

IB Review Classes

Minimum wage

whats not too like about it, is ther eanything wrong with it.

“As every text book will tell, min wage is a bad idea”

Manitoba has highest minimum wage in canada.....also the lowest unemployment rate.

Chapter 1:Globalization- book does a good job at saying why it grew. Communication costs dropped 99%, trnaspo 75% frm 30's.

What do you mean by globalization?- greater trade between nations,imports,exports,investments all over gdp. Some exceptions like 2007.

Always winners and losers in international trade.

NAFTA- the effect? .hasnt done the wonders it said. Productivity lower then then and income rose for mayb 5% at high end of income spectrum. No positive effect on unemployment. Less people working then 1994.

Footnote- unions or representative of workers of labour never asked for free trade. Gov't nly execute them. Big Corps ask for them.

Chapter 2- its a work in progress

Legal system,demographic,all changed. China must more different.

Chapter 3 and 4.not on it cause any questions qould give some groups unfair advantages.

Chapter 5 International Trade Theories

trade in absolute advantage. Each have something other needs, we trade. Thousands of years.

David Ricardo-competitive advantage.....a breakthrough. Even though make same goods, trade is good cause it lets specialization happen...stays like it for a 100+ years.

New Trade Theory.

Why is it that some corporations are so large, but only in a few countries. Airplane and ship building. Example China. UP til 1400, was uncontested tech leader.

1 economies of scale needed 2. skilled labour force.

3. The tech.....china doesnt have it. Instead,buy it from foreign countries in exchange for piece of action.

4. Need very big demand for domestic product. China is biggest buyer of airplanes anyways.

5 weeks ago, they just showed their new airplane....ahead of its time.

“What's the significance of new trade theory? “ You dont need to be the first mover in an industry to compete. Yet you can still dominate the industry.

Chapter 6 The political economy of international trade.

Talks about trade policy like perfectionism. Chapter is about objectives of productivism.

Protecting jobs,promoting foreign external policy,etc...

Not in there, food security. Japan would not allow import of food. Mexico used to ban import of corn to protect local growers. NAFTA has helped american companies circumvent it.

Resovoir No more oil for japan, they get mad. Knowingly let japan bomb them so they can declare war. Germany misunderstand japan treaty and declares war on USA. Lesson is you don't want to be reliant on one foreign nation.

Means of Productionism.

Tariffs, Import/Export Quotas. Subsidies cleverly disguised when giving to corporations. endless ways to subsidize domestic producers. Book does good job describing them. Misses out on biggest one, is the exchange rate. You get it wrong on purpose.....makes exports cheaper, imports more expensive.

Chapter 7

in 60's very little FDI.

Most countries wouldn't allow it, then explosion happens.

Now CAN has about trillion going in and out.

This is what helped lead corps to ask for free trade....in order to maintain return on capital.

Forbes says..20 wealthiest people account for more wealth than bottom 50%. top 400.....bottom 61%

Part the result of the free trade agreement. Also people losing their jobs in the highly traded industries. Horrific consequences being found.

Now recovery doesn't happen quickly and the people who lose their jobs, don't get them back. its cause some of the jobs won't come back. Gone cause of free trade agreements USAextraordinary demand of white males 45-65. A lot of them good life and job without education.

Chap 7 cont'd

used to be adv industrialist countries led in investments. Now its multi directional (no longer just north south).....India is leading investor in the UK. China is upcoming leader.

What we need to know?

Why is there so much FDI?

Risky, just like every internationally. Licensing is risky too. IF everything is risky, how do you decide what to do?

Chapter 8- his favourite Economic Integration

5 levels of economic integration

free trade agreement, EU,

important thing is.....we have so many, 1000+ despite 196 countries. Different nature of the deals signed now. Not about obstacle removal. They defined constraints for gov't to not mess around.

Limiting gov't messing around with free trade.

Current ones go far beyond. Tying gov't hands to social and economic objectives. Don't mess around with environment or we will sue you for loss of profits. Have their own legal structures. Inhibit solutions for global warmings, etc...

Canada loses lawsuits going out of country and back at them.

Most economists agree about the protectionism

EU -benefits and costs

the EURO. Special problem in international economics.

Pro: save billion on transaction costs.

CON: Aren't your own monetary boss. Greece and Ireland have discovered this. Don't have own exchange rate. Can't respond to balance of trade problems.

Chapter 9 The foreign Exchange Markets

the big idea in theory.....PPP

its a way to adjust values across different countries. World's biggest economy is Chinese economy.

Every chance, people say its behind USA. Its big by nominal terms, but in PPP dollars, China's is a lot bigger. Was so as of almost two years ago.

PPP not very much used in economics reality.

4 reasons why exchange rates aren't determined by this. Transport costs, taxation, * all kinds of business have pricing power*.

Free trade didn't result in more competition!!! didn't happen and won't happen.

Prices of things fell, some things also rose or stayed the same.

Barrier reduction happens for protecting from mergers or acquisitions as well.....don't get price competition as expected.

Income inequalities happen as profits go to small portions

Chapter 10 Global Monetary System

Big issue.....what kind of exchange rate system should be adopted. There are 3 systems described

flexible floating

fixed floating

the advantages and disadvantages of each system is a good exam question!!!!!!!!!!!!!!

Flexible exchange rates allow countries to respond to stresses. Massive deficit leads to lower exchange rate.....helps our balance of trade.

Imagine if you didn't have flexible or floating exchange rate..... income, and prices would have to go down in order to counter the deficit.

Exchange rate falling decreases your international purchasing power. No more equality to USA when shopping there.

Disadvantage: when it goes down, it overshoots. Central bank is there to make sure it doesn't happen.

ADV. Flexible exchange rate- can withstand external pressure. Can't be pushed

Fixed.....Hong Kong and China had pegged exchange rates for long period. How?

You need a lot of reserves. Hong Kong has more

Keep inflation rate low.....if it gets too high, they put their foot down. i.e. no 2% increase in union wages....only 0.5%.

Any change MUST be kept secret from public.....no speculative trading. Ukraine was open secret that theirs was going down.....could've made billions

Need strong economy. Can't have really volatile one like USA.

Chapter 15emailed the questions. One of them is definitely on it.

Formal review on Tuesday. Recommended after each chapter, think of 2 questions that a prof would ask. At most only 3 interruptions of a chapter.

Arrived 8 minutes late.

Missed story about logical thinking, adding 9 pigs and 4 bananas.

1st page- name, student number.

NO PENCILS

no electronic devices.

Name on every booklet.

6 questions, 10 marks each. Straightforward questionnaire.

Read questionnaire first!! descending order from your best question. Confidence builder. IE question 6 that has been provided.

Re read. Catch missing words.

No question should take more than 2-4 pages.

No marks for irrelevancy.

Some might finish 80 minutes in.

Highlight 2 questions per chapter after reading it.

No exam question will give advantage to any of the 18 groups.

Keep sentences short and to the point.

Chapter 5

What is the New Trade theory and what is its significance?

Paul Krugman got nobel prize in economics for it.

Just a handful of airplane companies. Number of industries where giant corporations dominate.

Industries have substantial economies of scale. The production cost per plane dropping

- need a lot of labour and highly skilled labour.expertise hard to replicate. Job even during recession.
- Huge amount of capital
- innovation and technology. They have sub industries feeding it. Materials, electrical devices. 200 companies feeding into Boeing planes.
- High domestic demand to support local production.Bombardier subsidized heavily as domestic demand for planes isn't high
- supporting business industries. USA has all necessary industry to support boeing.
- China piece of action point. Willing to buy,steal or innovate the new tech.CHina can get demand anywhere.....any african country. Initial demand is 650 units just 4 weeks after unveiling
- significant is that first mover advantage is not needed anymore.
- Chinese biggest producer of turbines. Didn't make them. India used to be number one innovator.
- You need all the other 4 factors right though. These things are all planned by government. Private sector doesn't say we are going to launch satellites.
- In tech first mover and pharmaceutical is helpful if you have patents.the viagra chinese knockoff.

Chapter 10

Chapter 8 his favourite

free trade agreements. 1000+, the EU

What are the different levels or forms of economic integration seen today?

Lowest- free trade agreement (haha....not truly free) NAFTA.

- reduce tariff and no tariff barriers. Lead to higher export and imports between countries.
- 2. fta+common customs= customs union
 - have the same trade policies as rest of the world. EU and mercosur in south america.
- 3. So rare.....only one. Custom Union +free labour mobility= common market. Example the EU.

Really important. Without it there would be many civil disruptions. Men leaving greece to go to germany or france.treating other workers as our own. Likely won't see one for 50-100 years.

- 4. CM+ common currency= economic union. Not unique to EU. Mention that UK and () haven't opted in.

5. political union. EU+ one gov't/fiscal policy. EU is trying to get to it.The United States of Europe.Less war. Same would go in Africa.

Proxy war example- two parties fight against one another but aren't fighting for themselves. CONGO.

Warlords fighting over right to sell metals to foreigners.

Chapter 10

What are the different exchange rate systems. Advantages and disadvantages.

Flexible or floating

Canada has floating. Advantages- trade deficits lead to decrease. Exports cheaper, imports higher.

Balances our trade.

(Greece have to fall their wages and prices cause of the common currency.)

- market determined exchange rate.
- We can legally intervene when it goes too high or too low. Dirty exchange system. Buy or sell reserves in way to engineer exchange. If it falls, we sell off USA, euros, gold to buy CAD. Can ask other central banks to do same, they usually co-op.

Downsides- it moves up and down. Moves unreasonably.

Less speculation.

Fixed- historically hasn't worked and not used. Very hard to manage. USA can't.

Pegged exchange rate. Exceedingly uncommon. Some countries have tried, few tried but it collapsed.

Ukraine most recent. If you start a war, it will collapse. Would happen in China as well. Successful in two countries. Most successful is Hong Kong. How?

Huge amount of reserves. A lot of everything. Largest in world.

Inflation must be kept in check. If rise of food prices cause it, they flood stores with food to lower price. Strict negotiation of wage rises with unions.

Have right to change it. China does but Hong Kong doesn't want to.

Downsides.....because it can change, speculation builds if the current rate is believed to not be sustainable. 2002 Chinese exchange rate. Knew it was undervalued. They rose it 27%. Got worried and pegged it again. Stayed relatively same other than up and downs, small. Pegged it last 2 months ago after falling 2% in a day.

How did they do 8.28? Nobody knows but he has the lucky number story.