Syllabus Items: 157-160
See Webnote 507 for reading schedule

Items: HL only: 159

3.4: 3 Big Ideas

Big Idea
1

Big Idea HL
2

Big Idea HL
3

webnote 320

Syllabus 340

The BIG ideas!

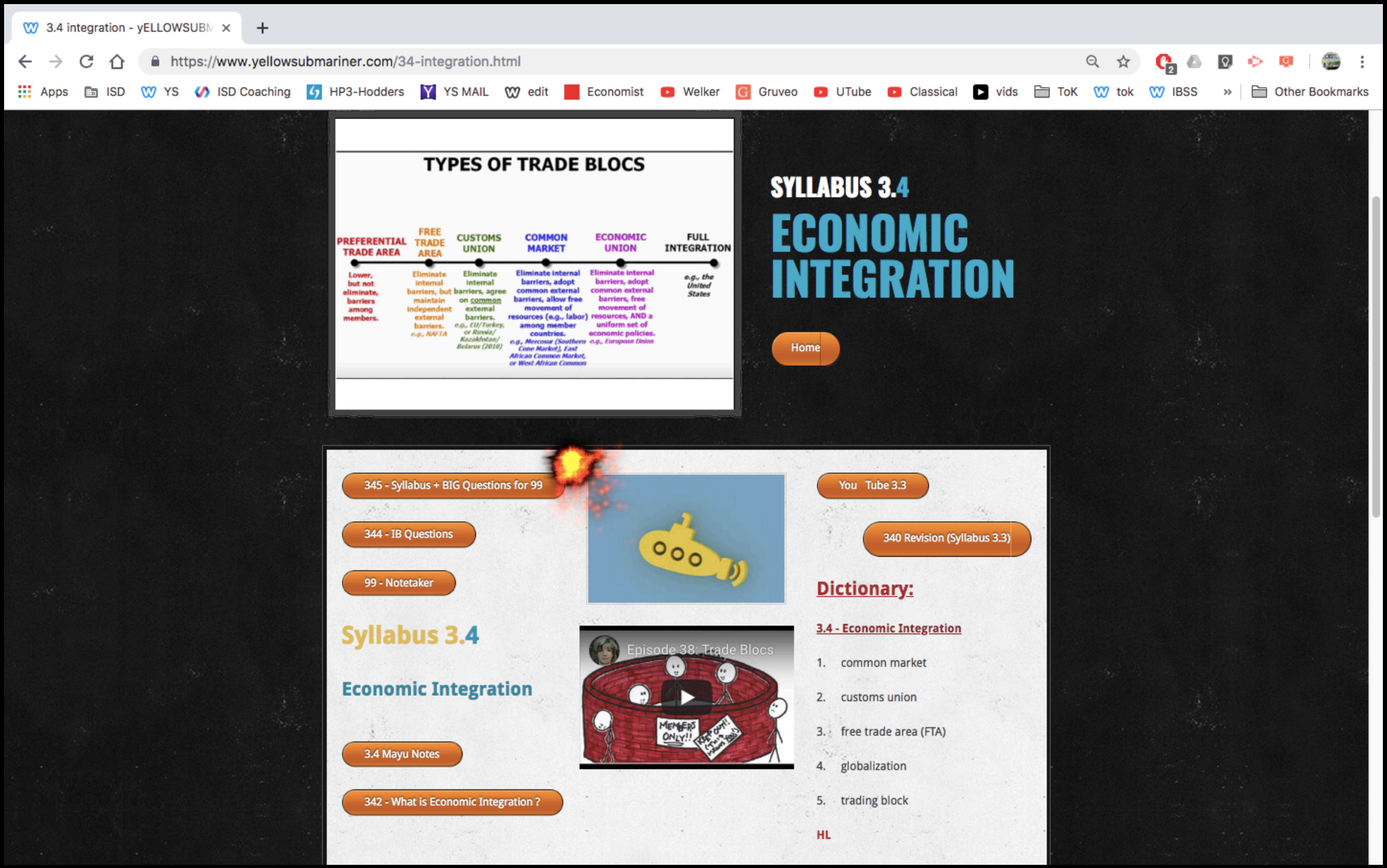
Exchange Rates: summary

I.b Syllabus 3.2: Macroeconomic Objectives: Exchange Rates

Syllabus 157-160

- **342: What is economic integration?**

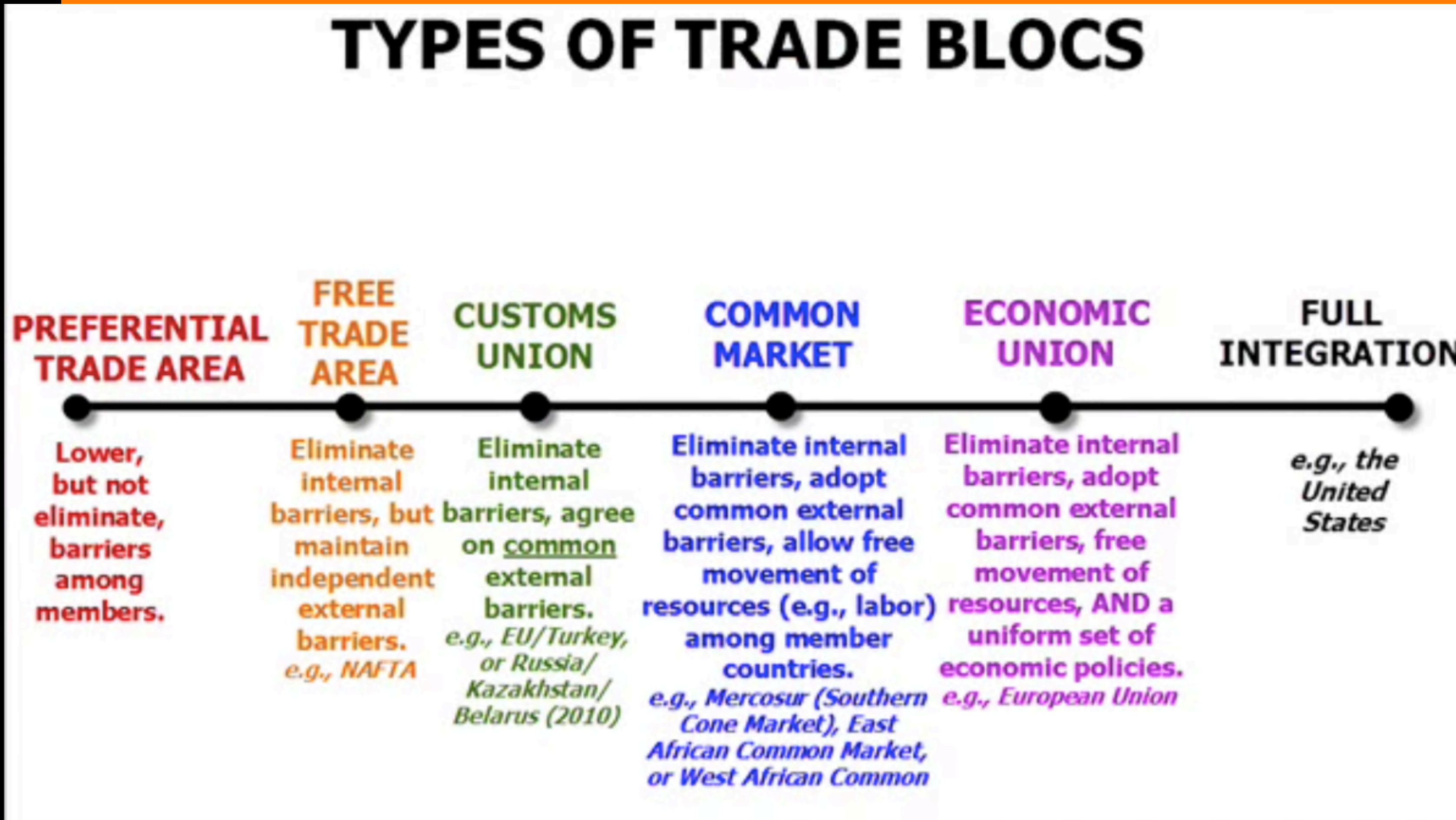
3.4 economic integration



Big Idea

3

Integration results in lower costs for firms, higher output and more efficient markets inside the bloc



Big Idea

2

Trade bloc increases speicialisation size of firms and firms gain cost advantages through lower costs of production. Output and trade increases i.e. high cost producer loses out to low cost producer

- Trade creation in a trade bloc (=benefits of free trade occur)

The idea here is that when countries enter a trade bloc competition between firms rises. Countries will specialise on producing what they produce mose efficiently. We then get specialisation and trade. One country specialises, bloc output increases and trade occurs. This is the result of free trade inside the blos. There will be losers and one country will lose that industry e.g. UK car industry. UK financial sector 'City' of London.

- Domestic firms lose + consumers win + trade increases at lower prices

Big Idea

3

Trade bloc increases speicialisation size of firms and firms gain cost advantages through lower costs of production. Output and trade increases i.e. high cost producer loses out to low cost producer

- Trade diversion in a trade bloc (=advantages of tariff for domestic firm)

The idea here is that when a country enters a trade bloc the entrant will now have to accept external tariff rules (impose tariff on its former trading partners and therefore promote inefficiency. Entrant now has a larger domestic market. Any protectionism by bloc is applied to new country entering the bloc. There will be winners (firms) losers (consumers).

- Domestic firms win + consumers lose as prices rise

3.4 Key terms

3.4 - Economic Integration

common market
customs union
free trade area (FTA)
globalization
trading block

HL
economic sovereignty
political sovereignty
trade creation
trade diversion