

# ADM 3318 – Final Examination Review

*See Week 1, Diagram is essential. Focus on the diagram.*

## Chapter 1

- Diagram is an abstract representation of the Canadian economy; however, every economy looks the same
- The inners of how they work very different
- In the Canadian economy, we do not have a public school marketplace because every child is entitled to education
- The Canadian economy does not allow child labour however there are other countries that allow it unlimited
- Our economy compared to others – you will see lots of differences
- The arrows represent flows of entities
- There is not a country like Canada
  - o There are some countries that welcome nobody
  - o Canada has the highest rate of immigration (i.e. over the past 100 years we are #1 with the United States in a very distant #2)
- We have a lot of globalization going on. What do we need to know about globalization?
  - o Globalization simply means how much we X/GDP (Exports), M/GDP (Imports), F/GDP (Foreign Investments). When we increase these, we have globalization
  - o We have to worry about what the future holds
  - o Over the past two years, it looks like globalization is running out of steam
  - o We are in deep trouble when globalization comes to an end of or reverses
- Why did Globalization occur?
  - o There are five reasons for globalization
    - There has been a massive reduction in tariffs and non-tariff revenues to investments
      - Free-trade is the number one reason for the amount of globalization we have seen
    - There has been a massive reduction in the costs of transportations (there has been a 76% reduction in shipping costs over the past 100 years)
      - This reduces the costs of moving things around
    - There have been other technological changes (i.e. costs of communication)
      - There has been a 99% reduction in the costs of communication. We basically communicate for free so we can manage corporations all around the world very cheap
    - There has been changes in production (globalization in production)
      - You can produce elements of goods all over the world. There has been an international change in production
    - Consumer tastes have become more homogenous

- Example: McDonalds is located all over the world, computers are pretty the same, standardization
        - There is another reason we globalize. Globalization does not start in households. We were pushed to globalize
          - What do you get from all this?
            - There is a lot of trade within corporations - **very important**
- There is a lot of things coming into the country and a lot of things going out
- A lot of competition, more prices
- Consumers as consumers always win from globalization
  - Prices go down
  - You have more choice (i.e. we have a lot of food choice)
- People working in the export sector wins – job security, high paying jobs
- Downsides of globalization:
  - Households will suffer massively from free-trade
  - If you are in manufacturing, you will pay a high price – no job security
  - Professional jobs (i.e. doctors, professors, etc.) are secure, however
  - Free-trade does not open competition for everyone – only a select sub population (i.e. manufacturing)
  - EU is the only agreement that allows free movement of labour
  - NAFTA does not allow free mobility of labour
  - There are big losers and we must compensate them. This compensation does not happen in any country (however in Canada we have Employment Insurance)
    - There is one country that does not compensate – the United States (why there is a high mortality rate)
  - Trump appealed to many Americans because he would keep their manufacturing jobs
    - Michigan has suffered from free-trade (lots of manufacturing jobs there)
    - Clinton visited Michigan zero times

## Chapter 2

- The Canadian economy is hardly like the Chinese economy
- We categorize them – liberal democracies, socialists, communist, etc.
- In communism, you do not have incentives
- In capitalism, you do have incentives (i.e. private property; without it, you can prosper)
- The political system, the legal system, the economic system
- It is difficult to find two countries exactly the same
- Our countries are always transitioning
- The philosophical information at the back of the chapter is useless

## Chapter 3 & 4

- The Professor has never asked a question from Chapter 3 or 4
- They are not easy chapters

- **Chapter 4:** you have a conscience, you act ethically. Horrible corporations do not have a conscience. Corporate structure is your wallaby. It's very difficult to marriage ethical behaviour in corporations

### Chapter 5:

- Economics of the course begin
- There is a lot of trade going on all the time – definitely before 2000BC
- Trade: you produce banana's, you produce mango's, we trade
- You buy my things, I buy your things
- David Riccardo: pays for us to specialize in trade – competitive advantage
- Competitive Advantage allowed for more trade (i.e. specialization)
- New theory of trade: there are only a few countries specializing in a specific sector (i.e. automobiles, etc.)
  - o Secondly, you have to have certain ingredients to make it happen (you need skilled airplane labour force to make airplanes – if you don't have it – you buy)
  - o You have to have sufficient demand in your local economy
- Chapter 5 says you need to have internal competition
- There is a lot of internal competition in the United States, but not much in China
- Internal competition is vital because you're more innovative – you think of ways to cut costs (making the same thing different ways)

### Chapter 6:

- This chapter is all about protection
- Diagram at the back **very important**
- The nature of economics
- **Part 1:** What are the objectives of protectionism? (potential exam question)
  - o Protecting jobs
  - o Protecting industries
  - o Human rights protection
  - o Retribution
  - o Protecting consumers
  - o Food security (especially true in Japan)
- **Part 2:** What are the means of protectionism?
  - o Free-trade is very low
  - o The average tariffs about TPP countries is only 3%
  - o Some countries still have high tariffs (i.e. China)
  - o Tariffs used to be 4-500%
  - o Imports/Exports – all sorts of subsidiaries going to specific industries. Countries can build road for countries, give land without taxes
  - o Infant protection (protection of infant corporations)

### Chapter 7:

- Some countries specialize in extraction, some in manufacturing
- Investments going in, investments going out is very high

- There is a great section in Chapter 7 on why do we invest in the first place
- Intellectual Property
- Control of your own property

### **Chapter 8 – Professor’s Favourite**

- Read this Chapter from beginning to end
- This is the Chapter with the EU in it
- Economic integration between countries
- There are levels of economic integration we should pay attention to
- **Level 1:** The most basic, fundamental is free-trade agreement (lowest level of integration)
- Free-trade agreement is about making easier to trade in goods and services, imports/exports
- Most free-trade agreements do not allow free mobility of labour
- **Level 2:** Customs Union (i.e. same customs, same tariffs, same trade policy)
  - The Chinese do not want a customs union
- **Level 3:** Customs Union with free mobility of labour between countries within a common market
  - There is only one common market in the world – the EU
- **Level 4:** Common market with a common currency – you get the European Union
  - It is unique
  - There is nothing like it
  - A common currency is very difficult to manage; not suitable for many countries at one time
  - It robs you of having a monetary policy – an adjustment mechanism; shock absorber
  - If you have a high rate of inflation, you can do something about it
- **Level 5:** Political Union
  - One fiscal policy
  - EU does not have one fiscal policy – every member state in the EU makes its own fiscal policy
- **Level 6: Exchange Rate**
  - Exchange rate connects countries
  - One price calibrates exports, imports in one go
  - You can not regulate one’s exchange rate – the country has total control
- Concentration ratios by industries are higher than they were in 1978

### **Chapter 9 – Important**

- How are exchange rates are determined?
- Most economists favour fluctuating exchange rates
- If you believe in the market, then you believe flexible exchange rates are best

### **Chapter 11**

- Straight forward

### **Chapter 12, 13, 14**

- Will not be on the exam

### **Chapter 15**

- How do you pick a country to invest in
- Connects with chapter 7

### **Flexible Exchange Rate:**

Advantages: gives the country control to respond to crisis. Automatically adjusts to crisis such as deficits, trade surplus,

The American exchange rate is the most flexible around - credibility

Hong Kong has been the around the longest