

Global Economic Environment

-THE WORLD ECONOMY (AN OVERVIEW)

-ECONOMIC SYSTEMS

-STAGES OF MARKET DEVELOPMENT

-BALANCE OF PAYMENTS

-OVERVIEW OF INTERNATIONAL FINANCE



The World Economy (an overview)

- Ë a. Which historical event marks the emergence of global markets?
- Ë b. What was the percentage of economic integration at the beginning of the 20th century and what is the percentage now?
- Ë c. Which product can be use as an example to show such market integration?



answers

- a. World War II
- b. before 10% , now 50%
- c. cars



- Ë In the last 20 years the **global market** has change shaping a number of **new realites** to be taken into account:
- Ë Capital movements replace trade as the driving force of economy
- Ë Production is uncoupled from employment
 - a. which economic activity in USA is a clear example of this disparity?
- Ë Countrys' economies are subordinate to global economy
 - b. What is the secret of the succes of Japanese and German companies?
- Ë Pure socialism prove to be inefficient as economic system
 - c. How socialist countries adapted to new global market conditions?
- Ë e-commerce has diminished the importance of national barriers
 - d. which two inventions made possible the informatic era?

answers

- Ë a. Cereal farming
- Ë b. Leaders and policy makers focus on world market and the competition in each country
- Ë c. by mix approach with capitalism
- Ë d. PC's and the Internet

Economic systems

Traditional approach:

Based on resource allocation (market vs command) and ownership (Private vs State)

- Market Capitalism
- Centrally Planned Socialism
- Centrally Planned Capitalism
- Market Socialism



Modern approach:

Based on a more descriptive criteria.

- ❖ Type of Economy
- ❖ Type of government
- ❖ Trade and Capital Flows
- ❖ The commanding Heights
- ❖ Services provided by the state and funded through taxes
- ❖ Institutions
- ❖ Markets



Advanced Industry State

Emerging Economy

Type of Economy

Transition economy

Developing Nation

Monarchy

Dictatorship (Tyrant)

Type of Government

Autocratic one party system

Dominated by another state

Democracy with multiparty system

Unstable terrorist nation

Complete free trade

Incomplete free trade

Trade and capital flows

Trading block

Currency board or exchange control

There is no trade

Dominated by government

The commanding heights

Transportation

-Are they owned and operated by the state?

Communication

-Mix of state and private ownership?

Energy

-All private

-With or without controlled prices

provided

-Pensions, health care and education

Services provided by the state
funded through taxes

-Pensions and education
(no health care)

and

-Privatized systems dominate

Transparency

Standards

Institutions

No corruption

Free press

Strong court



Free markets with high risk/ high reward
entrepreneurial dynamism

Free market dominated by monopolies, cartels, and
concentrated industries

Markets Socialized market with cooperation between business,
government and labor (little entrepreneurial support)

Planning includes price and wage control and it is
dominated by the center



Stages of Market Development

- Ë Low income countries: Gross Net Income per capita less than \$ 936**
- Ë Lower middle income countries: GNI per capita from \$936 to \$3705**
- Ë Upper middle income countries: GNI per capita from \$3706 to \$11455**
- Ë High income countries: GNI per capita over \$11455**

Stages of Market Development

Ě Low income countries: less than \$ 936

- Little industrialization, high agriculture (peasants farming)
- Low literacy rates
- Reliance on foreign aid
- Political inestability / unrest

Exercise:

- a. Why is Bangladesh genuine market opportunity?
- b. Which measures were taken by india to promote market development?
- c. Which are some of indias world class companies?
- d. Which characteristic makes India a good place to sell products and services?

answers:

a. There are low wages

Industry is promoted by the government

It is favored by a trade agreement (MFA) -Mul-Fiber Arrangement-

It sells in places others can't (like USA where chinese products are restricted)

b. Eliminating import license requirements

Reducing tariffs

Easing restrictions on Foreign Investment

Liberalizing the rupee



c. Infosys

Mahindra and Mahindra

Tata

Wipro

d. Huge population



Ë Lower middle income countries: GNI per capita from \$936 to \$3705

-Rapid expansion

-Labor forces target foreign markets

(Russia, China)

Exercise:

a. What is their competitive advantage?

b. Why is the Chinese market attractive for other countries?

c. How is China supporting its export led economic transformation?

answers

- a. Mature, standardized labor intensive industries such as toy makers and textiles.
- b. because of its vast size and market potential.
- c. Infrastructure projects (airports, cargo ports, railroads, etc)



Ë Upper middle income countries: GNI per capita from \$3706 to \$11455

AKA industrialized or developing countries.

- Low percentage of people involved in agriculture
- Increased degree of urbanization
- High literacy rates
- Wages growth

(Russia, Brazil)



Exercise:

- a. Name some advantageous characteristics of Brazil?
- b. Which kind of contrasting situations can be found in Brazilian economy?
- c. Are there any similar contrasts in China?



Answers

- a. is the largest in South America in terms of economy, population, territory, and natural resources
- b. while distribution services are computerized, horse drawn carts are a common way to deliver goods.
- c. your opinion

Balance of Payments

Record of all economic transactions between residents of a country and the rest of the world.

It can be measured by analysing the **Current accounts**, and the **Capital Accounts**

The current account: is a broad measure that includes:

- merchandise trade
- Service trade and
- Some financial transfers (humanitarian aid)

A country with negative **current account balance** has **trade deficit** when the flow of money exceeds the inflow of money for sales exports. (it is buying more than it sells). On the other hand, positive current account balance translates in **trade surplus**.

Capital account: is a record of all long term direct investment, portfolio investment, and other short and long term capital flows.

Ë A country accumulates **reserves** when the net of current and capital account transactions show surplus. In contrast, it gives up reserves when the net shows a deficit.

Exercise:

a. Why USA shows a growing trade deficit?

-increased imports from china

-insatiable demand for imported products

-the cost of military operations in middle east

(USA balances the situation with a continuous and growing surplus on services)

Overview of International Finance

- spot market vs forward market
- central bank role: buys and sells currency to influence exchange rates
- currency speculators
- currency conversion issue for companies

Purchasing power parity

Economic exposure

Managing exchange rate exposure

