ECN2031
MacroEconomics
Course Pack - Spring 2021
Unit 18 – Capstone: The nation & the world economy

Driving Question:
How is macroeconomics about wellbeing, and why does it have to be a global endeavor?

Name:__________________________________________

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CORE CAPSTONE UNIT 18 – THE NATION & WORLD ECONOMY – INTRODUCTION & 18.1 DAY 17-18

1. To explain how the integration of national economies into a global trade and investment system provides opportunities for mutual gains and conflicts over the distribution of the gains, the following terms and concepts are used. Define these terms (Introduction). Circle the ones that are new to you.
   - Globalization (definition):
   - Globalization impact (prices & wages):
   - Specialization as a tool:
   - Impact of Specialization:
   - Inequal outcomes from specialization:
   - Global policy evaluation:

UNIT 18.1 – GLOBALIZATION & DEGLOBALIZATION IN THE LONG RUN

2. Define the following keywords

<table>
<thead>
<tr>
<th>Terms</th>
<th>Definition</th>
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<tr>
<td>Tariffs</td>
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<td>Subsidies</td>
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<td>Offshoring</td>
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<td>Outsourcing</td>
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<td>Pareto efficient</td>
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<td>Capital</td>
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<td>Merchandise trade</td>
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<td>Arbitrage</td>
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2. The Pareto Efficiency

Pareto's efficiency is defined as the economic situation when the circumstances of one individual cannot be made better without making the situation worse for another individual. Pareto's efficiency takes place when the resources are most optimally used. Pareto's efficiency was theorized by the Italian economist and engineer Vilfredo Pareto in the early 1900s. More information here: https://www.investopedia.com/terms/p/pareto-efficiency.asp

The following (below) is a Pareto Efficiency model showing the production of guns and butter. The outer line B to C is the maximum production possibilities curve (PP).

- Anything inside that line is inefficient. This means that resources are not being used to their maximum amount.
- Anything outside the curve is impossible. There are not enough resources to make that a possibility.

Starting at point A – we have an inefficient situation.

1. What happens to our efficiency if we move to point E?
2. What happens to our efficiency if we move to point F?
3. At what point do we meet maximum efficiency?
4. Is it possible to always be at maximum efficiency? Why or why not?
3. According to Fig. 18.2 and your CORE text, what happened to the world merchandise exports as a share of world GDP between 1820 and 2010?

- What slowed it down?
- What caused it to rise?

4. How do exports and imports affect a country's economies?

- Exports:
- Imports:

What role do Tariffs and Quotas play in managing county economies?

- Tariffs:
- Quotas:

TEAM PROJECT – Your country's tariffs
- What do you find?
- Why is it like that?
1. In Fig. 18.3 - What happens to the import price (marginal cost of production) and export price (price at which good sells) when the number of cars traded increases from 4,000 to 6,000?

   ![Graph showing the relationship between price and quantity for cars]

   - Explain what happens at price gap \( t \)
   - Explain what happens at price gap \( t^1 \)
   - Why?

2. What are the **benefits** of global trade? (name at least 3)

3. What are the **impediments** of global trade? (name at least 3)

4. What do you see happening to Commodity price gaps in the UK and US over time (Fig. 18.5)? Why are the price gaps of a particular good changing? Give two reasons.
18.2 – GLOBALIZATION AND INVESTMENT

1. What is a trade deficit?

2. What is foreign direct investment?

3. Why would foreign direct investment be higher in richer countries than less wealthy ones (fig. 18.10)?

4. What is remittance and why is it important for country economies?

5. What is the total annual value of remittance received in your country?

18.3 – GLOBALIZATION & MIGRATION

1. Name 3 reasons why people immigrated to the US.

2. What were the two time periods when the US experienced its greatest surge in immigration?

3. What may have caused the slowing of migration in the mid-1940s?
4. Why are people migrating to the US now? Where are they coming from?

5. Are people migrating to or from your country? Why?

6. Do wages make any difference in why people migrate? Why or why not?

7. What can you tell us about global changes in manufacturing wages in comparison to US wages?

8. Why would European countries have higher wages than US ones?

9. What is your country’s minimum wage in US dollars?

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**CORE CAPSTONE UNIT 18 - THE NATION & WORLD ECONOMY - 18.4 – 18.5**

**DAY 21-22**

**18.4 SPECIALIZATION AND THE GAINS FROM TRADE AMONG NATIONS**

1. What is a competitive advantage?

2. What are economies of scale?

**TEAM Thought Question:** Where do you see your country having a competitive advantage? Is there a particular good or service that they can produce better than most others? What is it? Why?
18.4 SPECIALIZATION AND THE GAINS FROM TRADE AMONG NATIONS

1. What is absolute advantage?

2. Explain how Greta has an absolute advantage over Carlos in fig. 18.16a.
   - What should Greta do?
   - What should Carlos do?

3. In a world of no-trade (fig. 18.16b), what are the maximum amounts of product Carlos can produce (and consume)?

4. What are the maximum amounts of product Greta can produce (and consume)?
5. What happens when Greta and Carlos each produce what they can and engage in trade? What are they consumption after they specialize in trade (fig. 18.18)?

6. Assume that Greta has the power to set the relative price. How do you think Carlos would react to a price offer of 2.4 apples per tonne of wheat?

7. According to Ricardo’s theory of **comparative advantage**, how would tariffs work in Greta and Carlos’ world? What would lead to the greatest growth?

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**QUIZ 4 – YOUR COUNTRY’S ADVANTAGE**

**TEAM PROJECT – Your country’s advantage**

- Choose 1 product your country imports and 1 product your country exports. Using the Carlos and Greta model, show how you have an absolute advantage over the imported product with your export product. Create a graph with your production frontier labeled using real values from the CIA world factbook (where possible). Explain your comparative advantage with your export product.

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**FINAL PROJECT – HUMAN DEVELOPMENT AND WELLBEING**

We have looked at how countries grow, are governed, and developed. We have also seen a need for sustainability, which each of our countries has achieved in a small way. We also know there is a lot more to go. Macroeconomics is about taking the long view at our sharing of resources and our wellbeing.

At the start of class, we defined what wellbeing meant to us. Let’s look at that again.

1. What is essential for us to live a good quality of life that may not have an economic measurement?
The Human Development Index goes beyond the GDP to look at our health, education, and living standards.


2. The UN Department of Economic and Social Affairs maps out countries' progress in meeting the SDGs. Look up your country [https://country-profiles.unstatshub.org/alb#](https://country-profiles.unstatshub.org/alb#) What are you finding?

Macroeconomics is not just about economic growth - it's about the health of ourselves and our planet. From 2020 through 2021, we realized how delicate our status is as a single species on a single planet. We have found we share many more similarities than differences – as rich, poor, privileged or not – we all are affected by the same pandemic. Each country may have fared differently, but collectively we are all reliant on each other for our survival.

From here, you can choose which direction to take your country project – in search of the answer to our driving question: How is macroeconomics about wellbeing, and why does wellbeing have to be a global endeavor? There are a few options (choose 1):

- Honing in more closely on the SDGs
- Exploring the Human Development Report and recommendations
- Delving into the Legatum Prosperity Index: [https://www.prosperity.com/](https://www.prosperity.com/)
- Seeking out more models and explanations in CORE
Your final project will be a PP, poster, or report explaining your findings in relation to the class question on wellbeing and your country. Your country was chosen for its work on sustainable economic development. Present your evidence of that and its impact on the people.