

# **MACROECONOMICS - Globalisation, free trade and protection**

By Kru P'Da and Kru P'Eve Knockout.Economics

# Overviews

1. The concept of globalisation
2. The role of multinational companies (MNCs)
3. Advantages and disadvantages of free trade
4. Methods of protectionism
5. Advantages and disadvantages of protectionism



# 1. The concept of globalisation

**Globalisation** : the process by which the world is becoming increasingly interconnected through trade, foreign direct investment, and the flow of labour and capital.

## Reasons for globalization or the greater interconnection between countries

1. A reduction in transport cost
2. An advance in technology
3. A reduction in trade restrictions

## Advantages and disadvantages of globalization

### Advantages of globalization

1. Increasing competition forces firms to **improve efficiency.**
2. **A greater range of products at low price**
3. Firms can **locate their production** in the country with low cost of labour.

### Disadvantages of globalization

1. **A recession in one country** can have significant impact on other countries
2. It can cause **structural unemployment**, if MNCs move out of the country.
3. **Domestic firms may unable to compete** with foreign firms and they may fail, resulting in high unemployment.

## 2. The role of multinational companies (MNCs)

**Multinational company (MNC)** : a business that produces in more than one country such as McDonalds.

### Advantages and disadvantages of multinational company to the host country

#### Advantages of multinational company

1. MNCs **create job** for local people. Employment increases.
2. MNCs **contribute outputs**, consumers' living standards are improved.
3. MNCs contribute **tax revenue** to government which can be spent on country development.
4. MNCs bring **new technology** & management ideas.
5. MNCs **help in developing infrastructure**.

#### Disadvantages of multinational company

1. MNCs may force **domestic firms out of the market**, causing unemployment.
2. MNCs may **avoid paying tax** and the government could not get any tax revenue.
3. MNCs may **transfer profit back** to their home countries rather than reinvesting in the host country.
4. MNCs may offer low-skilled jobs & **exploit workers**.
5. MNCs may cause **pollution** and resource **depletion**.

# 3. Advantages and disadvantages of free trade

**Free trade** : international trade without any trade barriers such as tariff, quota, and embargo.

## Advantages and disadvantages of free trade

### Advantages of free trade

1. Consumers can get a **variety of products at cheaper** prices.
2. Firms can gain **higher revenue** from exporting goods to other countries.
3. Firms can take advantage of **economies of scale** resulting in lower cost and lower price.
4. Firms can **learn new technology** from oversea products.
5. Countries can focus on producing a product that they are best at, resulting in **more efficient use of**

### Disadvantages of free trade

1. If domestic firms **cannot compete with foreign firms**, they may fail and unemployment may rise.
2. It can cause problems from **over dependence** on exports and imports.
3. It can cause **structural unemployment**. If demand for the exports is no longer wanted. It can cause huge job loss and a rise in unemployment.
4. It can cause **resource depletion** from overproduction for export.

# 4. Methods of protectionism

**Protectionism:** Policies to protect domestic firms from foreign competition and restrict free trade.

<b>Tariff</b>	: Tax on imported goods Imposing tariff on imports => Price of imports increase => Demand for import goods ↓
<b>Subsidy</b>	: Grant paid by government to producers Subsidy on domestic goods => Lower price => Demand for domestic goods ↑
<b>Quota</b>	: A limit on the number of imports Reducing quota => Smaller amount of imported goods
<b>Quality standard</b>	: Some country may require imports to reach artificially high standard to push up cost and price => Demand for import ↓
<b>Expensive paper work</b>	: It requires foreign firms to fill out a lot of paper work to discourage firms to sell product in the country.
<b>Voluntary export Restraints</b>	: Agreements with other countries to restrict their exports to the country
<b>Embargo</b>	: A complete ban in import of a certain goods to countries
<b>Exchange rate control</b>	: Government limit access to foreign currency, it causes difficulty to buy import

# 5. Advantages and disadvantages of protectionism

**Protectionism:** Policies to protect domestic firms from foreign competition and try to reduce imports and increase exports.

## Advantages and disadvantages of protectionism

### Advantages of protectionism

1. **To protect infant industry:** it allows infant firms to grow up and take advantages of economies of scales.
2. **To prevent dumping:** when one country floods the market in another country with a product at a price for less than its cost to produce => force the rival firms out of the industry.
3. **To prevent trade deficit:** Prevent import > export
4. **To protect unemployment** in domestic countries
5. **To protect strategic industry:** to prevent industry which is important for country's survival (food and national defences)
6. **To protect sunset industry:** to prevent huge unemployment

### Disadvantages protectionism

1. A country **cannot gain benefits from free trade** => less choice for consumers
2. It might causes domestic firms to **depend on governments help** rather than developing themselves.
3. It can cause **retaliation**, when the affected countries react by imposing barriers resulting in lower export revenue.
4. It has **opportunity cost** from government subsidy which the money can be spent on something else such as education.

# Knockout Economics



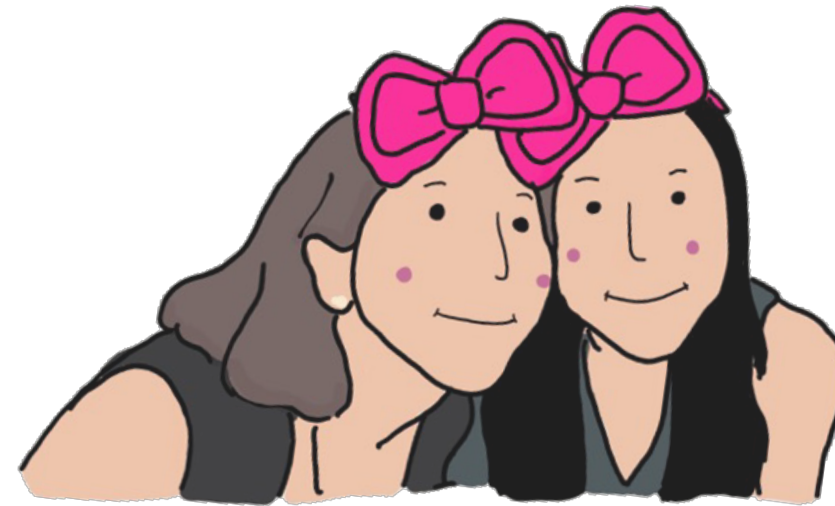
FB PAGE : KNOCKOUT.ECONOMICS



IG : KNOCKOUT.ECONOMICS



YOUTUBE : KNOCKOUT.ECONOMICS



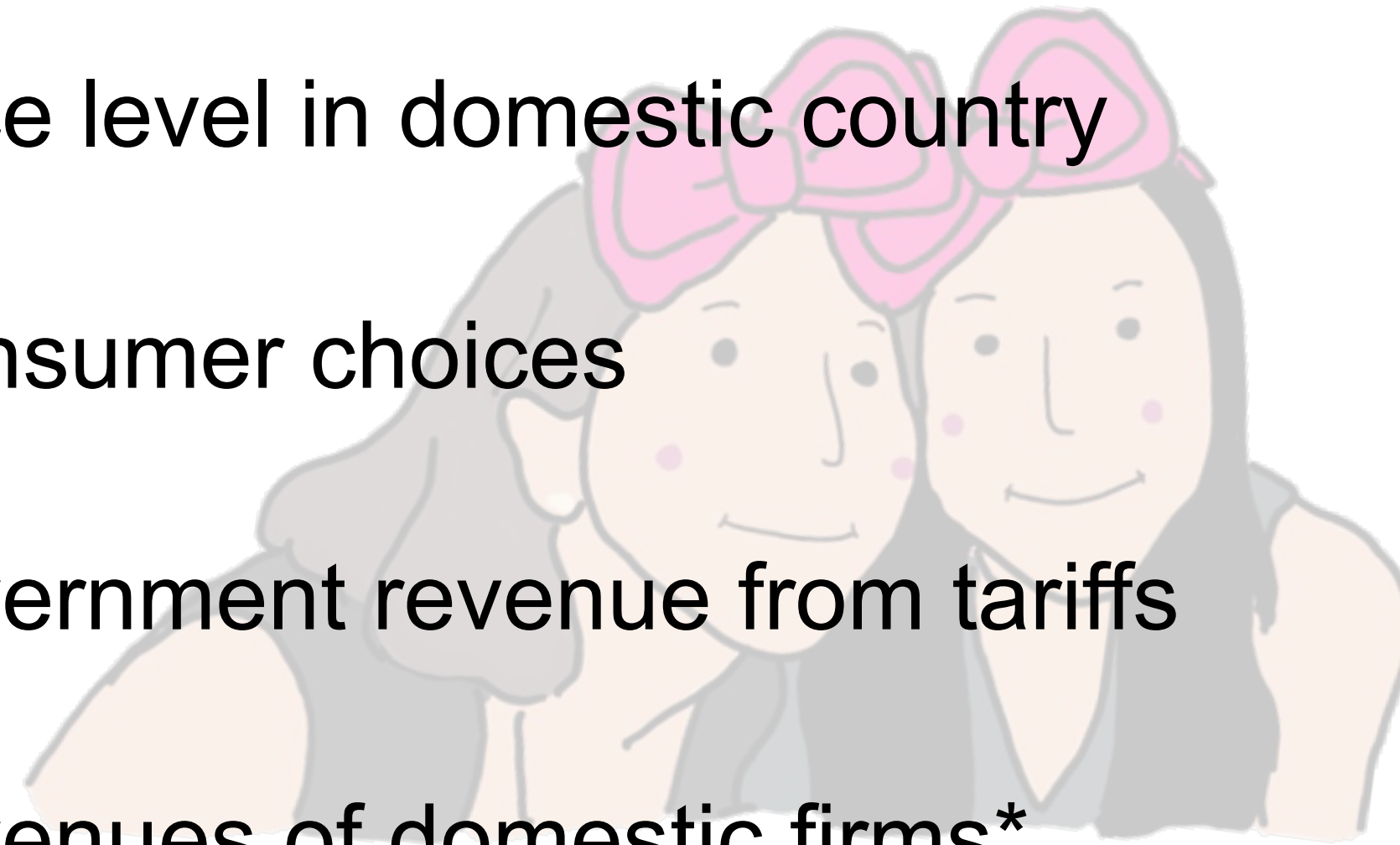
**MACROECONOMICS -**

# **Exercise : Globalisation, free trade and protection**

By Kru P'Da and Kru P'Eve Knockout.Economics

## Exercise: MCQ

- 1.) What is the most likely effect of an increase in rate of tariff?
- A. a decrease in price level in domestic country
  - B. an increase in consumer choices
  - C. a decrease in government revenue from tariffs
  - D. an increase in revenues of domestic firms\*

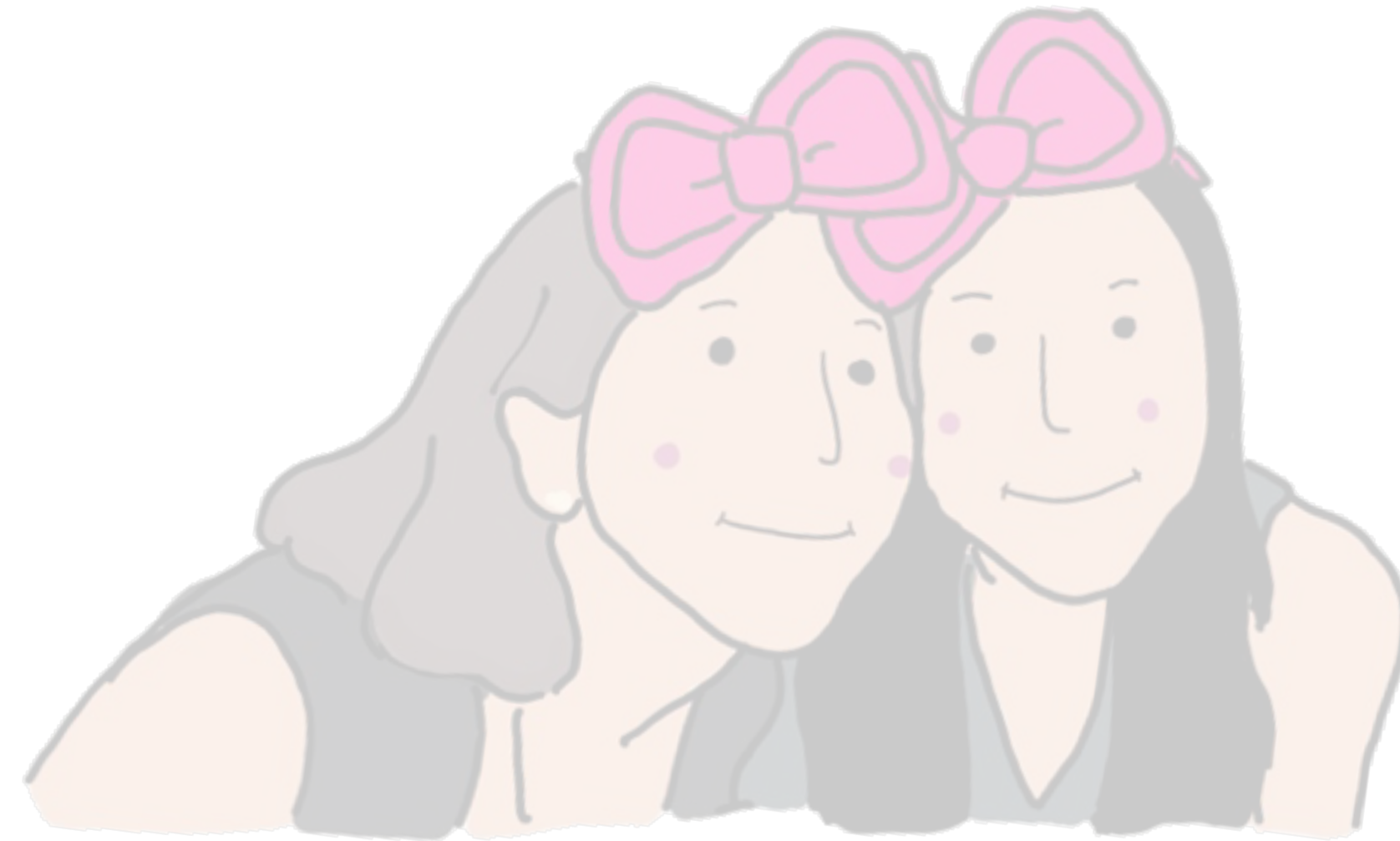


## Exercise: MCQ

- 2.) What is a disadvantage of trade protection of domestic agricultural goods?
- A. It protects infant industries to grow up and take advantage of economies of scale.
  - B. It encourages consumers to buy domestic agricultural goods.
  - C. It can cause retaliation from trading partners.\*
  - D. It reduces currency outflow to pay for imported agricultural goods.

# Exercise: Essay

1.) Explain how **two** methods of trade protection can reduce import expense. [4]



# Exercise: Essay

1.) Explain how **two** methods of trade protection can reduce import expense. [4]

- **Imposing tariff** (tax on imported goods) => Price of imports increases => Demand for import goods decreases

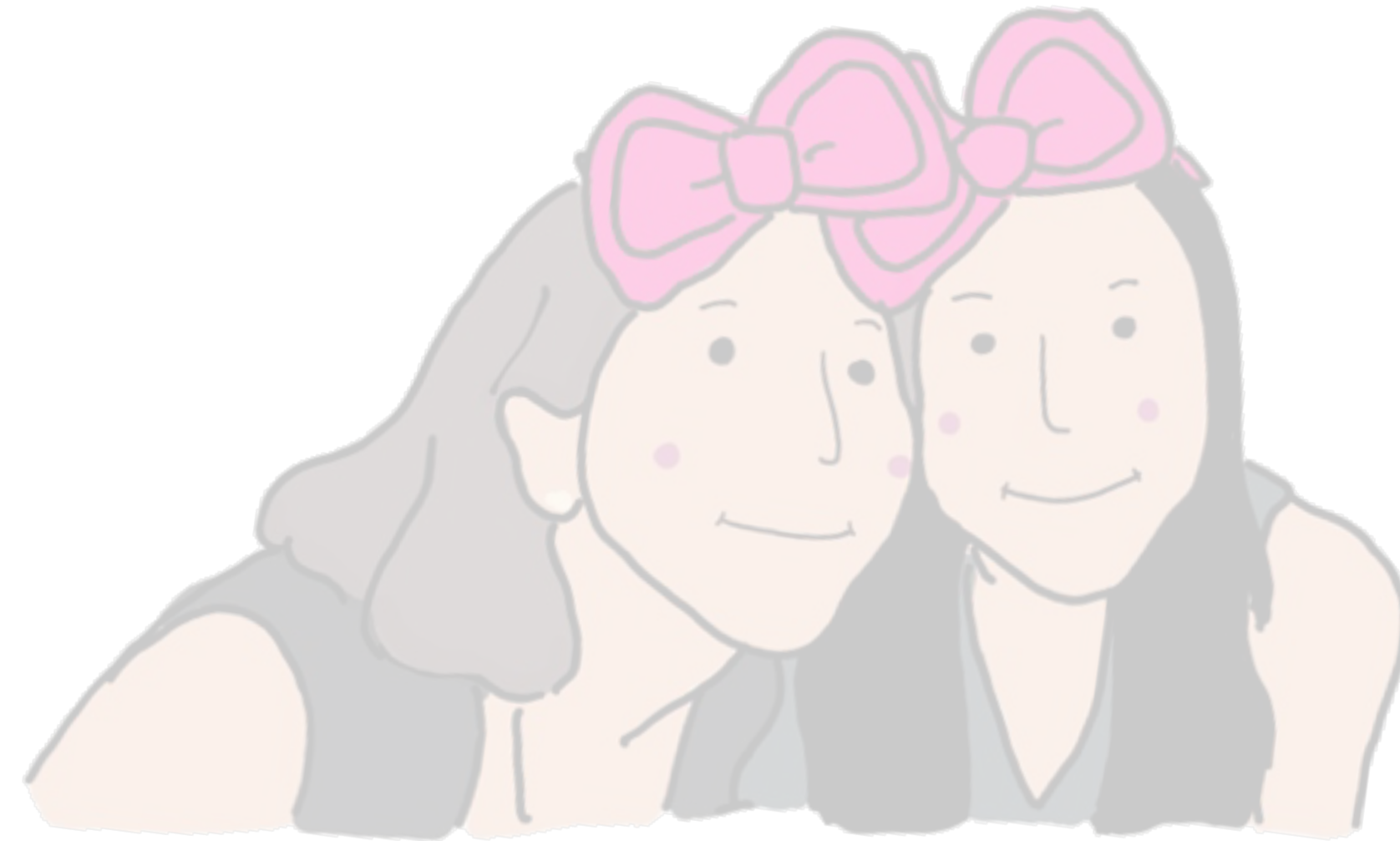
- **Subsidy on domestic goods** => Price for domestic goods decreases => Demand for domestic goods increases and demand for import goods decreases

- **Reducing quota**(a limit on the number of imports) => Smaller amount of imported goods



# Exercise: Essay

2.) Discuss whether a country always benefit from the removal of trade restrictions. [8]



# Exercise: Essay

2.) Discuss whether a country always benefit from the removal of trade restrictions. [8]

## **A country may benefit from the removal of protectionism**

The removal of trade restrictions allows the country to benefit from free trade.

- The country can focus on producing a product that the country specialises in or best at producing => better quality and cheaper price of exports => Higher export revenue.
- Lower cost of imported raw materials => reducing costs of production .
- Consumers gain a variety of products available at low prices.
- Domestic firms are forced to improve efficiency due to high competition in the world market.

## **A country might not benefit from the removal of protectionism**

- Infant industries may go bankrupt because they cannot take advantage of economies of scale and cannot compete with foreign firms.
- Declining industries may fail causing high unemployment.
- Strategic industries may fail which significantly impact country's stability.
- Dumping may occurs. Foreign firms may sell products at below cost price to force domestic firms out of business, and then they increase price.
- It can cause trade deficit and current account deficit.

# Knockout Economics



FB PAGE : KNOCKOUT.ECONOMICS



IG : KNOCKOUT.ECONOMICS



YOUTUBE : KNOCKOUT.ECONOMICS