Name/Class: Economics
Date: Mr. Sapia

WEEK TWO: ONLINE ECONOMICS --GLOBIZATION

Directions: Please read the following handout and answer the questions on the answer sheet (final page of this attachment). Again, only submit the answer sheet to me. Please write neatly. Thank you.

What causes Globalization?

The economies of the world's nations are interconnected in the deep and complex ways--- and they will remain interconnected. The global economy creates new issues that business managers, workers, and government leaders must take into account. In this lesson, you will look at many of these issues, from impact on the environment to increase competition for American businesses.

The increasingly tight interconnection of producers, consumers, and financial systems around the world is known as **globalization**. Such connections are not a new phenomenon. In the middle ages, the Asian spice trade connected Europe, Asia, and Africa. The voyages of Columbus led to the colonialization of the Americas by European sea powers and to the development of the African slave trade. The age of imperialism that began in the late 1800s forged even closer links between the economies of Europe and the United States and those of Africa and Asia.

Still, globalization today is taking place at a much faster pace than in the past. Several factors contribute to the ever-tightening links between economies around the world. They include the development of faster methods of communication and transportation, the widespread adoption of elements of the free enterprise system, and the growth of international trade agreements.

What do the domestication of the camel, the invention of the Compass, and the creation of the Internet have in common? All these innovations allowed greater movement of products, people, and ideas. Today, as in the past, globalization depends on breaking through barriers of time and space.

In the past, camels and ships made it possible to trade across large deserts and oceans. Today, jet airplanes allow producers to sell goods in distant markets that would have been impossible reach quickly in the past. For example, flower growers in the Netherlands or Colombia can send fresh flowers for sale in the United States.

Today's communications revolution has also sped up the pace of globalization. Thanks to satellite communications, customers and suppliers on opposite sides of the world can talk quickly and clearly. Computers give people greater access to information about the availability and prices of products in

distant countries. Investors in one country can get up to date information and use it to buy stocks on financial markets anywhere.

As you learned earlier in the year, many nations have moved away from central planning (communist countries). Even some communist governments have chosen to pursue free-market policies. As a result, the proportion of the world that practices free-market economics has more than tripled. At the same time, the fall of communism in the United States and Eastern Europe has allowed nations that had once been locked out of the world trade to enter the global marketplace.
The new free-market economies are more open to foreign investment. In 1975, the value of foreign direct investments worldwide totaled only about 23 billion. By 2012, the total had grown to 1.4 trillion. The opening of new markets has created new investment opportunities as countries across the globe learned the benefits of a free enterprise system. It has also created new global economic ties.

The United States is the world's most productive single economy, with output far exceeding that of any single nation in Europe. However, the combined output of the 28 nations that make up the European Union (EU) is competitive with that of the United States. The democratically elected governments of the EU recognize the benefits of free enterprise and of trading blocs. People, goods, and services can flow freely among members of the EU, making it almost like a single economy.

Concern about competition from the EU was one of the factors that spurred the United States, Canada, and Mexico to sign the North American Free Trade Agreement (NAFTA). With the passage of NAFTA and the lowering of trade barriers, businesses had increased incentives to take parts and regional trade.

Trading blocs do not remain fixed. The EU has repeatedly expanded to include more nations. It is tighter also working to forge trade ties with other regions. All of this activity has added to the globalization of the world economy.

Question: 1. How have modern communications contributed to globalization?

"Arguing against globalization." Said former UN secretary General Kofi Annan, " is like arguing against the laws of gravity." While globalization is a fact of modern economic life, it has also created challenges.

In 2007 in 2008, many American financial firms lost money--- or went out of business--- as a result of making too many risky home mortgage loans. Worried that the crisis would cause a downturn in the economy, investors sold stocks. Heavy losses on the New York Stock Exchange raised concerns among investors elsewhere in the world. They in turn, sold stocks on European and Asian exchanges.

The ripple effect caused by this American financial crisis is not unique. In recent decades, economic problems in Mexico, Japan, Russia, and Argentina had a similar impact on world financial markets.

Why do financial problems in one country affect people in another? The reason is that world financial markets are closely connected. Computerization has allowed investors around the world to watch the values of stocks in many different markets. They moved quickly to buy the stock of promising companies in whatever country they find out and sell just as quickly at any sign of trouble.

Another reason for the widespread impact of these financial crises is the booming trading currencies on foreign exchange markets. The values of various national currencies go up and down every day. Investors holding money in a particular currency sell it off if the value of that currency declines. As sales of the country's economy grow, it's economy will suffer.

These effects do not just hurt investors who risk their money in the hope of making profits. They have an impact on ordinary people as well. Banks buy assets in other countries. If the value of those assets falls, the banks have less capital or money available to make loans to people in their own countries.

As you have learned earlier this year, the expansion of multinational corporations has sparked controversy. Some economists argue that these companies have a beneficial impact on the countries in which they set up operations. For example, multinationals have been credited with much of the development of Eastern Europe after the fall of communism. Said Paul Lewis *"multinationals brought countless benefits. These include... Improving the environment; rescuing collapsing factories and riding company towns; establishing new industries; laying new telecommunication networks; stabilizing banking systems... And facing down corrupt vested interests and governments back into many cases had plundered their own countries."*

Multinationals have the capital or money to introduce technology to developing countries, offer jobs, trained the labor force, and provide the opportunity for related services and industries to develop.

Critics, however, claim that multinationals do little to help less developed countries. Some point out that most of the profits go not to the host less developed country, but to the foreign owners of the corporation. Others say that multinationals create far fewer job opportunities than they claim. Many of the industries are highly mechanized, allowing high productivity with little labor. Thus, they provide few jobs relative to the massive size of the labor pool and may even drive traditional craft workers out of business.

Another area of controversy is wages. Generally, wages and less developed countries are very low compared with wages and industrialized nations. Supporters argue that the low wages are justified since the cost of living in less developed countries is also relatively low. In addition, many of the people employed by multinationals might not have jobs otherwise. Critics argue that multinationals

benefit unfairly from the low wages. Also, many less-developed countries do not require companies to provide the same high standard of working conditions that industrial size countries require.

Much of the debate over multinational corporations and globalization focuses on the impact on less-developed countries. However, people in developed nations are equally concerned about a related issue-- the loss of jobs.

In the global economy, companies may move parts of their operations to other countries. This practice is known as **off shoring**. Off shoring may involve the single process, as when an American bank hires a call center in India, or Kenya to handle its telemarketing. Or it can be total, as when a multinational manufacturer closes the plant in the United States to build one in another country, where labor is cheaper. In either case, the result is job loss.

Name/Class: U.S History
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WEEK TWO--ECONOMICS ONLINE ANSWER SHEET

GLOBIZATION

1. How have modern communications contributed to globalization?

2. What problems can result in financial markets are interconnected?

3. Why do companies engage in off shoring?

4. What are some negative effects of multinational corporations?

5. What are some positive effects to globalization?

6. Many people argue about the positive and negative effects of multinational corporations on less-developed countries or developing countries. Some people believe multinational corporations offer jobs and training in new technologies to these poor nations, while others believe multinational corporations exploits these developing nations for greater profits as they promote their own interests. **Write a paragraph supporting OR attacking the idea or premise that multinational corporations do not need to provide workers in a less developed country "livable" wages.**