

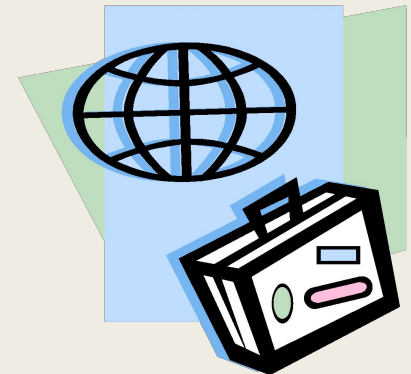
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INTERNATIONAL ECONOMICS ECO 561

**CHAPTER 1: INTRODUCTION TO INTERNATIONAL
ECONOMICS**

1.0 INTRODUCTION

- International Economics studies how a number of distinct economies interact with one another in the process of allocating scarce resources to satisfy human wants



**What is
Globalization
??**



Process of transformation of local or regional phenomena into global ones. It can be described as a process by which the people of the world are unified into a single society and function together

Process of global economies integration by allowing the unrestricted flow of goods, services, currencies , foreign direct investment, capital flows, migration, and the spread of technology between countries.

1.1 GLOBALIZATION

There are 3 waves of globalization

- First Wave of Globalization (1870-1914)
- Second Wave of Globalization (1945-1980)
- Latest wave of globalization

Note: The era of globalization

1870-1914 : Industrial Revolution in Europe and open up of rich lands in US which result to millions of immigrants, vast amount of foreign investment etc. End due to World War 1

1945-1980 : Begin after the end of WW2 until 1980. Rapid increase in international trade due to dismantling of heavy trade protection take place during Great Depression in US in 1929

1980-present : present globalization: speed, depth, immediacy resulting from improvement in telecommunication and transportation, massive international capital flows etc



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ADVANTAGES OF GLOBALIZATION

Increased free trade between nations

Greater interdependence of
nation-states

Greater ease and speed of
transportation for goods and people

Corporations have greater flexibility to
operate across borders

Increased flow of communications
allows vital information to be shared
between individuals and corporations
around the world

Increased liquidity of capital allowing
investors in developed nations to
invest in developing nations



DISADVANTAGES OF GLOBALIZATION

Increased flow of skilled and non-skilled jobs from developed to developing nations as corporations seek out the cheapest labor

Spread of a materialistic lifestyle and attitude that sees consumption as the path to prosperity

Greater risk of diseases being transported unintentionally between nations

Decreases in environmental integrity as polluting corporations take advantage of weak regulatory rules in developing countries

Threat that control of world media by a handful of corporations will limit cultural expression

1.2 GRAVITY MODEL

Definition: the bilateral trade between two countries is proportional, or at least positively related, to the product of the 2 countries' GDPs and to be smaller the greater the distance between 2 countries.

The larger and the closer the two countries are, the larger the two volume of trade between them is expected to be.

**DISCUSS CURRENT
INTERNATIONAL
ECONOMIC PROBLEMS AND
CHALLENGES**

1.3 CURRENT INTERNATIONAL ECONOMIC PROBLEMS AND CHALLENGES

- Deep financial and economic crisis- Financial Crises in Emerging Market Economies
- Trade protectionism in industrial countries
- Excessive fluctuations and large disequilibria in Exchange Rates
- High structural employment and slow growth in Europe and stagnation in Japan- problems in developed country who's controlled the economic world
- Job insecurity from restructuring and downsizing in the US
- Restructuring problems of transition economies
- Deep poverty in many developing
- Scarcity in resources, environment problem from productions and consumptions, unsustainable in development

1.4 THE ADVANTAGE/BENEFITS OF INTERNATIONAL TRADE

- Allows us to consume products, which are not produced locally due to lack of knowledge or technology or suitable climate
- Enables nations to obtain benefits from specialization
- Decreasing costs through large scale of production
- Increased competition
- Allows the transfer of knowledge, information and technologies between trading partners
- Non-economic advantages : political, social and cultural

Questions to ponder

1. List down the importance of globalization to Malaysian economics
2. List the effects of globalization to Malaysian economics
3. Discuss the several challenges in the international trade
4. Discuss the issues in the international trade