficient;
- the availability of additional goods and services and more choice;
- lower prices.

They should easily be able to identify lots of examples. Some might also recognize the dynamic benefits of trade and increased competition. The discussion might focus on why countries specialize in particular products and this could lead on to the various theories of international trade.

Before discussing the particular case the class might want to consider why a country might want to restrict imports and/or subsidize exports.

5. Discuss why the level of exchange rates is important for international business.

An exchange rate is the price of one currency as expressed in another or, to put it another way, the rate at which one currency is exchanged for another. Movements in exchange rates create an additional risk when trading internationally.

A rise in the exchange rate can make imports cheaper and exports more expensive.

For businesses producing abroad a rise in the exchange rate could reduce the value of their foreign sales and assets when translated back into their domestic currency.

Adverse long-lasting realignments of exchange rates may cause firms to: relocate production; change the source of supply; look for new product markets or strong currency markets; make products having a more global appeal to facilitate the switch from weak to strong currency markets; look for ways of increasing productivity.

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