



GENERAL CERTIFICATE OF SECONDARY EDUCATION

ECONOMICS

The UK Economy and Globalisation

A593/SM

STIMULUS MATERIAL

Tuesday 15 June 2010
Morning

Duration: 1 hour 30 minutes



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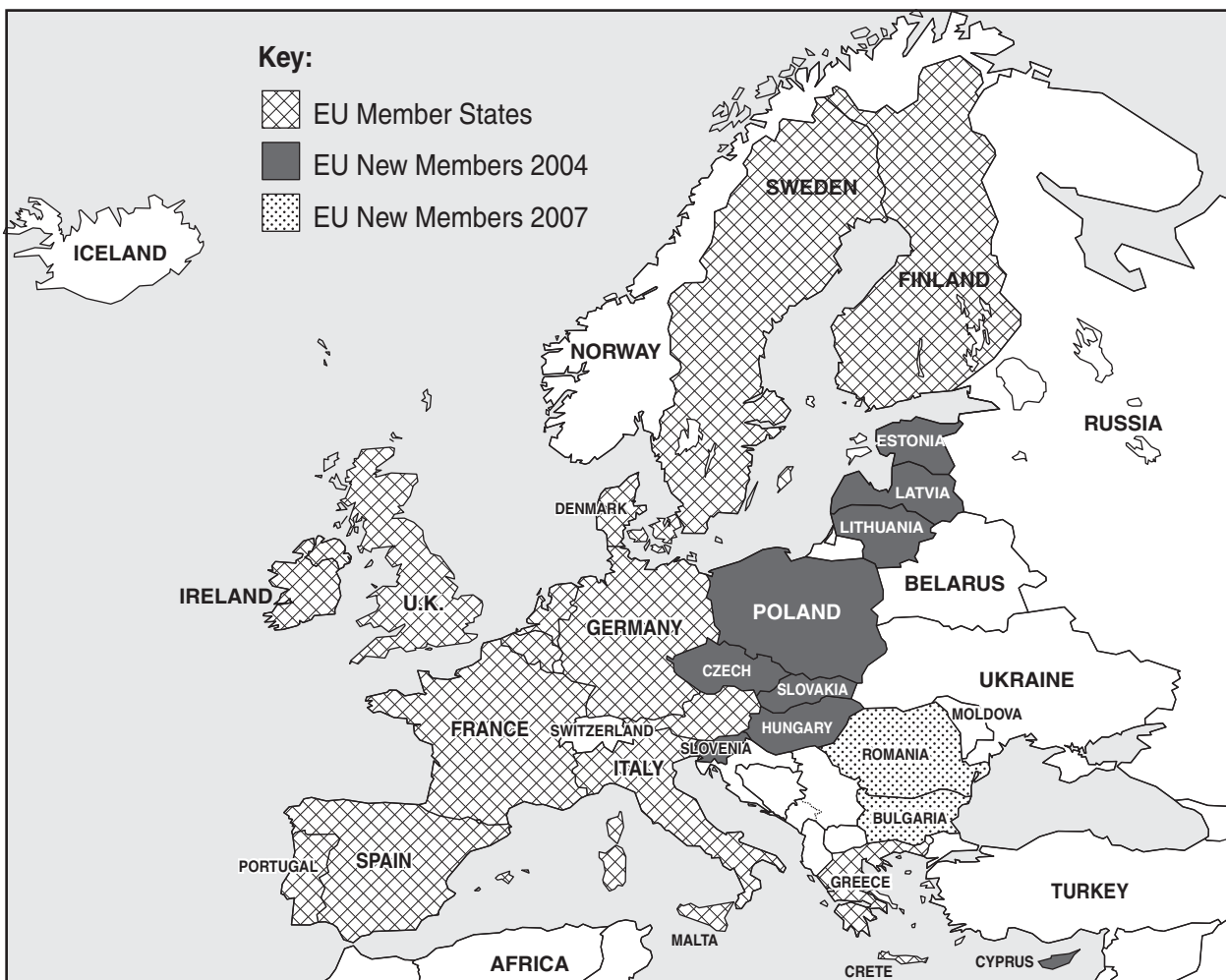
The Balancing Game

Trade in goods and services between countries across the globe has become more and more important since 1950.

There are winners and losers from international trade. Countries have formed themselves into trading blocks such as the European Union (EU) in order to play the game and try to become a winner.

Vicky and Sam own their own UK based clothing design company called Fudge. They have been selling their designs to large clothing companies in the UK and the EU for five years. They have decided that now is the time to think about expanding and selling their designs to China. They have put together the following information to help them.

Fig. 1 – The EU



The UK has been part of the European Union (EU) since 1973 which has brought many benefits to the UK economy. The most important benefit is the creation of trade between member countries through the removal of trade barriers. This has allowed free trade to flourish between member countries.

The single currency, the euro, came into use in 2001. In 2008, 15 countries were using this currency. The euro further helps trade between these countries as it takes away the need to exchange currencies. The euro is designed to help build a single market by easing travel for citizens and goods, and providing price transparency. It is also intended as a political symbol of integration.

Fig. 2 – How quickly are economies growing?

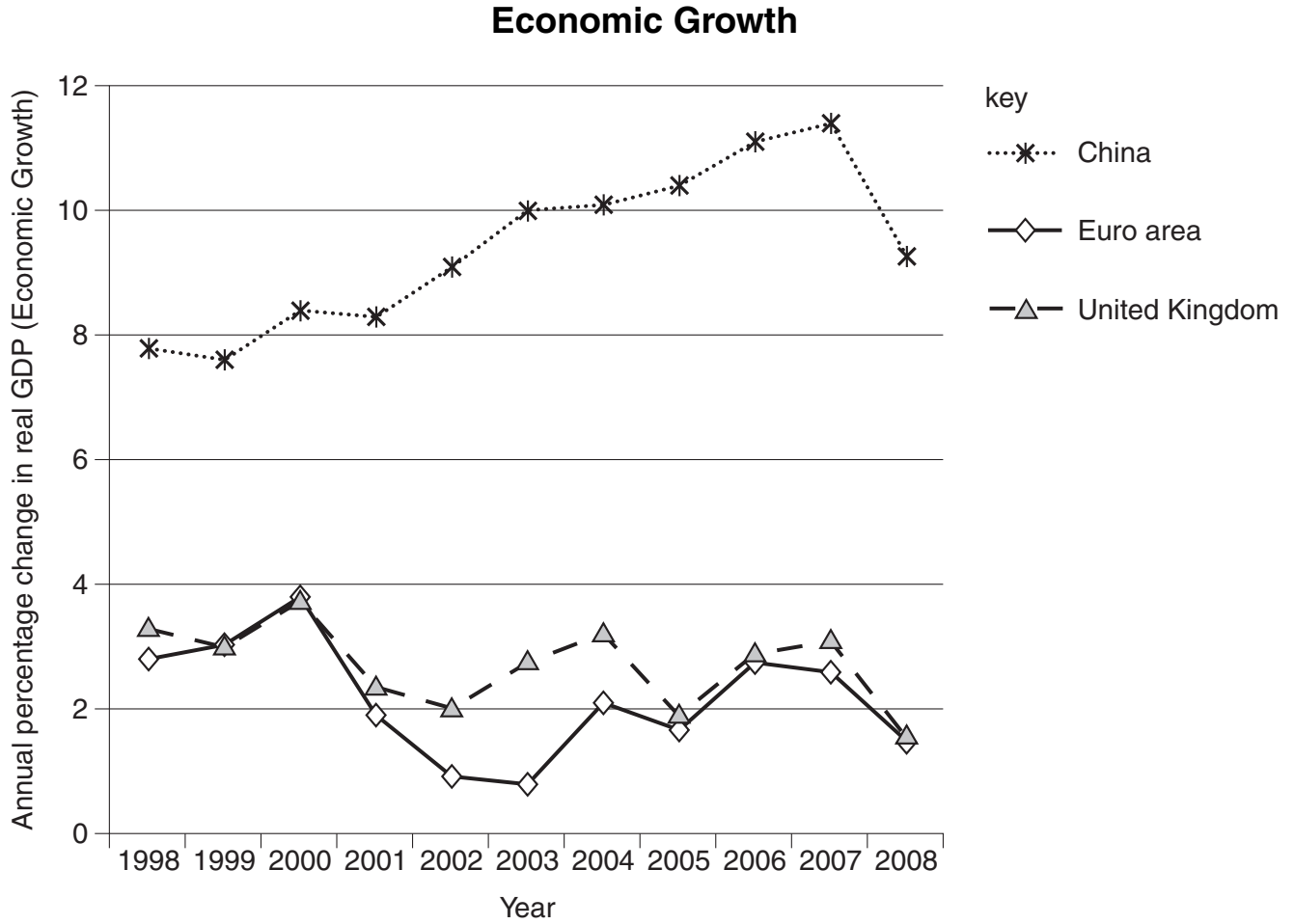


Fig. 3 – Deficit or surplus?

Businesses of all sizes may become involved in importing and exporting for a variety of reasons. Whether they want to increase their sales abroad, import a new product to sell in the UK, or bring in components for their business; importing and exporting can provide firms with a whole new range of products and customers.

The current account on the balance of payments includes the value of exports and imports of goods and services a country has each year.

Balance of Payments – Current Account

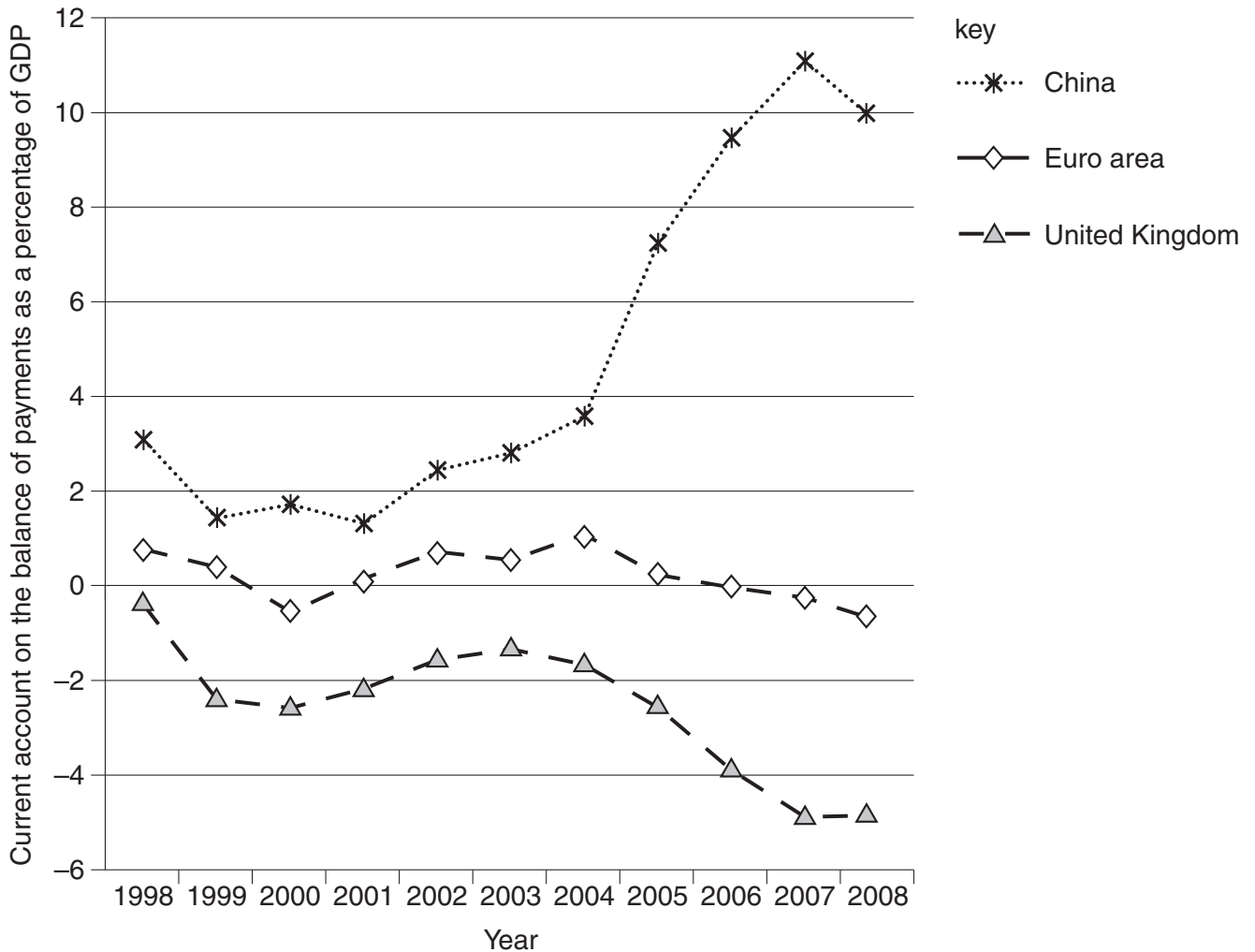


Fig. 4 – What does the EU trade with China?

The EU trades a variety of goods and services with China. Two of the main ones are clothing and transport equipment.

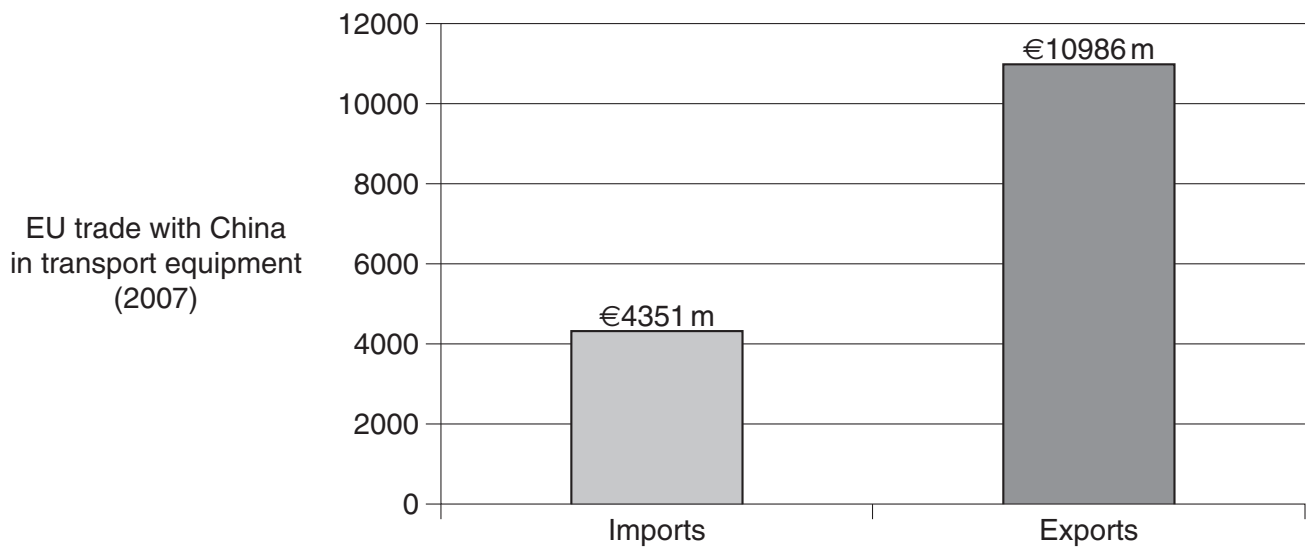
EU trade with China in clothing**EU trade with China in transport equipment**

Fig. 5 – A newspaper report on the trade war with China**Trade war may push up the price of clothes**

Shoppers face rising prices if the European Union's trade war with China is not quickly resolved British retailers warned.

British retailers have been badly hit since the introduction of EU textile quotas restricting imports of cheap Chinese-made trousers, sweaters and T-shirts.

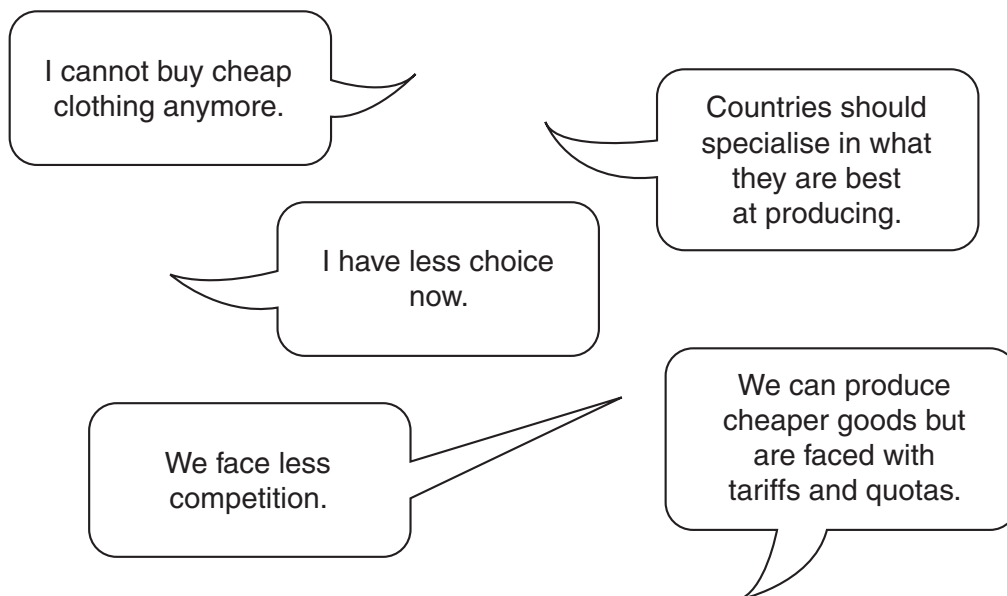
Fig. 6 – Different views on protection

Fig. 7 – Exchange rates

Euros to the £ – 2000 to 2008

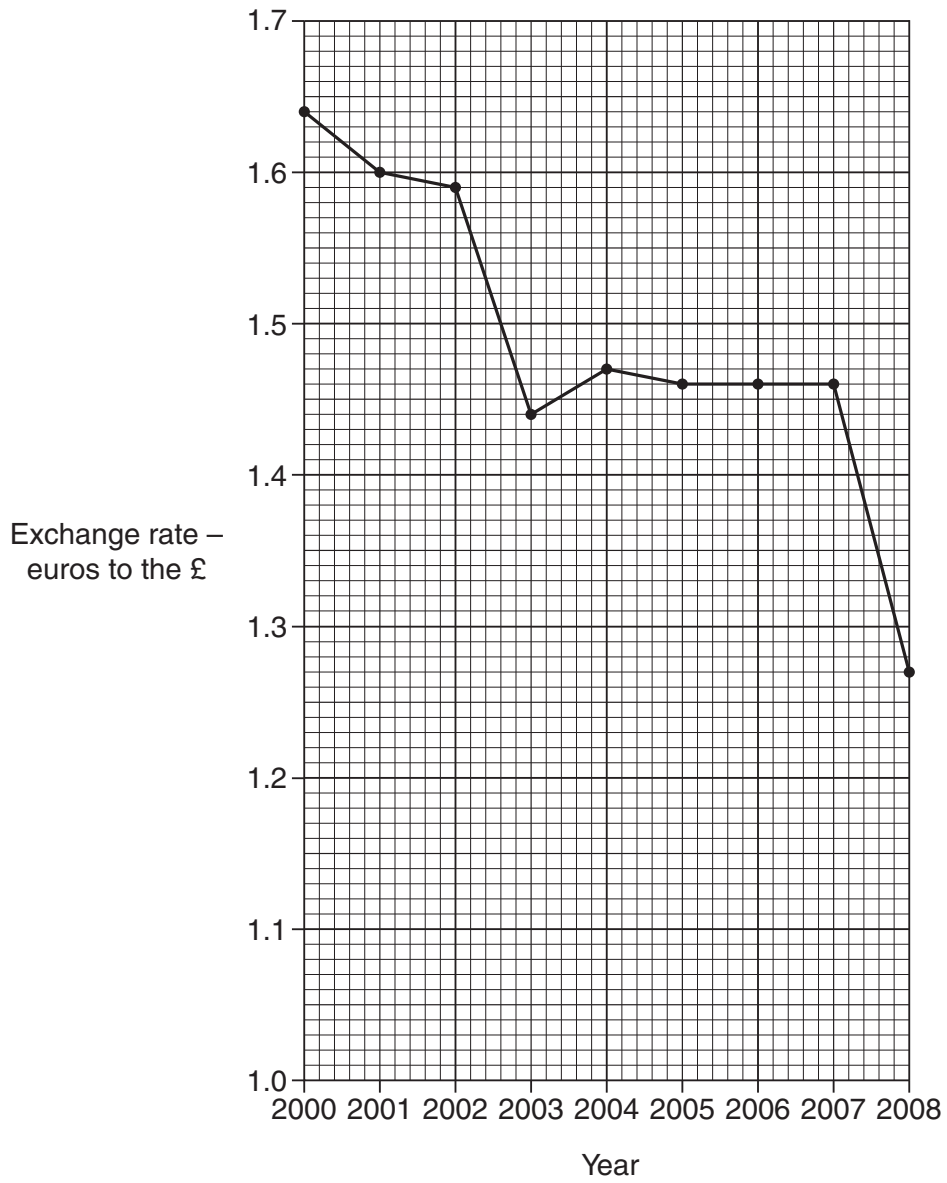


Fig. 8 – Inflation

Rates of inflation

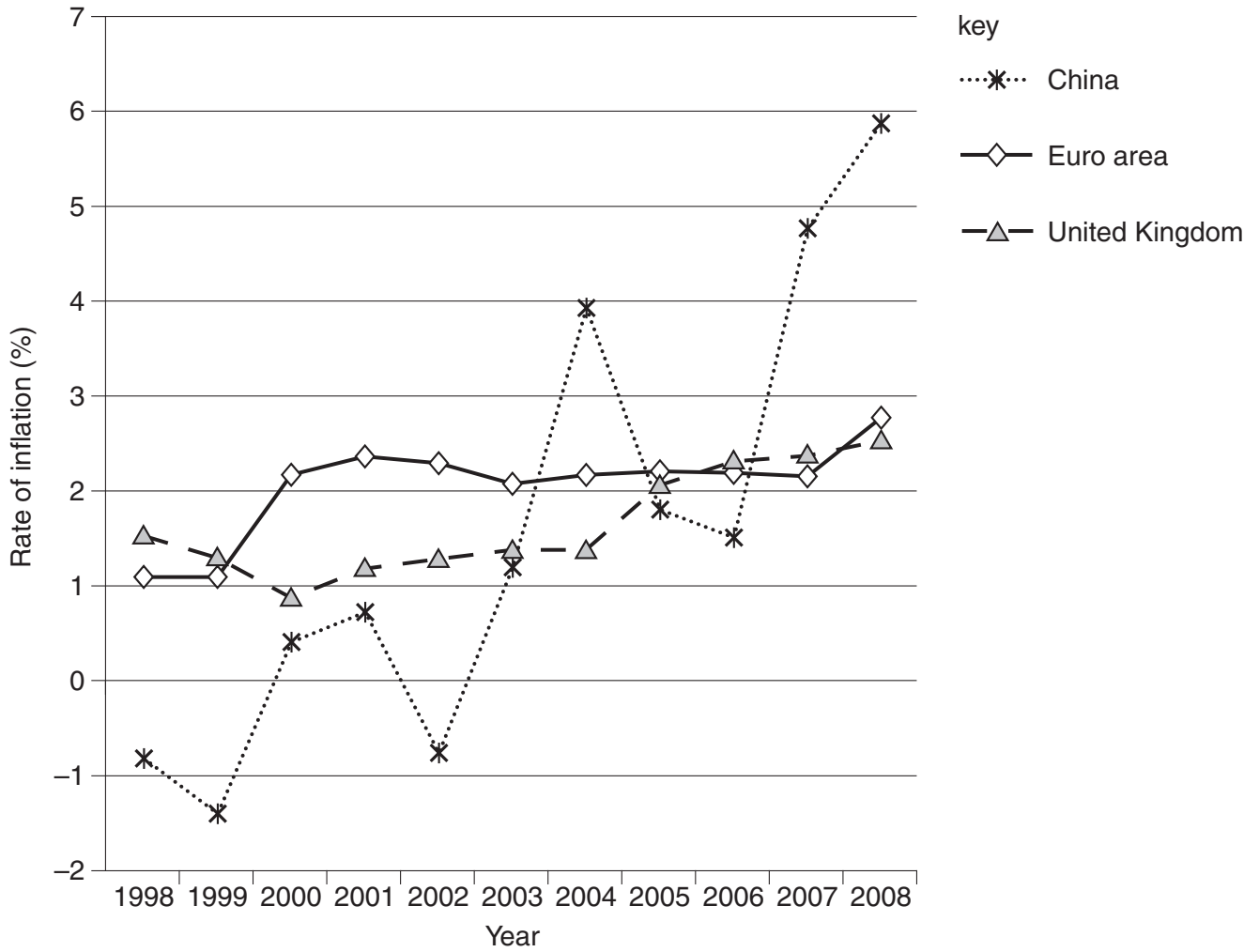


Fig. 9 – Investment in the UK

Investment as a percentage of GDP

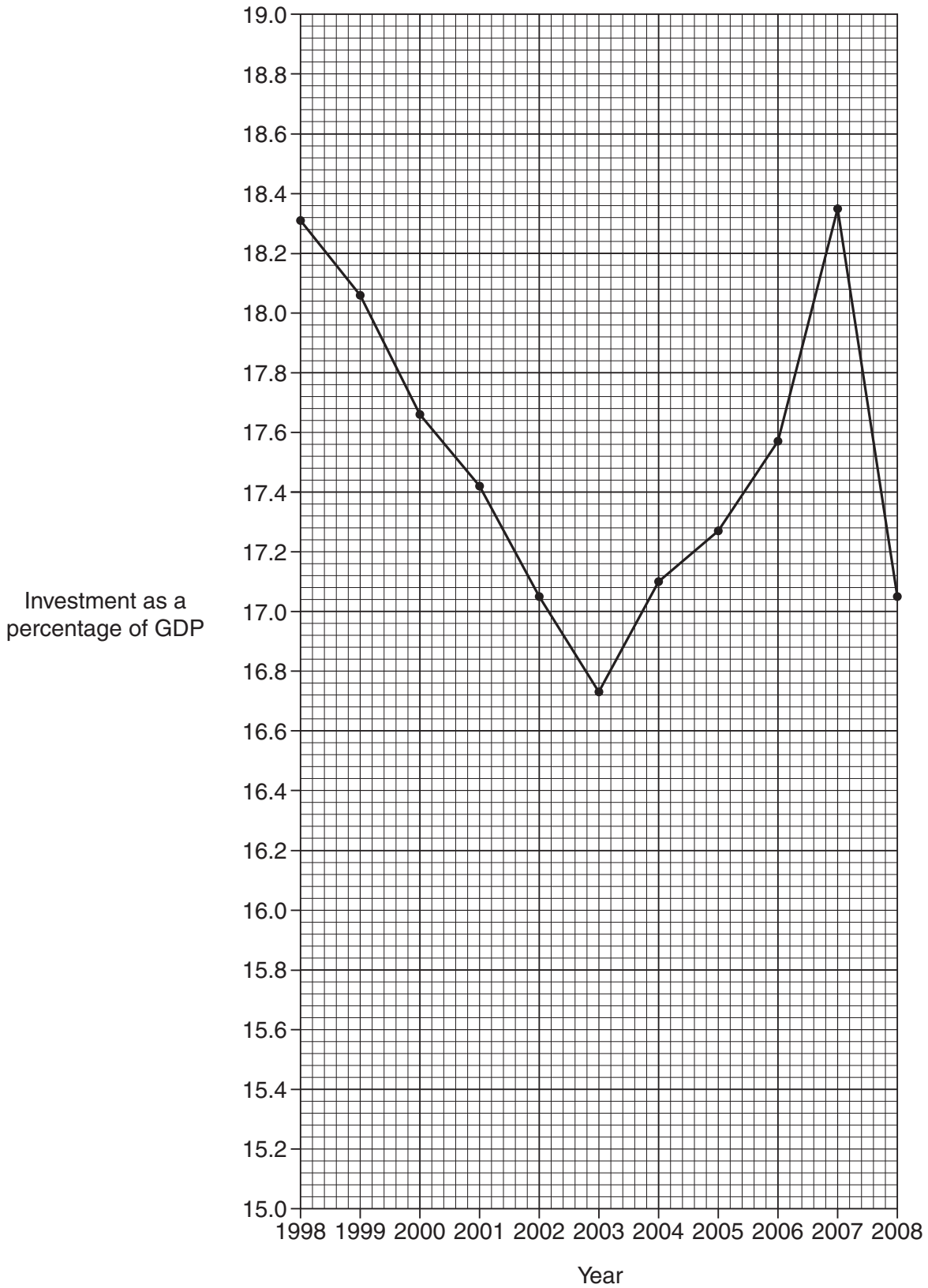


Fig. 10 – Productivity and competitiveness

Globalisation provides a real focus on improving productivity in the UK. The world economy is becoming ever more integrated. International trade and investment continue to expand rapidly, as trade barriers are lowered and new markets surface.

Internal changes such as increased political and economic stability in some developing countries have increased their competitiveness and enabled their manufacturing sectors to develop. The focus of developed countries such as the UK is shifting towards higher value added activities, where quality is as important as cost.

Strong productivity growth is essential if UK companies are to be competitive and make the most of opportunities from globalisation – exploiting emerging markets and attracting foreign direct investment.

The extent of the competitive challenge from emerging economies including China, India and the new EU member states is increasing over time. These emerging economies are experiencing dramatic growth – China has averaged annual growth of 8.7 per cent over the past decade, in contrast to 2.9 per cent in the UK.

The workers in new EU member states in Central and Eastern Europe have relatively high skill levels, but wages are much lower than in the UK.

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