ECONOMICS FOR DEBATING

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Each individual does what is in his best interests, without knowledge of the broader outcomes. This may often be more beneficial than actively attempting to fix a broader outcome.

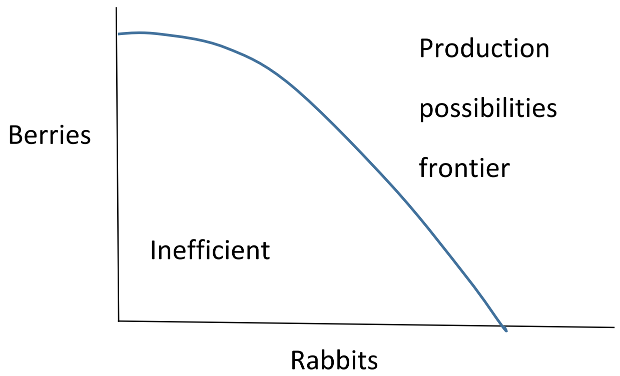
In order to predict trends, assumptions are made to mathematically model behaviours. However, these assumptions are often overly simplified or actively incorrect

Assumptions: rationality, each individual will act to maximise profits for themselves

Micro economics

Production possibilities frontier

Certeris parabis: assume everything else remains equal.

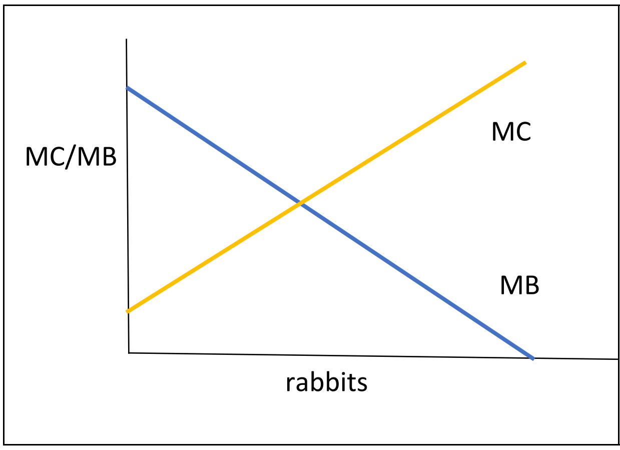


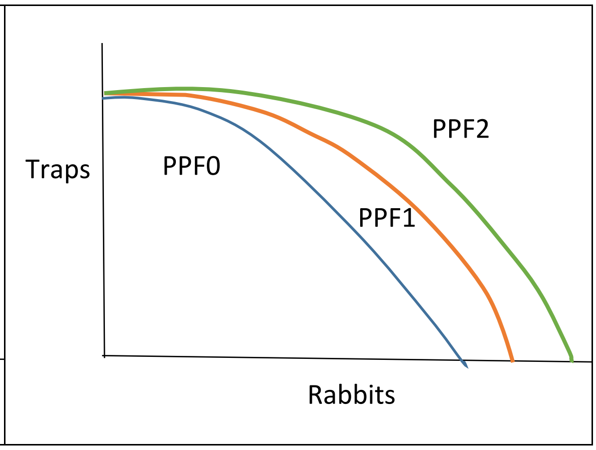
All points along and under the curve are possible. Beyond the curve is impossible. The possibility frontier is the optimal use of time. Given that you have limited time and resources (energy, etc) you can only pursue some combination of things = production possibility frontier.

Opportunity cost, marginal costs and benefits, investment

When examining the possible combinations, you will have to give up some things in your current scenario in order to obtain more of something else in the alternative scenario (opportunity cost of pursuing 1 more rabbit is 40 berries). Marginal cost of 1 more berry is 1/20th of a rabbit. Sometimes there is an increasing opportunity cost (i.e. as we increase the number of rabbits incrementally we have an opportunity cost of 20,40,60,80 and 100 berries i.e the more rabbits we pursue the more the opportunity cost of changing scenarios increases).

Why does opportunity cost increase in this way? Initially you are pursuing even the difficult to obtain berries and ignoring the easy to hunt rabbits; hunting these rabbits isn't very costly. Hunting only rabbits means you have to go after the fastest, smartest rabbits and ignore the easy to pick berries.





When the marginal cost is equal to the marginal benefit = allocative efficiency

How much you are willing to give up is equal to how much you want to gain

Expand the production possibilities frontier through investment = capital accumulation. Investing some time in building traps makes the hunter more able to catch rabbits. He has grown his economy through investment. Technological change can also increase production through R&D

Mechanisation

Industrial revolution

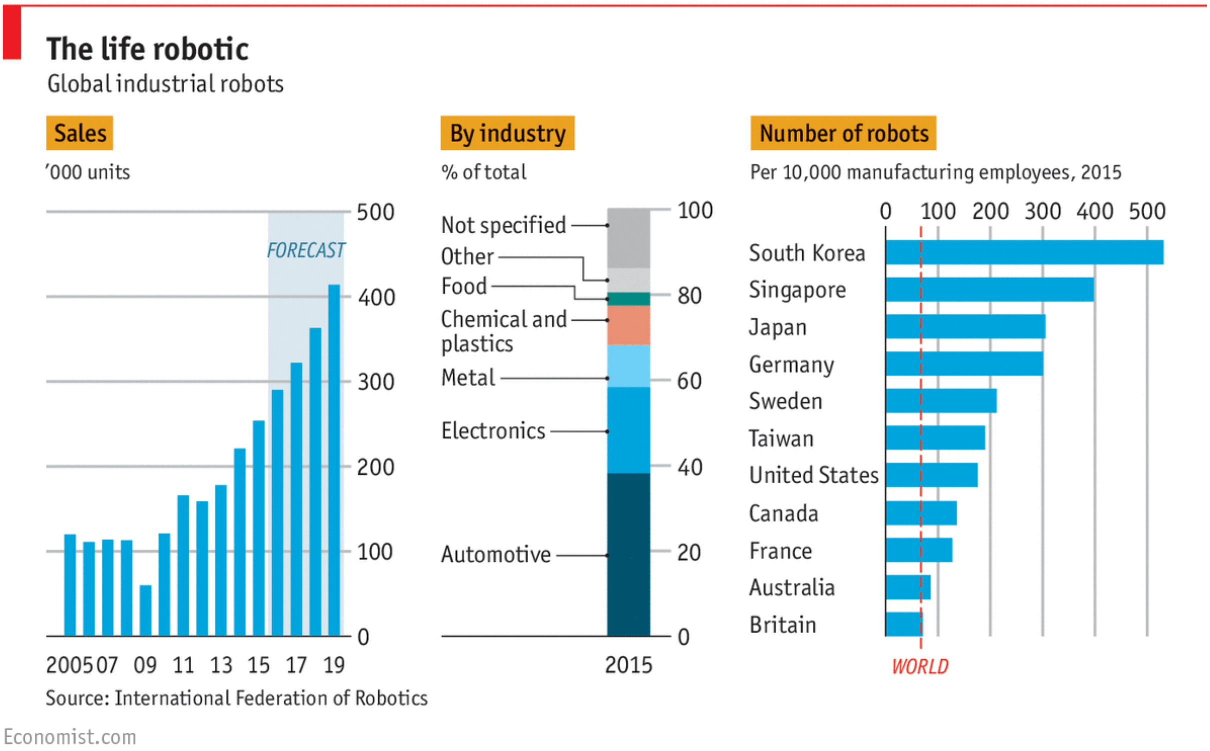
The Industrial Revolution started mainly with textile machinery, such as the spinning jenny (1764) and water frame (1768).

Modern Automation

Innovation made productivity easier, producing more units for the same amount of human labour. Fewer old jobs but many new and better jobs, which improved living standards. Machines land aircrafts, diagnose cancer and trade stocks. ~50% US jobs will be automated in the next 20 years. Industry progression: Agriculture – In industrial revolution shift to production jobs – As automation becomes more widespread, humans shift to service jobs – Information age. Jobs taken over machines much faster than the past. Innovation industries are booming but are creating fewer and fewer jobs. In 1979 GM employed 800 000 US workers and made $11 billion, in 2012 Google employed 58 000 workers and made $14 billion. Old industries are running out of steam, cars were very important to the economy when first created but now innovations are small and do not make much difference. The internet is an incredibly important innovation, on parallel to electricity. In contrast to electricity, the internet has rendered several industries redundant and did not create jobs to keep up with population growth. In 2006 Blockbuster had 84 000 employees and made $6 billion, in 2016 Netflix had 4500 employees and made $9 billion in revenue. Innovation in the information age =/= employment creation.

Human progress based on the division of labour, jobs became more specialised. Machines struggle with complicated jobs but are extremely good at narrowly defined and predictable jobs, which destroyed factory jobs. But even complex jobs are simply many narrowly defined tasks performed one after another. Brink of breaking down almost all complex jobs into a series of simple tasks, which will outcompete people as they can no longer specialise. Machine learning allows for the acquisition of information and skills by analysing data. They therefore become better at something through the relationships they discover in the data, which they teach themselves. Humans have started to gather data about everything, creating a huge library that machines can use to understand how humans do things and learn to do them better. These machines can be replicated instantly and for free and when they improve, no investment is required, you can simply use the new code. Rate of improvement is extremely fast; middle management software (software first determines what can be automated and where it needs people. It then assembles a team of freelancers over the internet, distributes tasks over the internet and controls the quality of the work by monitoring individual performance. As the freelancers complete the task, the software collects information about what the task involves and learns how to do it better. The freelancers teach the machine how to replace it. This software reduces cost by 50% in the first year and by a further 25% in the following year). Fewer and fewer humans are needed. It is insufficient to replace jobs, one needs to create new jobs to keep up with population growth. In the past we have solved this through innovation but since 1973 the generation of new jobs in the US has begun to shrink (in the 21st century the total amount of jobs did not grow for the US). This is affecting standards of living. In the past, it was assumed that an increase in productivity increased standards of living as new and better jobs come along. In 1998 US workers worked 198 billion hours, in 2013 the amount of hours was still 198 billion hours despite their output increasing by 42%. New businesses were started, the US population increased by over 40 million, but the amount of hours worked has not increased.

Advantages	**Disadvantages**
Saving in labour and minimisation of cost = cheap goods	Large amounts of investment costs upfront
Better quality of work	Limited utility (machines with specific purposes)
Better accuracy (machines are particularly useful for heavy and very delicate work)	Risk Obsolescence (if a new machine is produced it may make older machines obsolete)
Greater efficiency	Worker loss of employment and promotion.
Standardization of routine and procedure	Machine breakdown is very costly and disruptive to the company
Mobility of labour (workers who know how to use machines can move between companies)	Overspecialisation of workers (narrow sphere of work with limited skill set) = risk of unemployment
Widened scope of employment and better quality jobs	Highly monotonous work with limited influence on work flow
	Class conflict between employers and employees. Larger profit margins for employers



Comparative and absolute advantage

Linear PPF = fixed opportunity cost. If a competitor has a lower opportunity cost in production of plates, they have the comparative advantage when producing plates. Specialize and trade if market price is lower than the opportunity cost = gains from trade.

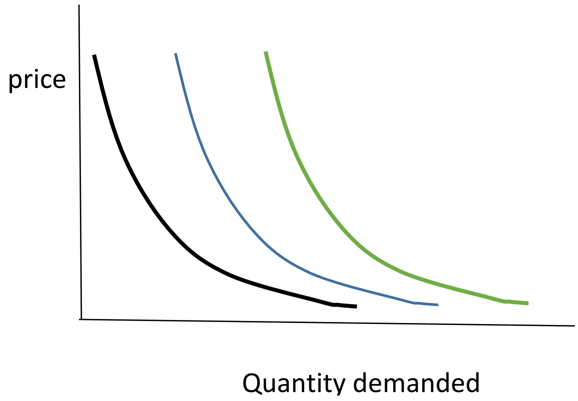
If, given exactly the same inputs, a competitor can produce more, the competitor has an absolute advantage. However, this is dependent on the inputs. If one person gains the absolute advantage in both products, it still makes sense to specialize if the competitor still had the comparative advantage.

Demand laws

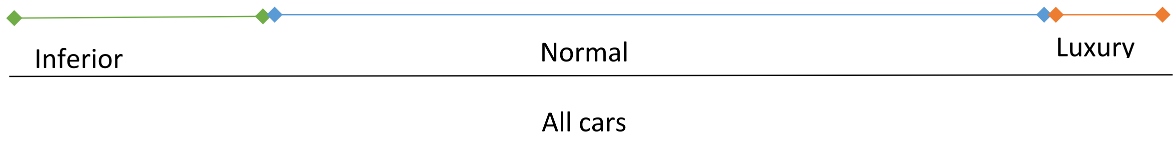
Demand curve indicates the relationship of the curve, quantity demand is a specific point along the curve (at X price, people want this much of your product)

- If all else remains the same, price and demand interact as displayed in blue
- If a complimentary product gets more expensive, it will lessen demand on your product (black)
- If similar products get more expensive, it will increase demand on your product (green)
- If income increases, demand increases for a normal good (e.g. laptop). Inferior goods are bought less when income increases (cheapest possible car), because people would prefer to not buy it if they could afford a different product. (green)
- If population decreases, demand decreases (black)

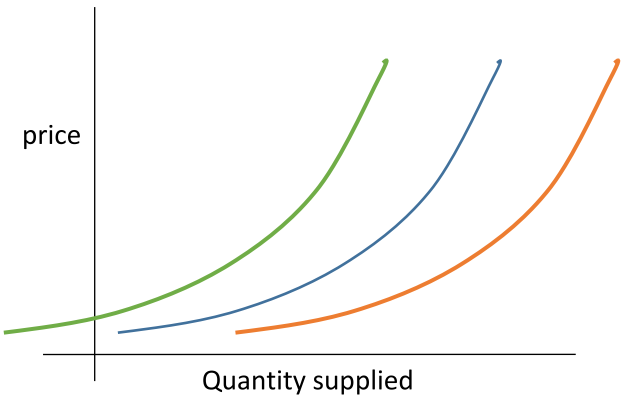
- Preferences increase towards your commodity, demand increases (green)



Distinction between inferior and normal goods: when income increases demand for normal good increases and demand for inferior goods decreases (people can afford nice things).

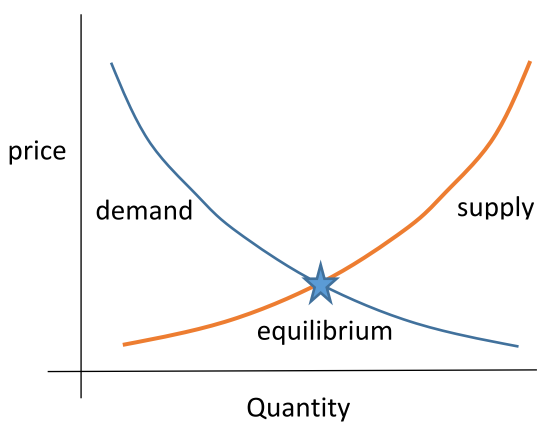


Supply laws



If price of input increases, supply decreases (green curve)
If the price of productive substitutes increases, supply decreases
If the number of suppliers increases, aggregate supplies increase
If you have technological improvements, increase supply/ cheaper to produce
Expected future prices higher than current save your goods to sell in future. Lower current supply

Market Equilibrium



Equilibrium is ideal because everything supplied is sold and demand is saturated.
If a new innovation is created, increases supply (moves to the right), new equilibrium price is lower
New info/ad campaign increases demand (moves to the right), new equilibrium price is higher and quantity went up
Productive substitutes become popular, lower demand. If supply also lowers (suppliers invest in the substitute), both curves shift to the left. New equilibrium point same price, lower quantity. If the reduction in supply or demand is not proportional,

it will follow the same equilibrium trends as above (i.e. is supply lower than demand, equilibrium price high and quantity low; if supply high and demand low equilibrium price low and quantity high). If labour unionizes, wage increases and the cost of production increases, product less profitable. Supply curve moves to the left. Equilibrium quantity decreases while price went up.

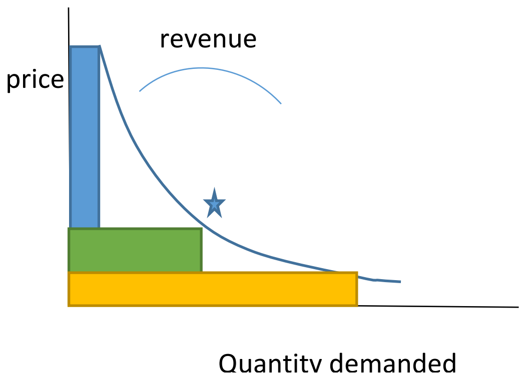
Elasticity of demand

How does a change in price impact the quantity demanded
Elasticity of demand = % change in quantity/ % change in price
Very elastic: for a given change in price, a large change in % quantity demanded (elasticity > 1).
Inelastic: for a given change in price, a small change in % quantity demanded
Use the average between the two points when calculating the percentages (change/average quantity)
On a linear demand curve, elasticity does not remain constant because it is based on a percentage change. Much more elastic at low quantities and high prices; relatively inelastic at high quantities and low prices

e.g. Insulin medication has a perfectly inelastic demand (constant demand regardless of price). If there are two vending machines and one becomes slightly cheaper selling exactly the same products everyone will buy from that vending machine = approaching perfect elasticity demand

Constant elasticity across the demand curve: Very steep at low quantities, very flat at large quantities, at middle points equally proportional

Total revenue = area under the demand curve



There is a point where the total revenue is maximised. Unit elasticity yields max revenue.

Cross Elasticity of demand: when a competitor selling the same thing increases their price for the same product, demand for your product will increase

Cross elasticity = change in demand of your product/ change in price of competitor

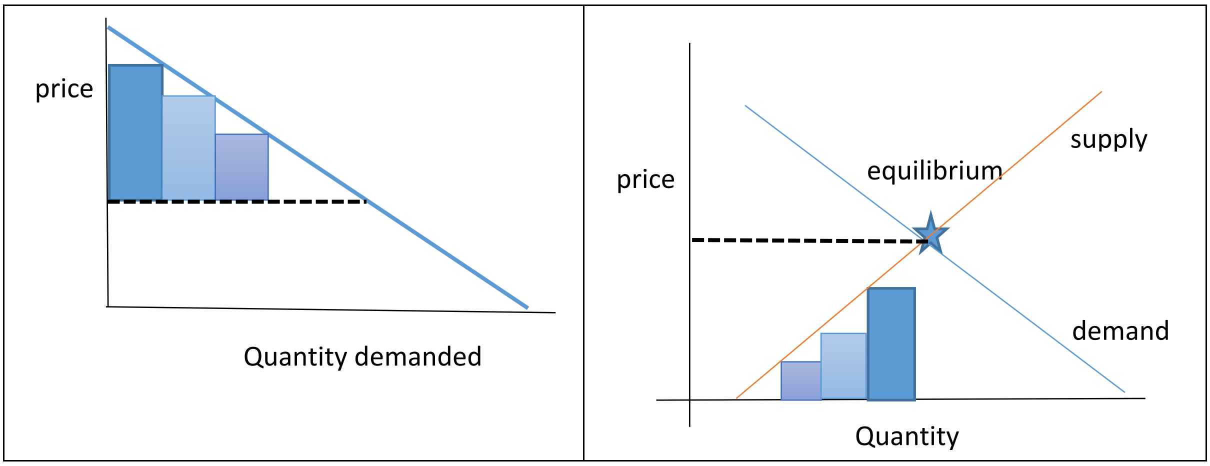
Cross elasticity approaches infinity when you have perfect substitutes. For substitutes cross elasticity will be positive. For complimentary products, when the price of the complimentary product decreases the demand of your product increases (cross elasticity is negative). For unrelated products there is no cross elasticity.

Elasticity of supply

Elasticity of supply = % change in supply/ % change in price

Inelastic supply: supply remains constant, independent of cost. Elastic supply: if the price of production increases marginally, shift supply to the alternative that is cheaper to produce and vice versa. Unit elasticity, as price increases, quantity supplied increases proportionally.

Marginal Benefit and Opportunity Cost Curve



If we produce X number of products in a time period, how much could we get for it? Start with units then price it. Measuring the marginal benefit curve as an opportunity cost; marginal benefit = price of increasing number of units relative to selling price. The first customer was willing to pay more for the car than the fourth person, so the first units are being sold below their marginal benefit. The marginal benefit is therefore higher than the price the product is sold for. Total excess of marginal benefit = consumer surplus. Not beneficial to the seller. Area between the demand curve and the market price = total consumer surplus

Minimum selling price needs to be higher than the opportunity cost of producing a certain quantity of the product. Supply curve = opportunity cost price for suppliers. Area above the supply curve = producer surplus.

Competition

Perfect competition

- Many players with identical products
- No barriers to entry
- No advantage for existing firms
- Good price information

US airline industry is a highly competitive industry. If there is currently economic profit, there is incentive to enter the market. Eventually creates a long run supply curve

Monopolies

- Only one provider with one product
- Huge/legal barriers to entry
- Ultimate advantage for existing firms (govt backing)
- Only one price, can charge higher prices

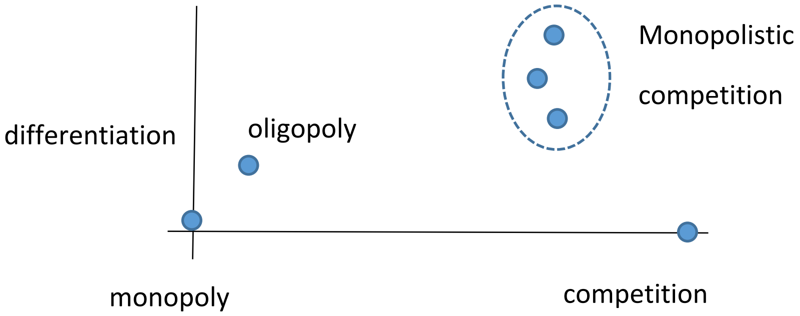
No trend of more companies entering the market to create a long run supply curve. Monopoly supplier can price product as they choose. In a monopoly, we optimise the cost by

Total revenue = area under demand curve (price X quantity)

Marginal revenue = change in total revenue/ change in quantity

Oligopolies

Between a monopoly and perfect competition, lies along a spectrum. Oligopolies represent a small number of providers with relatively similar services. Monopolistic competition is due to the products having some sort of differentiation, thereby potentially cornering smaller markets e.g. Apple computers have a monopoly on Macs but not on laptops. No name brand computers can compete in the laptop market



Monopolistic competitors struggle to make profit in the long run, as competitors make substitutes that begin to eat into demand, as they have a comparable/better product and are heavily marketed.

Oligopolies can coordinate to restrict supply and increase profit = collusion. Formal agreement of collusion = cartel. OPEC Organisation of Petroleum Exporting Countries (control 79% of the world's oil reserves between 12 countries, 44% oil production). Oligopolies can be fiercely competitive e.g. Coke and Pepsi. Spend billions on marketing to compete. If only two players = duopolies (Coke/Pepsi, Boeing/Airbus). Despite the agreements, there is profit incentive to cheat on these restrictions and make lots of money at a higher price

Parastatals/State Owned Enterprises

A parastatal/state owned enterprise is an organisation that is partially or fully owned by the govt. The services it provides are typically services that govt has legislated every person should have access to. Nationalisation, is the process of transforming private assets into public assets by bringing them under the public ownership of a national government or state. Nationalization may occur with or without compensation to the former owners. Nationalized industries, charged with operating in the public interest, may be under strong political and social pressures to give much more attention to externalities. They may be obliged to operate loss-making activities where it is judged that social benefits are greater than social costs — for example, rural postal and transport services.

State Owned Enterprise	Privatised Enterprise
Active mandate to provide service to all people by govt, non-profit incentive structure. Access (can lower costs as a govt entity)	Profit incentive means that they are likely to be more efficient. Competition = accountability
Typically very bloated organisational structures and budgets, slow completion of projects and poor business models	Will provide services to those who can afford it most and monetise a service that is essential. Some people may struggle to afford the service
Govt has to take out large amounts of debt or include high taxation to pay the SOE's	Business attempts to control the resource itself, e.g. water privatisation in Bulgaria
Limited accountability = no competition	Can introduce perverse incentives such as oil companies buying patents on green tech to keep it from being released to market

Economies of size and scale

More units of a good or service can be produced on a larger scale, with less average input costs. As a company grows and production increases, they have a better change of decreasing input costs. Main driver of corporate giantism: Henry Ford

Economies of scale

- Lower input costs: buying in bulk discounts
- Costly inputs: R&D, adverts (brand), managerial expertise and skilled labour increases efficiency
- Specialised inputs: as scale increases, employ specialised workers and machinery
- Learning inputs: techniques and organisation of input
- Better transport networks and infrastructure (external)

Poor internal economies of scale due to inefficient managerial or labour policies, over hiring or deteriorating transport networks

Economies of scope: cheaper to produce a range of products that are related to one another than one on its own. Businesses often share centralised functions and cross sell one product alongside another (BTR and Hanson in the UK 1970-1980s and ITT in the US)

Prisoners Dilemma, Nash's Equilibrium and Game Theory

Prisoners' dilemma and game theory

2 prisoners caught in open and shut drug cases (2 years in jail). 2 characters suspected of committing a much more severe crime, creates a potential deal with each of the prisoners. If you confess and the other doesn't then you will get 1 year in prison and the other guy will get 10 years. If your co-conspirator confesses you get 10 years and they get 1. If both of you confess you both get 3 years.

	Bill	
Al	Confess	Deny
Confess	3/3	1/10
Deny	10/1	2/2

Best scenario is both denying, however rationally they are both likely to confess. Game theory: different players have different strategies and take each other into account. Nash equilibrium: each party chooses the optimum given the choices of the other party. If Bill confesses it would be better to confess too (3 years instead of 10 for Bill's confession). If Bill denies, it would still be better to confess (1 year instead of 2 for both denying). Therefore regardless of whether Bill confesses or not, it would be better to confess. Both denying is an unstable optimal point, as both parties see a way to improve their situation. The Nash equilibrium is very stable as although despite the fact that it isn't the global optimum it is the best choice regardless of which scenario the other person picks.

Nash equilibrium: stable state of a system that involves several interacting participants in which no participant can gain by a change of strategy as long as all the other participants remain unchanged.

Negative externalities: cost associated with production that is not being factored into marginal cost curve for producers (environmental factors, cost to society)

Positive externalities: additional benefits not factored into the marginal benefit curve for consumers

Tragedy of the commons

Near term benefits for the individual versus long term negative consequences that are shared out between all actors (overfishing in a public pond gets you more fish but destroys the productivity of the pond long term). Actors reason that even if they behave well others might not, so they will lose the benefit and still not prevent the harm. Shared resource abused = tragedy of the commons. No single person accepts blame. E.g. Common grazing land or environmental restriction. Could become private land or sell permits for agreements to use the resource responsively

First degree price discrimination: Don’t have to charge the same price for the same product. Simply by marketing it differently and selling it at different places one can reduce the consumer surplus and sell more units

Macroeconomics

Economic systems: capitalism, communism, socialism

Economic systems: Capitalism

There are multiple different strategies that can affect productivity and competitiveness, and help people escape from poverty. Each has its own benefits and problems. Three are particularly important:

1. Free Market Economics
2. Interventionist Economics
3. Welfare Economics

Free Market Economics

Proponents of free market economics generally believe that the best thing we can do to make the economy strong, is to leave it alone. This principle of laissez-faire ('leave it alone') says that when government try to control or change the economy they generally make things worse. Since consumers know what they want, and companies know how to produce it and will profit from doing so, the economy (or 'market') will naturally meet the needs of the people. However, this natural process breaks down when government tries to put high taxes on companies or makes businesses follow complicated rules. These interventions increase the cost of production for companies, and increases the price that consumers must pay, meaning that everyone can afford to buy less of the things they need and want. These interventions also hurt competitiveness, which is vitally important if companies are going to succeed in selling their products overseas. To see this, compare two economies: China and the United States. In China, companies pay 25% tax rates, compared with 39% in the United States. The average factory worker in America works for 8.6 hours every day, whereas in China (where there is weaker government regulation on working hours) a factory worker averages 12 hours of work per day. Finally, in the US an average factory worker would get paid $23.32 per hour, thanks in part to regulation like minimum wages. Whereas in China, the average worker gets paid $1.36 per hour. All these differences add up to big savings for companies that produce in China, making Chinese businesses more competitive. This means more companies are likely to build factories in China, which helps create jobs and lift people out of poverty. Over the past 30 years, this competitiveness has helped lift 500 million Chinese people out of poverty, and has propelled the Chinese economy into the position of the second largest economy in the world.

Interventionist Economics

Others, however, would argue that doing nothing is not enough to build up economies. Often having no policies helps companies grow richer, but this doesn't necessary help people grow richer. If everyone worked for a $1 an hour, the economy would grow very rich, but everyone except business owners would be poor. Because of this, others argue that there needs to be active intervention by government in the economy to maintain a working system that benefits all. This interventionist economics is sometimes called Keynesian economics, after John Maynard Keynes, the influential economist that created many of the theories this branch of economics is built on. There are any number of ways that governments can get involved in economies, including regulation, but the bigger focus here is on government spending. When governments spend they have to raise taxes to pay for that spending, and those taxes hurt the competitiveness of companies. However, spending can also improve the competitiveness of companies. Imagine if governments cut their spending on keeping roads paved and in good shape. Companies would have to invest in heavy duty trucks to handle the roads, they would have to spend more repairing broken trucks, and they would slower delivery times which would hurt their performance. Doing all this would cost much more than paying a small amount of tax, which could have kept the roads in excellent shape. So long as government spending makes sense - providing companies with good quality infrastructure, well educated workers and a safe environment for work – then taxes might improve competitiveness. Sometimes spending might just be good in itself. When the economy is very weak, and companies aren't employing many people, then government projects can employ those who can't get jobs. Those people would then spend their money in the economy, revitalizing the struggling companies. This is called counter-cyclical spending, since it is spending that fights against cycles in which the economy grows weak at certain times.

Advantages	Disadvantages
Promote higher wages and help workers get better benefits (medical insurance, vacation days and sick days). Better access to a funded retirement	Protect most senior members; many jobs in a unionised environment come through seniority instead of education and experience. Unions may represent the interests of older members over young members, or may only consist of older members of the workforce, making them unrepresentative of the entire workforce
Help the families of workers receive better benefits (maternity/paternity leave, medical care for dependents)	Initiation and ongoing fees are deducted from workers' salaries
If an employee is fired it must be for a "just cause" rather than "at-will"	Unions may participate in activities that workers don't agree with (strikes, political affiliations and lobbying)
An intermediary that creates more opportunity for communication and negotiation between workers and employers	Union members can exert extreme pressure on any worker not participating in union actions such as strikes or protests. Non-participatory workers may be subject to abuse and violence
Correct for a power imbalance between worker and employee by representing an entire group. One worker is far less likely to complain about conditions if they feel they are the only one and stand the risk of being fired. Unions allow a figurehead for collective bargaining to occur	Strikes and protests in key industries can be highly disruptive to a national economy. Some strikes can become violent, with damage to property and sometimes even harm to individuals

Gives workers better access to information about their rights	Unions can advocate for positions that aren't necessarily in the best interests of the workers long term because of large scale economic conditions (lowering the retirement age in Europe with an aging population, increasing minimum wages when your economy is at risk of inflation)

Unionisation

Workers can collectivise under trade unions (TU) which facilitate negotiations between workers and employers. The TU forms a critical mass where workers concerns and views can be aired. The larger the trade union, the greater its power. Some TUs have political affiliations, even participating in political lobbying and political alliances.

Trade Union Density in %

Country	Density
Western Europe	
Iceland (2006)	88
Sweden (2007)	71
Finland (2007)	70
Denmark (2007)	69
Cyprus (2002)	68
Malta (2005)	59
Norway (2007)	54
Belgium (2007)	53
Luxembourg (2007)	46
Austria (2006)	40
Italy (2007)	33
Ireland (2007)	32
Greece (2007)	30
United Kingdom (07)	28
Germany (2007)	20
Netherlands (2007)	20
Spain (2006)	16
Portugal (2004)	19
Switzerland (2006)	19
France (2007)	8
Australia & New Zealand	
New Zealand (2006)	22
Australia (2007)	19
North America	
Canada (2007)	29
Mexico (2005)	18
USA (2007)	12

Country	Density
Eastern Europe	
Moldova (2005)	80
Macedonia (2006)	75
Slovenia (2004)	45
Russia (2003)	45
Romania (2005)	30
Slovakia (2004)	24
Czech Rep. (2006)	21
Albania (2006)	20
Hungary (2007)	17
Latvia (2006)	16
Poland (2006)	16
Bulgaria (2001)	16
Lithuania (2006)	14
Estonia (2005)	11
Centr. & South America	
Suriname (2006)	60
Barbados (2002)	34
Argentina (2002)	29
Bolivia (2006)	25
Brazil (2002)	18
Uruguay (2000)	16
Costa Rica (2002)	15
Chile (2006)	15
Honduras (2003)	14
Puerto Rico (2002)	14
Ecuador (2002)	12
Venezuela (2002)	12
Panama (2005)	11
El Salvador (2003)	5
Nicaragua (1998)	5
Peru (2002)	5

Country	Density
Asia	
China (2000)	90
Tajikistan (2006)	90
Georgia (2005)	80
Taiwan (2003)	38
Bangladesh (2001)	35
Kazakhstan (2002)	31
Philippines (2002)	27
Hong Kong SAR (2002)	22
Sri Lanka (no year)	20
Singapore (2006)	19
Japan (2007)	18
Malaysia (2000)	18
Indonesia (2005)	14
Rep. of Korea (2006)	10
India (2001)	8
Thailand (2006)	3
Pakistan (2002)	3
Cambodia (2006)	1
Middle East & Africa	
Kenya (2006)	33
Namibia (2000)	32
Israel (2006)	25
Botswana (2006)	20
Gambia (2006)	20
Tunisia (2004)	15
Nigeria (2004)	10
Turkey (2004)	8
Morocco (2000)	5
Tanzania (2002)	5
Oman (2007)	0
Qatar (2004)	0
Saudi Arabia (2000)	0
United Arab Er.(2004)	0

Key to Sources:
OECD.stat, 2010
Hall-Jones, 2010
Johnson, 2004

Welfare Economics

One special type of spending is that which does not aim at improving competitiveness, but rather aims at directly helping the people. Instead of government spending to improve competitiveness, spending goes directly towards meeting the needs of the poorest, most vulnerable members of society. This support can come in the form of direct money transfers, or the provision of free services like education or healthcare. Welfare systems don't just help the poor, they can also help the broader economy. Poorer people now have money to buy things from companies, who thus have many more customers. A more educated and healthy population also improves competitiveness. On the downside however, welfare can be very expensive, leading to an increase in taxes that might discourage investment and lead to fewer jobs being available to permanently lift people out of poverty.

Emergent economies

Peer to Peer Economics

This is also referred to as collaborative/sharing economy which allows people to share assets, services and time with other people and get incentives, in monetary or in kind. As an economic model, this works by way of offering one's assets, including cars or homes, which are not being used often, to individuals who are willing to pay in exchange for temporary use. Companies such as Uber and AirBnB simply provide a platform and take a percentage of the revenue from the transaction. In the Developing and Developed world there is a huge informal market for Peer to Peer related services like Transport which are not regulated (Taxi Industry in South Africa, Domestic Workers in Hong Kong/Malaysia, Taxi Industry in New York)

Advantages	Disadvantages
It uses the resources that people already have to add a service to the economy where there is a need	Workers don't have the same protections as full-time employees such as paid leaves, sick pay and bonuses. After taking expenses into account, most workers are paid less than minimum wage
More people can find employment and profit opportunities in the peer to peer economy	Disrupts existing industries
It facilitates jobs for individuals while giving them the power to give their own terms and have more flexible working hours.	Peer to peer economies are less regulated and not all who earn an income pay tax on their online earnings
It encourages collaboration between those that have an asset and those that have time; many people have rented their cars to those who would like to be uber drivers	Consumers may still be vulnerable to abuses as they are traveling in a strangers car or staying in a stranger's house with a minimal vetting process used to check the suppliers credentials
There are very limited barriers to entering this type of job: you need a smart phone/computer, internet access and the asset of interest	Their services don't always confirm to the same regulations; taxi drivers are required to carry extra insurance and liability coverage in case they injure their passengers in an accident and have to carry a medallion. Uber drivers don't have to comply with these regulations. AirBnB introduces zoning issues to residential areas.
Feedback is heavily prioritised, incentivising improvement and specialisation and giving consumers full information	

Cryptocurrency and block chains

Bitcoin is a digital and global money system (currency), released in 2009. It allows people to send or receive money across the internet, even to someone they don't know or don't trust. Money can be exchanged without being linked to a real identity but it does keep track of the addresses of the money. It is completely decentralised, no central bank and no intermediaries (no permission from a payment company required) = peer to peer payments. The block chain is a shared public ledger on which the network relies. All confirmed transactions are included in the block chain. To generate a Bitcoin, computers run specialized software. Because of how complicated the math needed to generate a Bitcoin is, they must be calculated with very powerful processors. People who use their computers to mine Bitcoin, are paid with a small percentage of the Bitcoins they generate. The limiting total that can be mined is 21 million Bitcoins (supply is finite), the mining rate halves every 4 years and each Bitcoin can be divided by 10^-8. People either mine or buy Bitcoins. If they are buying Bitcoins, they exchange conventional currency for a set amount of Bitcoins. Thus the exchange rate is volatile, regulated entirely by how much people are willing to pay. One Bitcoin currently matches a bullion of gold. Bitcoin works outside govt regulation (can't tax Bitcoin) and subverts the traditional banking system and is therefore banned in some countries. Wikileaks is heavily reliant on Bitcoin as other companies don't trade with them. The same can be said of Silk Road, a black market trading site for illegal drugs and goods.

If Bitcoin becomes widespread it could make central banks obsolete, introduce huge risk to the economy and trigger deflation. Central banks have been printing money to avoid deflation which can trap economies in decades of weak growth (Japan). If Bitcoin was used extensively, the central bank's levers to manage the economy through interest rates and money supply would be redundant.

Economic systems: Communism

The Communist manifesto argues that class struggles are the motivating force behind all historical developments. Class relationships are defined by the era's means of production, but eventually these inequalities will become unsustainable = revolution. Modern Industrial society is characterized by class conflict between the bourgeoisie and the proletariat and the productive forces of capitalism will bring its own revolution, due to its inherent instability. The proletariat will lead the revolution but in order to obtain control they will need to destroy all ownership of private property.

This society has class antagonisms as well, but it is also unique: class antagonisms have become simplified, as society increasingly splits into two rival camps--Bourgeoisie and Proletariat. The modern Bourgeoisie is the product of several other revolutions; starting from the manufacturing middle class, developing through the industrial revolution from an industrial middle class to industrial millionaires. With the development of modern industry and globalisation of markets, the bourgeoisie have gained exclusive political sway, creating a state that serves solely their interests. Historically, the bourgeoisie played a revolutionary role, ending "feudal and patriarchal" relationships, eliminating what bound people to their superiors. Exploitation was mired in religious and political aims, but is now direct on the free market. All occupations are changed into wage-labouring professions and the bourgeoisie continuously disrupt the instruments of production, basing all relationships within the society on it. Needing a constantly expanding market, the bourgeoisie establishes connections all over the globe, influencing national sovereignty and isolationism. Modern productive forces are revolting against the modern conditions of production. In Marx's theory, history is shaped by economic relations alone and he believed that the modern class conflict would mark the end of all class relations.

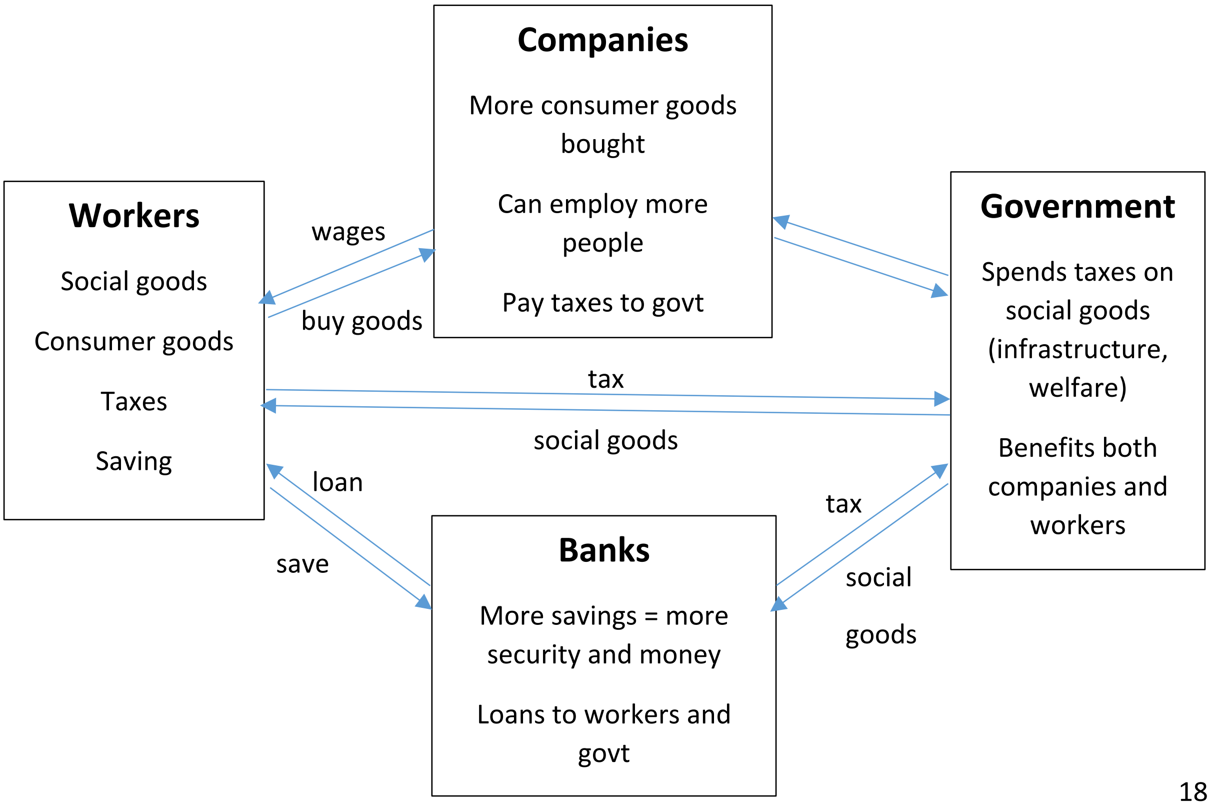
The proletariats live only as long as they can find work and they can work only as long their labour increases capital; they are a commodity, subject to all market fluctuations. Due to the development of machines the proletariat has no inherent value, it is simply an appendage of a machine. As his work becomes more repulsive, his wage only decreases. This slavish existence is not sustainable as workers today suffer a continuous deterioration of their status. The proletariat must destroy all private property such that labour exists for the sake of the labourer, not to enrich bourgeois controlled property. Marx argues to abolish nationality, as it holds no significance since industrialization has increasingly standardized life.

The bourgeoisie must employ its political power (numbers) to seize all capital and centralize all instruments of production. Probable steps in the revolution will include: that abolition of ownership of land; heavy progressive income tax; the abolition of inheritance rights; state centralisation of credit, transportation and communication; state appropriation of factories, the establishment of free education for children. Marx dismisses welfare, social security and a minimum wage as attempts to preserve the capitalist system by making the situation of the proletariat tolerable enough that they accept their social role.

Kerala voted in a communist party with the following outcomes

- It has the highest literacy rate (93.91%), highest life expectancy (74 years) and most balanced male to female ratio among Indian states
- A survey in 2005 by Transparency International ranked it the least corrupt state in the country
- It is India's cleanest and healthiest state
- According to a survey by economic research firm Indicus Analytics, 5/10 most livable cities in India are in Kerala
- The human development index (HDI) rating is the highest in India at 0.79

Circular flow of income and expenditures



Individuals in society benefit from the goods and services that companies produce and from the wages companies pay them. They also spend money on social goods such as healthcare, education and housing, and on taxes to the government. The company benefits from people buying their goods, from the skills and health their workers acquire when engaging in social goods and from the infrastructure created by government. They spend money on wages for workers, costs of production and taxes to the government. The government collects taxes from the workers and companies and uses it to create public social infrastructure (schools, hospitals) and physical infrastructure (roads, etc).

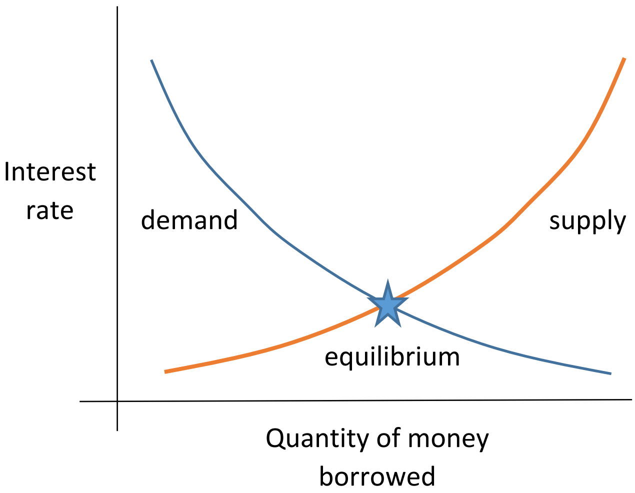
Measuring economies and the business cycle

Measuring economies

- *GDP:* the market value of all final goods and services produced within a country in a given period. Market value: What are people willing to pay for the goods and services, the value of a product/resource can change. *Real and nominal GDP*: in order to establish the 'real' productivity of a country, one can measure the increase in quantity based on a certain year's prices. Nominal GDP is measured in that year's prices while real GDP measures GDP with prices from a specific reference time period. *Investment:* capital equipment, inventory, structures by firms (produce future benefit); new homes by households. *Consumption/ Expenditures:* Any spending on newly produced final goods or services by households (except from new homes). Expenditure view of GDP = Expenditure by firms, household,, government and foreign purchases (exports) – foreign products (imports)
- *GDP per capita:* Total GDP divided by the population of the country. This calculates how much wealth each person has in the country.
- *Unemployment rate:* Measures how many people cannot find a job. The unemployment rate doesn't include people who don't want a job or people who have given up looking for a job, it only focuses on those who can't find a job. An unemployment rate of 40% means 40% of the working age population are looking for work but cannot find any.
- *Poverty rate:* There are a number of measures that calculate poverty, most of which are based on the number of people living one less than a certain amount of income per day. The most popular measures are number of people living on less than a $1 per day, and number living on less than $1.25 per day.
- *Gini coefficient:* Measures the level of inequality in a country. The gini coeffieicnt ranges between 0 and 1, with 0 being a perfectly equal country, and 1 being a perfectly unequal country, with all money sitting with one person.
- *Human Development Index:* a composite statistic of life expectancy, education and per capita income indicators

Outside the broad direction of states – as free market economies, interventionist economies, or welfare states – governments have to make a range of decisions on specific economic problems. Many of these decisions will present themselves in debates, and two are particularly common: debt and trade.

Interest Rates

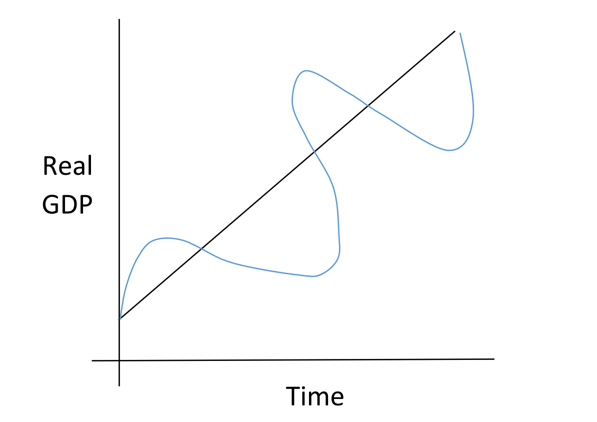


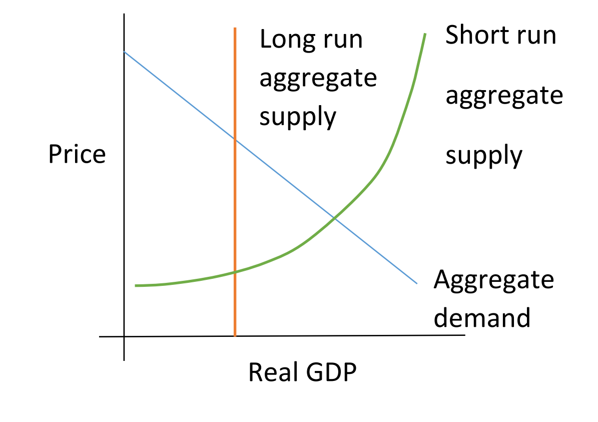
Price of money/ rent on the money that you are borrowing. You can borrow a lump sum of money but the repayment has an interest rate. When certain that people will pay back their loans: for small amounts of money, huge marginal benefit can be obtained from it (people are willing to accept high interest rates and lenders are willing to accept low interest rates). For large amounts of money, interest rates are high (most people don't need that much money and most people don't have the ability to lend out such a large quantity). Can effectively view money like any other product with supply and demand curve. If people have more money, supply goes up, demand goes down (don't need to borrow as much money). Central bank lowers interest rates by increasing the supply of money (printing money and lends money by buying government bonds). Saving money in a bank, bank lends out that money, which is used by others to make investments. If consumer savings go down, the supply of money goes down. Government borrows money, demand increases and interest rates go up. If demand for loans goes up, interest rates increases

Aggregate demand and supply

Over time real GDP will increase, will fluctuate around a trend line = business cycle. Economy isn't a linear, steady growth however it is unpredictable. Growth phase of the business cycle = expansion and dip in business cycle = recession. Human confidence to take risks affects the business cycle.

The inverse is also true, if factories are producing more than their natural threshold, they are skipping maintenance and cool down, paying overtime and want to charge more on products.





Aggregate demand: economy as a whole rather than one good or service. If prices are high GDP will contract and if prices are low GDP will increase, therefore downward sloping aggregate demand with all other things equal

- *Wealth effect:* If prices are low, people will buy more but if prices are high they won't buy because they feel like they can't afford things.
- *Savings and interest rate effect:* if everything is half price, you spend less on your typical goods and services and can therefore save more. Money goes to the bank, who then lends out and interest on loans goes down. Stimulates investment and the economy expands
- *Foreign exchange effect:* prices go down, interest rates on savings go down. Investors convert into other currencies to get higher interest rates in another country (people convert out of the currency). Dollar will weaken relative to other currencies, American goods and services appear to be cheaper to British people. Foreign consumers buy American things, demand increases, as does GDP

If consumption/investment/government spending/net exports increases, aggregate GDP would increase and the demand would increase

Long run aggregate supply: natural level of productivity that isn't price dependent, capability to produce.

Short run aggregate supply: as prices go up, aggregate supply will move beyond the long term aggregate supply level (more people in the labour market, factories run longer). As prices go down, aggregate supply goes down

- *Misperception theory:* aggregate prices go up, misperceive as a microeconomic phenomenon. I perceive the prices to be increasing relative to other alternatives, incentivised to supply more. All products are more expensive so not making more profit in real terms
- *Sticky wages/cost/prices:* even if in aggregate, price increase not all increasing at the same rate. Takes a while for contracts and suppliers to catch up with that increase. If price increases you would have to implement time consuming changes (menu reprints etc) before the new prices rollout.

Debt

Whatever role government plays, it needs to pay for the things it does. Governments can finance their activities in many ways. The most important is probably taxes. But governments can spend more than they bring in in tax, by going into debt. Government debt – also called sovereign debt or public debt -

is usually very cheap. Banks charge high interest rates to borrowers they think might not pay back their debt, and since governments are so reliable, banks are willing to lend to them at very low interest rates. Because of this, almost every government in the world is currently in debt, having borrowed to spend beyond their tax income. The United States government currently owes over $17 trillion, while the Korean government currently owes around $478 billion. These are enormous amounts of money, but government tends to bring in so much money, that these debts can possibly be repaid quite quickly.

Inflation

If money supply grows faster than the total real productivity of the economy the general level of prices will increase. Supply shock: commodity becomes scarce suddenly and the price increases. A little is good (1-3%/year), too much is hyperinflation, too little is deinflation. Inflation is measured by the Consumer Price Index (CPI) – U (Urban) as most of country are urban consumers. The price of a basket of base goods is compared to a reference year to measure the increase in the cost of living in a country. Inflation is inversely proportional to the employment rate. Low unemployment increases workers buying power causing prices to go up. Stagflation high unemployment and also high inflation due to supply shock on oil supply. If you get a raise that is lower than the rate of inflation that year, you actually have less purchasing power.

Demand pull inflation: GDP and employment increases with low inflation = economic growth. 1963 US economy is working at close to capacity, govt keeps spending on war and social programmes. 1966 inflation kicks in. You cannot keep increasing productivity ad infinitum, therefore productivity will start dropping off again but prices will remain high = inflation (lots of money and high prices)

Cost push inflation: low GDP lots of excess capacity/slack in the economy, if you want more productivity people aren't going to demand high price increases. High GDP prices go up to max productivity. If aggregate supply curve shifts to the left, price goes up and productivity goes down (GDP contracts) = stagflation (1973 Arab oil embargo due to US support of Israel in Yom Kippur war, 1979 Iranian revolution results in oil supply dropping dramatically. At a given product price suppliers supply less real profit diminished)

Bubbles: Rapid increase in the price of a single commodity. Each person bets that they can sell at a higher price to the next person, but eventually you run out of buyers and the bubble bursts. 1990 companies invested in all sorts of internet sites that no one cared about. The internet took off but those sites didn't. Dutch tulips in the 1630s became a social fad among emerging class, height of the mania people exchanged 12 acres of land or 10 years' worth of salary for a single tulip bulb. Tulip bulbs are now less than $1. The housing market in the 2000s experienced a similar bubble.

Hyperinflation: When inflation rises rapidly and disproportionately to your economy = erosion of wealth. Your savings in the currency do not give you any purchasing power (it isn't actually worth anything in real terms). Hyper = when a country experiences a monthly inflation rate of over 50%. Extreme inflation forces people to spend as quickly as possible so there is no money for investments, limiting foreign investment and trade. In Germany and Zim, after a few years of high inflation people started to anticipate the price increase and that changed behaviour (they spent as quickly as possible, rather than saving). Velocity of money = number of times a dollar is spent per year. Increasing the velocity pushed inflation up even faster. Cycle of higher prices which leads to the expectation of higher prices.

- Hungary 1946: Price level rose by a factor of 3x10^25

- Germany 1923: In order to pay post WWI reparations Germany printed a lot of their currency. No 1923 1 trillion Marks = $1 US.
- Zimbabwe 2007: inflation grew rapidly, govt printed money to pay off debts. 2008 IMF estimated inflation rate at 489 billion percent. The Zim dollar lost 99.9% of its value 2007-2008. A load of bread cost what 12 new cars did a decade ago. Abandoned currency, trade in US dollars or rands. Prices have since stabilised and real GDP is now growing
- Venezuela

Banking

Commercial banks: People work and have savings, gold/money entitles you to future goods and services and an entrepreneur has an idea but no gold/money. If entrepreneurs could borrow money to start a project they can start generating income. Tough for entrepreneurs to evaluate who has money and for people with savings to evaluate what a good project is. Equity is the money that is invested in the bank itself (shareholders own equity in the business). Money given to me by savers = liabilities. Some of the money is kept in the bank, the rest of it can be loaned out (assets).

Investment banks:

Central banks: an independent national authority that control the supply of money to a country, regulates banks and provide financial services including economic research. Its goals are to stabilize the nation's currency, keep unemployment low and prevent inflation.

Fractional reserve banking

Central bank regulatory body that has a right to create money (print or electronic). The money that is printed can enter circulation by lending it to member banks, generally the reserve is used to buy securities/bonds that are very stable = government debt. Whoever owned the securities now has money, deposits in a private bank. Money can now be leant out (fractional reserve lending). Banks don't keep all of the money that people save, they lend it out to other people despite promising that all of that money is available to the people who save. This goes to other banks down the line. Printing money therefore created more value as many banks can lend out portions of the original money. Cheque writing enables transactions while the money itself sits in the bank. Amount of money in circulation is not completely in control of the central bank, if private banks feel confident more lending will happen and they will have fewer reserves.

Major problems with this system

- Fundamentally unstable: unless many restriction imposed; depositors promised money on demand but if there is a bad actor in the chain, all customers go to get their money and discover its gone. Rest of the economy says banking system is not as secure as thought. Run on banks, major bank failures and bad for economy.
- Non market incentives: Central bank or govt insure banks up to a certain amount. If the bank doesn't have the money, the federal reserves will give them the money = nonmarket incentives. Customers then don't scrutinise the choices of the banks (good or bad loans)
- Banking system has lots of control over the money supply; more lending = more money supply. If economy is weak, standard monetary policy suggests increasing the supply of money. Lending declines and reduces the money in circulation. In a boom, central banks would reduce money supply but banks will be happy to lend out confidently.

Full reserve banking = if you put money into a bank the bank has to keep it. In order for lending to happen, the bank has to lend the money from you. Lock money in with them for an agreed upon amount of and get higher interest rates. Will not increase the amount of money as no one can write cheques for the reserves in the original bank. Bank can't make any money on its demand deposits therefore will have to charge higher fees for profit. Central bank prints more money for it to be available.

Foreign currency reserves

If people want to invest in a country, supply of home currency increases while foreign currency remains the same (more A's per B). Central bank can print more money to rebalance currencies, prevent appreciation of currency. The foreign central bank now has large amounts of the home country's currency. If investors then want to sell foreign currency, demand for home currency increases (more B's per A). Central bank can go into open market and also sell their reserves of A to equalise the supply of A and B. Finite reserve of A, then will have to go back to market forces. This is pegging a currency.

Thai financial crisis: 1990s exchange rate relatively fixed. 1997 devaluation imports more expensive, increases cost of living, banking crisis. 1992 short term interest rate high. Thai bank borrows at low interest rates in the US 7% and lend out at 11%, obtain 4% gain. Investors get scared, pull out. If foreign currency appreciates, you suddenly owe more Thai money for the same dollars. Many banks go out of business.

Credit ratings agencies: Private entities paid to rate things

The stock exchange

The stock exchange trades securities (rights to assets, mostly in the form of shares in a company). The value of a share relates to the company behind it; the more money a company is making the more their shares will be worth. Shares can go from being worth $1 to $50, earning the owners profit. Companies can raise funds to invest or expand by selling the shares on the stock exchange (Facebook has earned $16 billion from its listing on the stock exchange). If a company has good returns, investors will back it, but if it has a poor reputation the company will struggle to sell its shares. Trading is a game of chance, effectively gambling with your money. Typically safe shares are those that have low risk but also low return. In order to get large returns one has to take larger risks. The value of the shares is impacted by the demand for shares in that company (i.e. what investors are willing to pay for a share in that company). Investors may choose to buy shares in a company that is starting out or not currently performing well as they feel it will begin to make a profit for them at a later time. Maximum profit to be made when buying cheap shares that then accrue value and selling them at a much higher price. However, the shares are cheap because the company is currently not performing, so it is down to speculation. The best case scenario is that the company uses the investment to buy things it needs and is able to turn its ideas into a reality; the worst case scenario is that the investment is simply a speculative bubble.

Macroeconomic policies

Monetary policy

Monetary policy is related to how much money is in circulation at any given time. More money in circulation can increase output or costs or some combination of the two. Money is printed by the central bank (government associated or quasi-independent) and it lends it out (buys debt/lending money). Buy a treasury bond, lending money to the government. Increasing the supply of money. By increasing money, interest rates go down. More borrowing at lower interest rates, therefore more demand for goods and services (stimulate the economy) = expansionary monetary policy. If a central bank reduces the amount of money in circulation = reductionary monetary policy. They have several monetary policy tools to control liquidity (money availability) in the financial systems

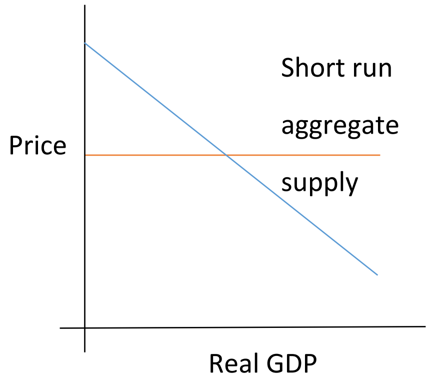
- They set a reserve requirement, which dictates to private banks how much cash to have on hand each night
- They use open market operations (quantitative easing) to buy and sell securities from member banks. It changes the amount of cash on hand without changing the reserve requirement. They used this tool during the 2008 financial crisis. Banks bought govt bonds and mortgage backed securities to stabilize the banking system.
- They set targets on interest rates they charge their member banks. That guides rates for loans, mortgages and bonds. Raising interest rates slows growth, preventing inflation.
- They act as a bank for private banks and govt, lending money to their members
- They store currency in their foreign exchange reserves, allowing them to affect exchange rates by adding foreign currency to keep its own currency in alignment (pegging currency)

It takes about six months for the effects of a monetary policy to trickle through the economy. They usually operate independently of elected officials

Fiscal policy

Government has money from taxes and debt markets (issues treasury bonds so that they can finance their debt). Government itself demands goods and services to shift up aggregate demand. GDP = consumption + investment + govt expenditure and net exports, therefore when govt spending goes up, GDP goes up if all else remains constant. Lower taxes to give consumers more money but less to the govt itself. Consumption goes up and firm investment goes up therefore GDP goes up too.

Keynesian thinking



Spark demand by increased government spending and tax cuts = more money to spend. Classical theory suggests that the only way to can grow your economy is to increase supply and productivity. In Great Depression factories want to produce and people want to work but there is no demand. In the short run prices are extremely sticky when the economy is producing well below its capacity because people are desperate for jobs and to sell their products. They therefore will accept any chosen level of prices. Real GDP is therefore independent of cost and the only way to affect GDP is on the demand side through monetary policy (print more money) or fiscal policy (lower taxes or increase govt spending). If there is a cycle where all businesses cycle supply to each other, when one actor stops spending it can affect the entire business cycle. The govt can choose to spend so that the cycle continues without the one actor, however once the govt starts spending money it is hard to cut back. If you employ Kenesian stimulus when your economy is functioning at high capacity you simply get inflation rather than significantly increased productivity. Govt might employ lots of people, won't want to fire voter. Tough to undue Keynesian stimuli and might result in large govt deficits. Unwinding of stimuli is unpopular. It is also difficult to determine whether an economy is operating at close to its full potential or not. Long run trying to get people to consume more and more rather than saving more and investing (there is always a trade off between consuming and saving).

Different types of fiscal policy

Debt can might help grow the economy, and thus it might pay for itself. Imagine debt that the government uses to build a road. That can help businesses sell their products and grow, which brings in more tax revenue for the government, which can use this money to repay their debt. But getting into very large amounts of debt can be expensive and risky. Governments have to pay interest on their debt, which means they must spend a great deal of money every month just paying for their debts. As debt grows high, governments must divert more and more of their resources to paying for their debt and interest, instead of spending their money on more useful areas. There are also major risks: if a crisis hit, and the economy got into difficulty, tax revenue might slowdown and governments might not be able to repay their debts, leading to their failing to pay debts, called a default. This default can mean government cannot get access to debt at crucial times in the future. When this happens, many government take on austerity or structural adjustment policies. These are policies that slash the amount of money government spends. These spending cuts are often on important areas – such as education, healthcare or the military – and thus are often very unpopular with the people. But failing to make these difficult cuts can lead to government getting stuck with unsustainable amounts of debt. In a crisis such as this, there are no easy solutions, and both sides come with serious costs.

<table>
<tr><th></th><th>Advantages</th><th>Disadvantage</th></tr>
<tr><td rowspan="2">Increase govt spending and accumulate more debt</td><td>Govt stimulus keeps money in circulation and can increase the amount of consumers participating in your economy. Creating collective infrastructure reduces costs for individual businesses who are then willing to supply more. This is best used when economy is operating well below production threshold and there is demand from consumers</td><td>If govt invests too much, overheats the economy, inflation kicks in. Debt has interest and if hard time hits and the tax base contracts govts will struggle to pay back their debts. Lenders will then be unwilling to lend or use high interest rates on loans. Very difficult to undo govt spending once it's spent.</td></tr>
<tr><td colspan="2">Will this investment lead to a more productive economy or a larger consumer base?</td></tr>
<tr><td rowspan="2">Default on your debt/ debt forgiveness</td><td>Reduce govt spending, no longer have debt obligations</td><td>Lenders will not give access to debt in future or will set high interest rates. Economy will likely slow down. Moral hazard of not reforming economy and defaulting without consequences, can do it again</td></tr>
<tr><td colspan="2">What is the ratio of debt relative to real GDP? Were the terms of that loan fair? Can your economy withstand the burden of repaying this debt?</td></tr>
<tr><td rowspan="2">Cut govt spending and reduce debt (austerity)</td><td>Will be able to access debt in future by meeting current debt obligations</td><td>Economy slows down, spending cuts highly unpopular = political backlash</td></tr>
<tr><td colspan="2">Is the long run benefit of accessing debt worth taking on the short term harms of austerity?</td></tr>
<tr><td rowspan="2">Print money and accrue inflation</td><td>Increases the money supply in your economy and can inflate away some of your obligations to your people ito govt spending</td><td>Goods and services are more expensive for people in your country if money supply increases and productivity doesn't</td></tr>
<tr><td colspan="2">Does the supply of money proportionally increase GDP?</td></tr>
</table>

Financial crises

Great Depression

The 1920s featured large scale consumerism bought on credit = unsustainable. Credit works until uncertainty is introduced. Agricultural sector suffered and farm prices kept dropping as farming had expanded hugely in WWI to provide food for soldiers and the expansion led to many farmers mechanising. This mechanisation was expensive so farmers went into debt to finance this investment, but overproduction and low prices = farm foreclosures. 1925 car manufacturing and housing construction slowed. 1929 commercial bankers were loaning more money for stock market and real estate investments than for commercial ventures, stock market crashes. Big banks were buying stock but with borrowed money (margin buying) and the banking system itself was weak. Most banks were small and had to rely on their own resources, so when people panicked and tried to get their money out, the bank went under if it didn't have enough money on reserve. 1930 there was a wave of bank failures and banks stopped lending, sold their assets. This led to credit freezing up = deflation. Prices drop, business cut costs by laying off workers. Workers can't buy anything, companies can't sell anything and banks aren't lending so companies can't afford to keep employing their workers while they're not selling = businesses going bankrupt. Central bank didn't infuse money into the economy to stabilise it and didn't bail out the banks. Hoover blamed WWI; Germany had to pay excessive reparations to France and Britain which it couldn't do without borrowing money from American banks but France and Britain also owed debt to the US. Once US credit dried up post stock market crash and banking failure, the economies of Germany, France and Britain also got hit. With many industrial economies in turmoil fewer people could buy products; world trade slows down. US raised tariffs to protect its industries but Europe responded with its own high tariffs, which meant fewer sales of American goods, less trade and fewer jobs. Credit very difficult to get. Hoover gets congress to agree on wage rates, subsidies on agriculture and new public works. Offered banks loans too late and encouraged private donations (total $79 million < 1 month's lost wages). Thousands of Americans took to the road in search of work and many more stood in bread lines. Federal expenditure accounted for ~3% of GDP, today <20%. *New Deal* Federal Deposit Insurance which insured deposits if the banks were ever to crash again. 1935 New Deal Phase I: people paid to build, agriculture stimulation, barred commercial banks from trading in stocks and the national recovery act. Welfare payments to those who were desperate. Public works created temporary jobs, controversial as it put the govt in direct competition with businesses. New Deal Phase II: focus from recovery to economic security (National Labour relations act = right to unionise, raise workers' wages so they could buy lots of stuff and the social security act = unemployment insurance, aid to disabled, poor families with children and retirement benefits). Created the expectation of govt intervention during economic crashes.

US recession of 2008

Securitization of the mortgage market: mortgage backed securities = if I can't pay back the loan the bank gets the house. Each year I pay back interest until the final year when I pay back the interest and the loan (sometimes pay back loan in smaller repayments over time). Security is an ownership that's tradable, if default the entity that owns the security has the rights to the house. Even if some default, on average you still get a good return. *Collateralized debt obligations (CDO):* debt obligation that's backed by assets (in this case mortgages). Derivative = asset sliced and diced to spread the risk. Split the asset into three types: equity (more risk lose money first, higher interest more rewards potential), mezzanine (middle) and senior (gets money back first, lower interest rates). Equity gets whatever is left of the returns, which can be very high if most people have repaid their loans. *Credit Default swaps:* if you want to buy bonds (give a loan) to a corporation but they have a lower credit rating than you are allowed to invest in, a third party (e.g. AIG) can insure the loan in return for being paid some of the interest you would be getting on this bond. Not obligated to actually set aside this money in case corporations actually do default, can keep insuring different bonds as long as the rating remains high.

Up to 2006 nationwide housing prices always go up, 2000-2006 price of a house had almost doubled (massive price increase). For price to increase, demand ought to increase faster than supply. (Demand drivers: population grows, incomes increase > Supply drivers: new homes built). This was not the case; average incomes decreased and total money declined, while building 7.2 million new homes during that time period (supply increase 6%). In order to get a mortgage, you had to put down a 25% deposit. Rent instead of buying barriers: large lump sum deposit, very steady job and good credit rating. 2000s people started lowering these barriers, thereby increasing aggregate demand for housing as more people could finance the purchasing of homes with mortgages.

Consumer would buy the loan from your local commercial bank/mortgage provider (congress oversight, checks and balances). Local mortgage providers and commercial banks sell lots of these loans, by bundling them together and selling them to investment banks (third party). Investment banks then sell them as shares to investors (stock in the company bundle) and consumers owe to these investors, who make a profit equal to the interest rates people are paying on their mortgages. The mortgage provider and investment bank get a transactional fees = huge profits. Investors give money when they have confidence, ratings agencies rate these assets as very reliable (seems like low risk with high profit, US treasury bonds secure but very low interest rates because it's going to the govt). More people want to invest but mortgage providers have already given loans to everyone who qualifies, so to find more people who would take out mortgages we'll lower standards. This seems safe as no one is currently defaulting: if you can no longer pay back the loan you can either sell the house or foreclose (default). Housing prices are going up so if you sell the house you can pay back the money and make a profit. Only situation in which to foreclose is if the market value of the house is less than that of the loan. Cycle in which housing prices go up because more people can access mortgages, which increases demand and when people can't pay their mortgages they sell their houses at a higher price = incentive to keep reducing lending standards. Moreover, companies offer credit default swaps so that even conservative investors feel secure. These companies insured the loans without the money if people default. Everyone thinks their houses are worth a great deal, take some of the equity and invest it in a home equity loan (secured by the house).

Borrowers start defaulting, which put more houses back on the market. Supply was up but demand was down and the housing bubble popped/the market crashed. Big financial institutions stopped buying subprime mortgages and subprime lenders were left with bad loans. 2007 big lenders declared bankruptcy (Lehman Brothers) or were forced into mergers or needed to be bailed out by the govt. Trading and the economy froze, the stock market crashed and the US disastrous recession. Once wealth is destroyed, all legislation can do is spread out who takes the losses and try to stimulated growth in the economy. Federal banks gave emergency loans to banks (TARP bank bailout) and assisted large businesses. Treasury conducted stress tests and publicly announced companies that had good lending practices, restoring some investor confidence. Dodd-Frank law less risk and more transparency, large banks can fail in a predictable way. Perverse incentives and moral hazard: banks and lenders were willing to take on risky mortgages because they were passing the risk to someone else. Too big to fail banks can fail and govt will bail them out, so they are willing to take on bigger risks. Govt did not adequately regulate, believing in the self-correcting nature of markets and ability of financial institutions to police themselves.

Greek financial crisis

Public debt grows dramatically, debt to GDP well over 100%. Public taxes < spending = deficits = more debt. As govts debt becomes riskier, lenders demand higher interest rates. Spend more on the interest therefore even higher debts. Moreover, Greece is in a fairly severe recession where GDP is contracting. Solution seems to be increasing taxes and cutting spending but spending is based on political promises and in a recession austerity slows the economy even further, which hurts your taxes. Debt to GDP ratio worse when GDP shrinks. EU supplying bail outs with the requirement of austerity measures. European central bank has rules about how much debt you can accumulate; Greece lied about their debt by fudging the accounting. Still spending large amounts of money but defaulting on its debt would mean no one would lend to them. Govt would have to shut down most of its operations. If it had monetary independence with own central bank (Greece leaving the Euro), could print money and buy govt bonds to back govt spending = inflation. With inflation the govt could pay the same amount but it inflation would mean that it would be worth less. Inflate away the obligation and debt rather than simply cutting pension by half. Declare a banking holiday over which they transition to a new currency; govt sets an initial conversion rate and all obligations in Drachma (essentially a default). Once Drachma starts to be used, exchange rate used and will be weaker than the Euro. Greek people know that their savings will lose value so they are trying to withdraw their savings in Euro = run on banks (fractional reserve banking, banks won't have their reserves and the Greeks don't have a central bank to insure them = massive bank failures). If Greece's economy falls apart = social unrest and radicalisation of politics. Can have repercussions in the rest of Europe, which is why people indicate concern over moral hazard (rewards mismanagement and shady dealings). If Europe can't bail Greece out, it indicates to the rest of the world that the EU can't bail its countries out (Portugal, Italy, Ireland, and Spain). Interest rates increase for all countries facing similar economic challenges even if to a less extreme degree.

Trade

Most economies don't exist in isolation. Economies import, buying from other countries, and export, selling to other countries. Both are vitally important. Exports open up a huge market for a country's goods, allowing businesses to sell to many more people, and thus to grow and employ many local people. Imports are a little more complicated. Imports can do a great deal of good, allowing a country to bring in products that people want but which it cannot produce. Korea, for example, does not produce high quality olive oil, but Italy does – so it makes sense to import it. Similarly, companies might want to expand their factories, and require new machinery to do so, and may be able to get the best quality or cheapest equipment from overseas. However, at times imports can harm local producers. Imports of the iPad arguably reduce sales of Samsung's Galaxy tablet, potentially harming local Korean jobs. Many in America, for example, blame the decreasing number of manufacturing jobs on the rise of imports from China. China has a competitive advantage over American in manufacturing, meaning they can produce at lower costs. Because of these threats, some countries impose tariffs, which are taxes on imports that make foreign products cheaper and thus local products more competitive = protectionism. Countries implement protectionist policies to protect local industries, infant industries and to prevent dumping (the sale of overproduced stock at below cost prices). Despite this, most economists believe no tariffs, which is called free trade, is the best possible situation. This is because in a world of free trade, countries will tend to focus on specializing in the business areas they are best at. These areas are called their comparative advantage. Every country has certain comparative advantages, and if everyone focused on that area, then the global economy would be as efficient as possible. Comparative advantage is not to be confused with the related concept of competitive advantage.

Competitive Advantage is when a country is much better at producing a good at a lower cost than other countries. If Korea produces cell phones for $100, and the United States produces them for $200, then Korea has a clear competitive advantage in producing cell phones. Comparative Advantage is more complicated. If you only think about competitive advantage, it might seem possible that one country could be the best at producing everything. Maybe a country like China, where labour is very cheap, would be able to produce every possible product cheaper than anyone else. If this situation existed, China might produce everything in the world, and other countries would have a lot of people with no jobs. In reality, this doesn't happen, because of comparative advantages. Comparative advantages refer to the products that the country is the best at producing. Imagine China can produce cellphones at $90, versus Korea's $100 – while China can also produce TVs at $50, versus Korea's $100. China has an absolute competitive advantage in both areas. However, it still won't produce both. China can produce TVs at $50 cheaper than Korean, but can only produce cell phones for $10 cheaper. So if it focuses all its resources on producing TVs, then it will make the most amount of money possible. China therefore has a comparative advantage in making TVs – it is the area where it can perform best, and thus it will specialize in producing TVs, while Korea produces cell phones.

Free Trade Agreements and Monetary Unions

Because of the existence of comparative advantages, many economists believe that there should be no tariffs that make trade more expensive and difficult. When there are no tariffs or other barriers between countries, this is known as free trade. Free trade generally comes about after discussions between countries and the signing of a free trade agreement. These agreements can be bilateral (meaning they include only two countries), plurilateral (meaning they include many countries), or multilateral (meaning they include almost everyone in the global economy). Multilateral trade negotiations happen at the World Trade Organization, which has 159 member countries and aims to create very large trade deals that move the world closer to free trade. Any decision or deal made by the WTO requires the approval of all 159 members, which is extremely difficult to get, and because of this there has been little process made on WTO negotiations in recent time.

The European Union and the European Monetary Union

The EU has developed an internal single market through a standardised system of laws that apply to all member states. It was originally conceives as a way to ensure peace within the region; highly integrated markets make war far less likely or worthwhile. EU policies aim to ensure the free movement of goods, services and capital within the internal market. The euro currency and monetary union of the EU came into fill force in 2002, with 19 member states. The European Central Bank facilitates all monetary policy in the member states. The EU has a combined GDP of 18.640 trillion international dollars, a 20% share of global gross domestic product by purchasing power parity. The Euro is the second largest reserve currency and second most traded currency after the US. In 2016, unemployment in the EU stood at 8.9% while inflation was at 2.2%, and the current account balance at −0.9% of GDP.

	Population (billion) 2017	GDP PPP (trillion US) 2017	Proportion of world GDP at PPP 2016	Exports of GDP 2012	Imports of GDP 2012
Eurozone	0.34	14	11 %	27 %	25 %
European Union	0.51	21	17 %	18 %	17 %

United States	0.33	19	16 %	14 %	17 %
China	1.39	23	18 %	26 %	24 %
India	1.33	10	7%	24 %	31 %
Japan	0.13	5	4 %	15 %	17 %

The EU sets guidelines for its members; these guidelines aren't binding but attempt to coordinate amongst member states and takes into account the linked nature of their economies. There are agreed upon limits for deficits and national debt, with associated sanctions for deviation. The original public sector deficit was 3% of GDP, while the public debt limit was 60% of the GDP. 2005 Portugal, Germany and France all exceeded this amount and the council voted not to fine those states. Reforms were then adopted to provide more flexibility to take into account the economic conditions of the member states

The financial crisis of 2007-2008 led to the creation of specific funds to assist Eurozone states in trouble. The European Stability Mechanism was created to bail out members. The divergent labour costs and levels of productivity remain a challenge for the EU.

Two potential exits from the European Union: Grexit (discussed in the Greek financial crisis) and Brexit

Brexit

Britain voted in a national referendum to leave the EU (52% leave to 48% remain). National referenda have been extensively used in Europe to determine the level of involvement with the EU.

Motivations behind this included

- A fear of refugees and a desire to have more control over immigration policies (The EU sets refugee requirements that its member states must adhere to)
- A greater desire for economic sovereignty. Large amount of capital are devoted to the EU annually and the leave campaign's rhetoric suggested that this money could be put directly back into British sectors and business. There was also fear that Britain would be forced to adopt the Euro which would further undermine its economic sovereignty
- Britain believed that they gave more to the EU than the EU gave to them. EU member sell Britain far more than Britain sells them and more than 160 countries trade with the EU without being a member

The long term impacts of the British exit are unknown, however it is not in the interests of the EU to allow Britain to leave without penalties, as it would call into question the stability of the economic bloc and set a precedent for other countries considering leaving. Effects include the Bank of England cutting interest rates from 0.5% to 0.25% (a record low); allies like the US, China, Canada and Australia potentially cutting FDI and decreasing GDP by 6.5% in 15 years, lowering UK prices by 0.6%. Possible outcomes of Brexit include

- Independence: trade with EU but don't follow any regulations, like the US. All trade negotiated on a case by case basis, could cost Britain as much as 14% GDP, losing 2.6% income
- Leave the EU but stay in the European Economic: Get trading benefits, but remain under control of EU regulation and still pay funds, like Norway. Optimistically the UK may obtain full access to the EU single market, resulting in a 1.3% fall in average UK incomes

- Britain negotiates bilateral trade deals custom made for the British economy: get all the benefits of trade with no regulation, like Switzerland. Lose bargaining power and still have to implement some EU requirements (e.g. refugees accepted) to keep access to the market.
- Heavily prioritise trade with non-EU countries: target countries with growing middle classes and still weak service sectors such as India and China

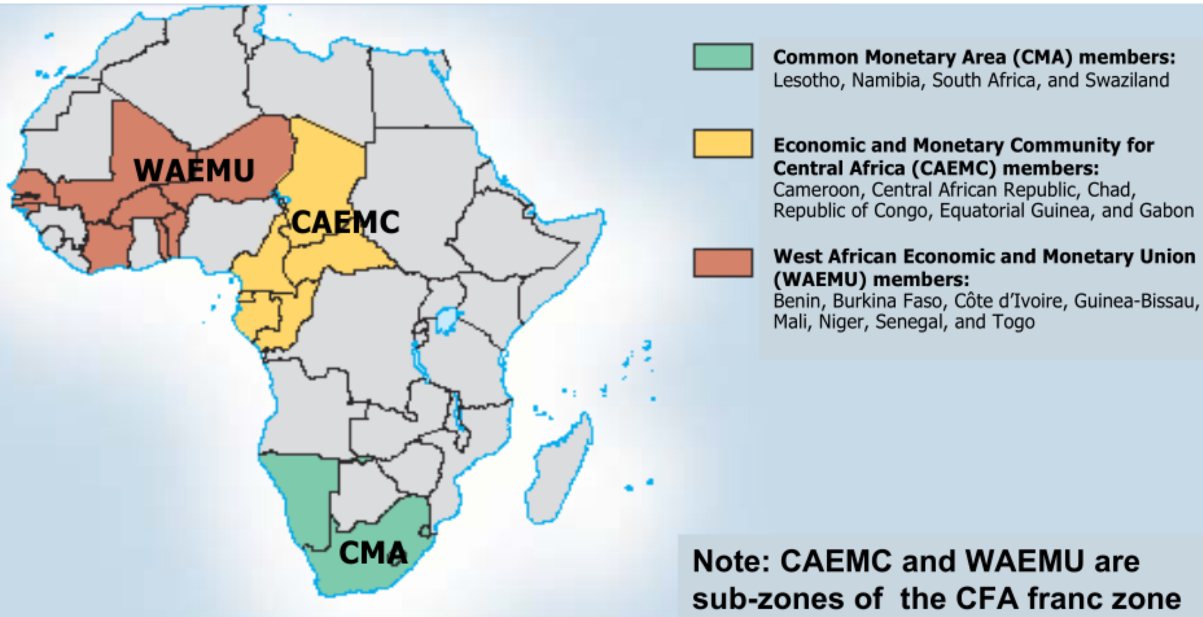
Advantages and Disadvantages of monetary union

Advantage	Disadvantage
Reduced exchange rate risk encourages more trade	Loss of nominal exchange rate as a policy tool for adjusting to country specific external shocks
Greater transparency of prices encourages greater competition and efficiency	Loss of national monetary policy control (cannot print money)
Removing the possibility of monetary flexibility means more price stability for people on the ground	Monetary policy geared towards stability within the union rather than for each individual member
Stronger political ties with other countries in the union (trade integration and internal capital mobility)	A very large economy is unlikely to adjust its currency policies to suit a very small economy

What are the preconditions for joining a Monetary Union?

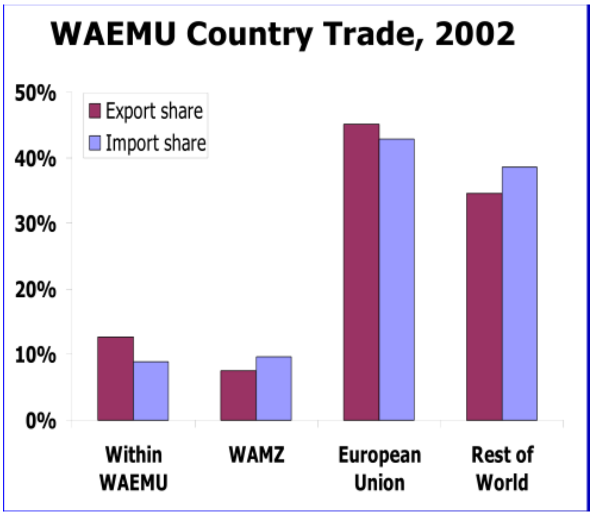
1. Similar shocks and business cycles
2. Similar labour costs and productivity levels
3. High trade integration
4. Flexibility through fiscal transfers
5. Flexibility through internal labour mobility

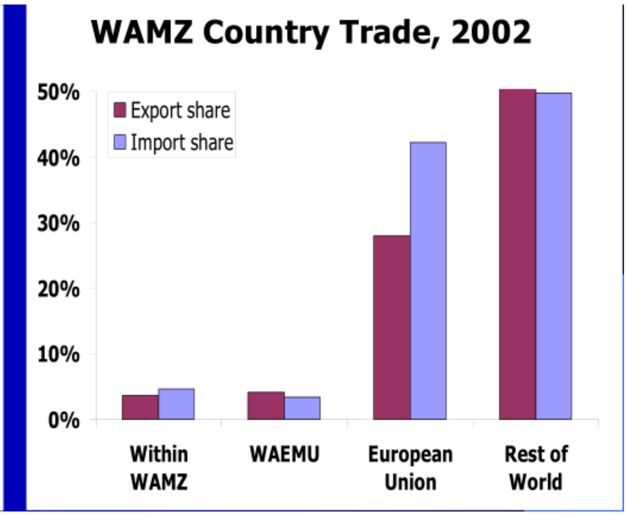
Regional Currency Areas in Africa



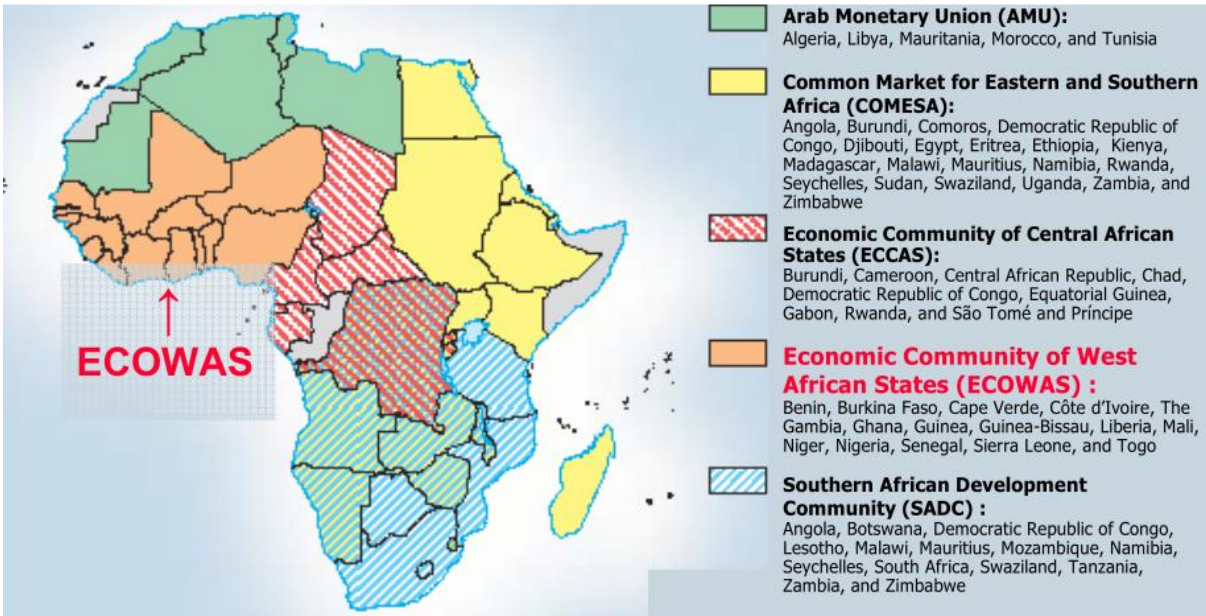
West African Economic and Monetary Union (WAEMU) : Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo

Central African Economic and Monetary Union (CAEMC): Cameroon, Chad, Congo, CAR, Equatorial Guinea and Gabon. France guarantees convertibility for the CFA franc and in exchange France participates on the governing board of the central banks. However, WAEMU and WAMZ don't trade very much with countries inside the unions, but trade a lot with Europe and the rest of the world. Moreover the vast majority of their trade is in a few primary commodities.





Many potential expanded or completely new monetary unions are being discussed. There may be some benefits associated with a lower inflation rate however a monetary union cannot guarantee economic growth.



While Asia comes closer to satisfying the Optimal Currency Area criteria, the economies are more heterogeneous, most Asian countries intra-regionally and Asia hasn't shown much desire for political integration. Asian govts are suspicious of strong supra-national institutions. However, Asia is integrating more through trade, even without emphasis on formal trade liberalisation agreements.

BRICS

Economic partnership of developing and newly industrialised countries: Brazil, Russia, India, China, South Africa. These countries have exploded in growth and have become extremely important to the global economy and political alliances. BRICS countries are distinguished by their large, sometimes fast-growing economies and significant influence on regional affairs; all five are G-20 members. BRICS comprises of half the world's population, a quarter of its landmass and a fifth of the global GDP ($16.6 trillion, US GDP $16.7 trillion).

BRICS has formed a New Development Bank to compete with the IMF and the World Bank; greater leeway to give each other loans, unrestricted by Western influence. Growth = rapid expansion of the middle class and higher GDP per capita. China is the largest trade country in the world since 2013, Brazil gained to 6th largest economy in the world. BRICS has also formed a Contingent Reserve Arrangement to provide protection against global liquidity pressures

Trans-Pacific Partnership

The TPP is a trade agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States (until 23 January 2017) and Vietnam. The TPP contained measures to lower both non-tariff and tariff barriers to trade and establish an investor state dispute settlement mechanism. It is the largest proposed free trade deal in history. Many observers have argued that the trade deal would have served a geopolitical purpose, namely to reduce the signatories' dependence on Chinese trade and bring the signatories closer to the United States.

There are several important features of the TPP

- Comprehensive market access: The reductions in trade barriers would occur across all goods and services and covers the full spectrum of trade
- Regional approach to commitments: The TPP facilitates the development of production and supply chains
- Inclusive trade: The TPP includes smaller countries with varying levels of development and businesses. It seeks to ensure that economies at all levels can benefit from trade
- Enforceable agreements against child labour and workplace discrimination, measures to punish illegal logging and trade in protected species and protections against consumer fraud
- A platform for Asia-Pacific integration

However, US citizens feared it would outsource jobs to Asia and the US under Donald Trump withdrew from the TPP in 2017. The other 11 countries have implemented the TPP without the US. Some argue that the TPP serves the interests of the wealthy and will decrease economic equality.

Trade in Africa

Intra-Africa trade is extremely low, standing at 10%. Intra-trade amongst EU-27 is 70%, 52% for Asian countries, 50% for North American countries and 26% for South American countries. Africa's share in the world trade is only 3%, the most integrated regions are the most globally competitive. Africa's trade is overly dependent on primary products: fuels and mining products constituted 66% of total merchandise exports.

Causes

- Historical economy formation: States under colonial control were designed to supply cheap raw materials to firms based in colonial states. Ghana + Cote d'Ivoire = cocoa, Zimbabwe + Malawi = tobacco, Kenya + Tanzania = coffee + tea. Rigid division of labour with no specialisation, value addition or development of a chain production system between African countries. Since gaining independence, very little diversification of export products and markets has taken place.

- Inadequate infrastructure: The infrastructure built during the colonial era was outward oriented with almost no internal networks between countries. Spending on infrastructure has increased, but doesn't match identified needs. The African Development Bank says that African countries need $93 billion a year to upgrade infrastructure but only spend half that.
- Non-Tariff Barriers: Sub-Saharan African countries impose more non-tariff barriers on trade between themselves than on trade with third countries. According to the World Bank Report entitled De-fragmenting Africa, Shoprite Pty Ltd spends $20,000 a week on securing import permits to distribute meat, milk and plant-based goods to its stores in Zambia alone. Africa is almost the most expensive continent in which to do business: whereas it costs around $900 to ship a container from South-East Asia, it costs almost $2000 to ship the same container from Africa. Likewise, whereas it costs $935 to import a container from South-East Asia, it costs almost $2500 to import the same container from Africa.
- Political Instability

Consequences

- Low Investment and Competitiveness: foreign investors have bypassed Africa due to the high costs of doing business and low levels of intra-Africa trade. Studies suggest that the returns on investment in Africa are far greater than returns on investment in Asia or Latin America but Africa attracted less than 5% of global FDI.
- High vulnerability to external shocks: High dependence on trade with the outside world has meant that external shocks have an adverse effect on demands for African exports and consequentially impacts growth prospects
- Missed growth and development opportunity: The low level of intra African trade is a missed opportunity. Several studies have indicated that if African countries were to increase their share in global trade by only 1 per cent, this would represent an additional annual income of over $200 billion which is approximately five times more than the amount the continent receives as Official Development Assistance.
- Limited participation in Global Value Chains: The geographical fragmentation of production has created a new reality in global trade. Currently, trade in intermediate products accounts for more than 60 per cent of non-fuel merchandise trade and it is the most dynamic sector of international trade. The trade in parts encourages specialization in "trade in tasks" by different countries which add value to a product in the production chain. Specialization is now based on the comparative advantage of specific tasks completed by countries at specific steps along the global value chain. This new trend in global trade brings new opportunities as well as challenges. The high fragmentation of markets in Africa and high transaction costs are not conducive to the integration of African firms into regional and global value chains.

How to increase intra-Africa trade

- Political will to remove barriers to intra-Africa trade: the world economy is becoming more globalised and Africa needs to fully integrated into it
- Implementation of Agreed Reforms: Accelerate implementation at the national and regional level. Africa's trading partners are facing major difficulties (recession, debt crises, and high unemployment rates) which are impacting negatively on multilateral cooperation and ODA
- Make use of Multilateral Trading System to support intra-Africa trade: There is no contradiction between measures to support the integration of African countries into the multilateral trading system and acceleration of intra-African trade. On the contrary, existing

synergies could be enhanced, in particular in trade facilitation and in the removal of other non-tariff barriers.

- Increased investment in trade infrastructure: reduce red tape, transaction costs and expedite the movement of goods, services and people across borders. The Aid for Trade initiative which was launched by Trade Ministers at the Hong Kong Ministerial Conference in 2005 has successfully mobilized additional resources from donor governments, regional development banks and multilateral agencies to invest in trade capacity building.
- Effective monitoring and accountability systems: regional economic communities have to set up effective transparency and accountability systems so that businesses and countries can evaluate progress. The AU commission should play a more active role in monitoring progress and provide advice and guidance.
- Research in Impact and Costs of low intra-Africa trade: evaluating the impact of non-tariff barriers on growth, employment opportunities and poverty reduction. They could carry out research on the reasons why African firms are not fully integrated into global value chains and what it would take for them to be integrated. The recommendations would be helpful to policymakers and businesses to decide on which policies and strategies should be adopted to facilitate entry and tap into the opportunities provided by global value chains.

A country like Kenya has shown that increased trade with other African countries is possible within the right framework. The majority of Kenya's exports (over 50 per cent) is destined for other COMESA member states, particularly Tanzania and Uganda. It is also among the largest foreign investors in these countries. South Africa has also seen its trade with SADC member states and other African countries such as Nigeria, Ghana and Kenya blossom. MTN, the South African telecommunications operator, is now operating in 16 African countries and a significant portion of its profits is increasingly coming from these countries. South African retailers are also establishing a footprint in many African countries.

Easter African Trading bloc

The East African Community (EAC) is a regional intergovernmental organisation of 6 Partner States: the Republics of Burundi, Kenya, Rwanda, South Sudan, the United Republic of Tanzania, and the Republic of Uganda, with its headquarters in Arusha, Tanzania. As one of the fastest growing regional economic blocs in the world, the EAC is widening and deepening co-operation among the Partner States in various key spheres for their mutual benefit. These spheres include political, economic and social. Combined real GDP from $20 billion to $75 billion. The EAC has focused on creating improved governance structures and systems. These include issues of rule of law, anti-corruption, transparency, accountability, election observation and monitoring, foreign policy coordination and regional peace and security matters.

Southern African Development Community

The Southern African Development Community (SADC) is a Regional Economic Community comprising 15 Member States; Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Established in 1992, SADC is committed to Regional Integration and poverty eradication within Southern Africa through economic development and ensuring peace and security.

Since 2000, intra-SADC trade has more than doubled from $13.2 billion to $34 billion. Expressed in terms of total SADC trade 15.7% to 18.5%. However, SADC faces many social, economic and political challenges. There are extremely different product standards and tariff regimes, weak customs and bad roads.

World Trade Organization

The WTO is a forum for govts to negotiate trade agreements, aimed at reducing obstacles to international trade and ensuring a level playing field for all. It also provides a legal and institutional framework for the implementation and monitoring of these agreements and settles disputes arising from their interpretation. The current body of trade agreements consists of 16 multilateral agreements and two plurilateral agreements (to which only some WTO members are parties). WTO has 164 members, of which 117 are developing countries. Decisions are generally taken by consensus of the entire membership.

The WTO's main activities are

- negotiating the reduction or elimination of obstacles to trade (import tariffs, other barriers to trade) and agreeing on rules governing the conduct of international trade (e.g. antidumping)
- administering and monitoring the application of the WTO's agreed rules for trade
- monitoring and reviewing the trade policies of our members, as well as ensuring transparency of regional and bilateral trade agreements
- settling disputes among our members regarding the interpretation and application of the agreements
- building capacity of developing country government officials in international trade matters
- conducting economic research and collecting and disseminating trade data

The WTO's founding and guiding principles remain the pursuit of open borders, the guarantee of most-favoured-nation principle and non-discriminatory treatment by and among members, and a commitment to transparency in the conduct of its activities. It also seeks to create binding and enforceable commitments.

Tariffs: Developed countries' cut their tariffs on industrial products from 6.3% to 3.8%. The proportion of imports into developed countries from all sources facing tariffs rates of more than 15% will decline from 7% to 5%. The proportion of developing country exports facing tariffs above 15% in industrial countries will fall from 9% to 5%. Developed countries increased the number of imports whose tariffs rates are bound, as did developing countries = market security for traders and investors

Agriculture: Agricultural trade became highly distorted, especially with the use of export subsidies which would not normally have been allowed for industrial products. Developing countries do not have to cut their subsidies or lower their tariffs as much as developed countries, and they are given extra time to complete their obligations. Least-developed countries don't have to do this at all. Special provisions deal with the interests of countries that rely on imports for their food supplies, and the concerns of least-developed economies. The new rule for market access in agricultural products is "tariffs only". Before the Uruguay Round, some agricultural imports were restricted by quotas and other non-tariff measures. These have been replaced by tariffs that provide more-or-less equivalent levels of protection. The main complaint about policies which support domestic prices, or subsidize production in some other way, is that they encourage over-production. This squeezes out imports or leads to export subsidies and low-priced dumping on world markets. Developed countries also agreed to reduce the quantities of subsidized exports by 21% over the six years (14% over 10 years for developing countries). Least-developed countries do not need to make any cuts.

Standards and safety: A separate agreement on food safety and animal and plant health standards (the Sanitary and Phytosanitary Measures Agreement or SPS) sets out the basic rules to ensure that food is safe to eat. Countries can set their own standards, based in science.

Textiles: bilateral agreements or unilateral actions that established quotas limiting imports into countries whose domestic industries were facing serious damage from rapidly increasing imports. They were also exceptions to the GATT principle of treating all trading partners equally because they specified how much the importing country was going to accept from individual exporting countries.

Intellectual property: computer programs protected as literary works. Industrial designs must be protected for at least 10 years. The extent of protection and enforcement of these rights varied widely around the world; and as intellectual property became more important in trade, these differences became a source of tension in international economic relations. New internationally-agreed trade rules for intellectual property rights were seen as a way to introduce more order and predictability, and for disputes to be settled more systematically.

Anti-dumping actions: If a company exports a product at a price lower than the price it normally charges on its home market, it is called '"dumping". This process can be extremely destructive to domestic industries. The WTO agreement allows governments to act against dumping where there is genuine ("material") injury to the competing domestic industry. In order to do that the government has to be able to show that dumping is taking place, calculate the extent of dumping (how much lower the export price is compared to the exporter's home market price), and show that the dumping is causing injury or threatening to do so.

Criticisms

The WTO have veered from their proclaimed development friendly outcome towards a market access direction in which developing countries are pressurised to open up their agricultural, industrial and service sectors.

- Rich countries are able to maintain high import duties and quotas in certain products, blocking imports from developing countries (e.g., clothing);
- According to statements made at United Nations Conference on Trade and Development (UNCTAD, 2005), the use of NTBs, based on the amount and control of price levels has decreased significantly from 45% in 1994 to 15% in 2004, while use of other NTBs increased from 55% in 1994 to 85% in 2004. Such as anti-dumping measures allowed against developing countries;
- The maintenance of high protection of agriculture in developed countries, while developing ones are pressed to open their markets;
- Many developing countries do not have the capacity to follow the negotiations and participate actively in the Doha Round; and
- The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) agreement, which limits developing countries from utilizing some technology that originates from abroad in their local systems (including medicines and agricultural products), "intellectual property does not belong in the WTO, since protecting it is simply a matter of royalty collection [...] The matter was forced onto the WTO's agenda during the Uruguay Round by the pharmaceutical and software industries, even though this risked turning the WTO into a glorified collection agency."
- There is an absence of proper environmental regulation, resource management and labour regulation

Trade restrictions

Restriction of movement of labour: This is a form of protectionism for your labour markets, typically based on national, regional and local borders. People who want to work across national borders have to apply for a working permit, which allows you to work in the country for a set period of time. These permits are restricted based on the need for labour within the country. These regulations prevent workers moving and outcompeting one another for the lowest wages.

Minimum wage: New Zealand and Australia were the first countries to enact a national minimum wage, followed in the early 20th century by Britain and the United States. It should be indexed to inflation otherwise doesn't remain constant purchasing power. Some countries have historically relied on binding collective bargaining rather than legislation. Living wage = the amount required to raise a family on a single wage earner's salary.

Advantages of raising the minimum wage	Disadvantages of raising the minimum wage
Market mechanisms produce drastic income inequality and there is an obligation for govt to protect the most vulnerable in society	Large businesses are able to absorb higher wage costs better than small businesses, creating an uneven playing field
Sustainable minimum wage reduces the cost of social welfare programs that might otherwise have to assist low-income workers, and that these individuals are dissuaded from engaging in illegal activities that reduce productivity	Companies can't afford to hire as many people. It particularly excludes low-skilled labour and young, inexperienced youth from joining the workforce
Workers have more money and can buy goods, save or invest money and pay taxes with the additional income. This increases the flow of money and can incentivise additional entrepreneurship	A firm's ability to weather downturns by lowering costs (e.g. labour) is marginalized
Employers can demand greater productivity from employees that are paid more than the market would otherwise have paid, augmenting productivity	Inflationary pressures may increase as producers try to pass through higher costs
Low paying jobs are eliminated and replaced with more skilled, higher paying positions for workers	The potential for more unemployment increases governmental expenditures (welfare programs). This may increase tax rates needed to fund the additional welfare costs
The net result is that potential economic activity speeds up in a way that will directly benefit low income workers	The net result is that potential economic activity slows down, which disproportionately hurts low income workers

Some developed economies have no minimum wage and typically have much lower unemployment rates. In Sweden minimum wages are set by sector or industry through collective bargaining. Nearly all citizens belong to trade unions that negotiate wage rates for regular hourly work, salaries and overtime. Swedish law limits the workweek to 40 hours and workers are entitled to 25 paid vacation days and 16 additional public holidays each year. Denmark and Norway also have trade unions negotiate their minimum wages. Icelandic employees are automatically enrolled in trade unions, which negotiate their wages. Switzerland rejected a proposal for a legally enforced minimum wage in 2014. Switzerland relies heavily on trade unions to negotiate fair wages for each industry and through this mechanism 90% of the Swiss earn more than the proposed minimum wage anyway.

Maximum working hours: every human has a maximum amount of hours they can work within a day while still meeting their basic needs. This however decreases a company's productivity. Therefore legislating a maximum number of hours one can be required to work protects workers. In some countries there are more lax regulations, allowing people to opt in to longer hours and overtime pay.

Resources

Natural resources are incredibly valuable. Gold, silver, platinum, oil, or even things like coal are all vital to the survival of the world economy, and people are will to pay a lot for them. One would therefore think that countries with lots of natural resources would be very rich, but this is not true. The Democratic Republic of the Congo exports $6.59 billion worth of minerals in 2008 and still has $24 trillion worth of untapped resources, and yet it also has the highest poverty rate in the world. Equatorial Guinea exports over $15 billion in oil in 2012, which should be more than enough to provide for a tiny country of 700,000 people, and yet 76.8% of the country lives in poverty. This strange relationship – in which resource rich countries are often poor and have high poverty rates – is called the resource curse. There are a number of explanations for the resource curse, and they help give some insight into the complicated nature of resources:

1. Corruption and Instability
2. The Dutch Disease
3. Commodity Price Volatility
4. Foreign Ownership
5. Corruption and Instability

One of the primary reasons resource rich countries do not succeed is that mineral wealth creates dangerous political circumstances. Imagine yourself in the shoes of a politician in a poor country with lots of mineral wealth. You have most likely grown up in terrible poverty, never having experienced the good things in life, and you are aware that there are few jobs or opportunities to get rich in your country. And then suddenly you find yourself taking care of billions of dollars generated by natural resource sales. You tell yourself there is so much money, that stealing a little wouldn't do much harm, and you could finally live a good life. What would you do? For many, the answer is to steal. Corruption is rife in countries with large natural resource reserves. People across government find all sorts of ways to redirect the money to benefit themselves, and it's very hard to stop. Of course, you can only benefit from this money if you are in a good position in government, and this means that power becomes very important in these countries. Having power can be the difference between poverty and incredible wealth. Because of this, many resource rich countries are hit by civil wars and rebellions, as people try to gain the power that will give them access to resource wealth. In order to hold onto this power, dictators or weak democracies often arise. Equatorial Guinea, for example, has been ruled by the same dictator, Obiang Nguema Mbasogo, since 1979. Thanks to huge oil reserves, the country, when measured by GDP per capita, is as rich as Korea, and yet 76.8% of the people live in poverty. This is possible because of extreme inequality: the president and his family benefit from the proceeds of the oil industry, while ordinary people get virtually nothing. All these factors mean that natural resources are arguably best managed by strong, democratic governments with many checks and balances against official corruption.

The Dutch Disease

The Dutch Disease was first observed in the Netherlands, when in 1959 the country discovered a large natural gas field. The field should have given a boost to the Dutch economy, but the opposite was true, the economy slowed down. This was because while the natural resource sectors was generating more money, the manufacturing sector was making less. The Dutch disease therefore refers to the decline in manufacturing as a result of being rich in natural resources. It has two causes. Firstly, as a country is richer in natural resources, there is less investment in manufacturing. Businesses need investment – an injection of money – to get started and grow. Investors are only interested in putting their money into companies that will make them high profits with little risk. Imagine you were such a investor. You could put your money into an oil field, which you know with certainty will make tons of money. Or you could invest in some small, unknown startup called Apple computers. You would certainly put your money into oil, and the Macbook I am using to write this would cease to exist. Secondly, exports of natural resources hurt the currency. The value of currencies change all the time. As more people want to use your currency, the value of that currency increases. People need your currency to buy products from you, so when you have large natural resource reserves, many people demand your currency and so it gains value. The problem is that as your currency gets more expensive, so all your manufactured goods also grow more expensive, since foreigners must buy your currency in order to buy your goods. This makes your manufactured goods expensive and uncompetitive, and thus hurts exports and the broader economy.

Commodity Price Volatility

The price of natural resources like oil and gas change all the time. In 1976 oil sold for about $55 dollars a barrel. Five years later it was worth $100 a barrel. Five years after that, it was worth $40. For Saudi Arabia, a country that produces ten million barrels a day, this means they made $450 million extra in 1981, and then $600 million less in 1986. And these swings do not take years, commodity prices can change rapidly over periods of months, weeks or even days. For governments this creates major problems. An oil-rich government might decide in a year in which oil prices are high, that it is a good idea to build many new schools. But as prices drop, they will find themselves without much money, but with all the costs of this expanded school system. How will they pay? Often, these countries go into tremendous amounts of debt, and when that doesn't work, they have to abandon projects that they started in good years. This makes it difficult to plan, but can also create anger amongst the population, as they see the nice school system they were used to fall apart before their eyes. The ensuing unrest can be devastating to these countries.

Foreign Ownership

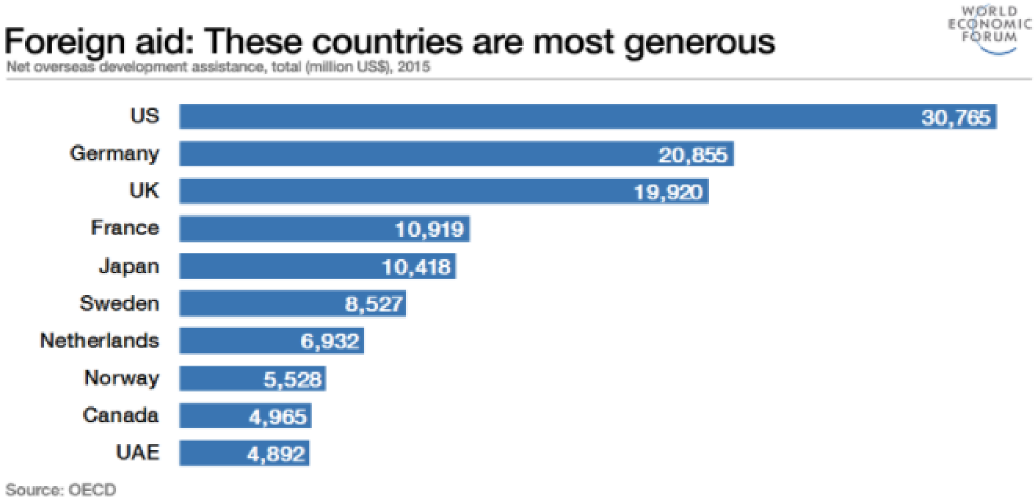
Finally, some blame the lack of development in resource rich states on the fact that private companies own these resources. Many of these companies are foreign, and the majority of their profits will be sent back to their home country after the extraction. There is thus little benefit to the countries where the minerals are extracted from. Some people might get jobs in mines, and the government might get a little bit of tax, but the real winners are the company owners in foreign countries. Because of this, some call for extremely high taxes on these companies' profits or, at the extreme, for government to nationalize the natural resources, taking control of them and keeping the profits in the country. Foreign ownership can also create conflict. Nigeria has huge reserves of oil in an area known as the Niger Delta. The huge American oil company Chevron has a long history of extracting this oil, and this stirred anger and resentment amongst locals. This anger drove the rise of rebel groups who demand a share of the profits, and the ensuing instability has made it extremely difficult to make use of all the oil wealth waiting underground.

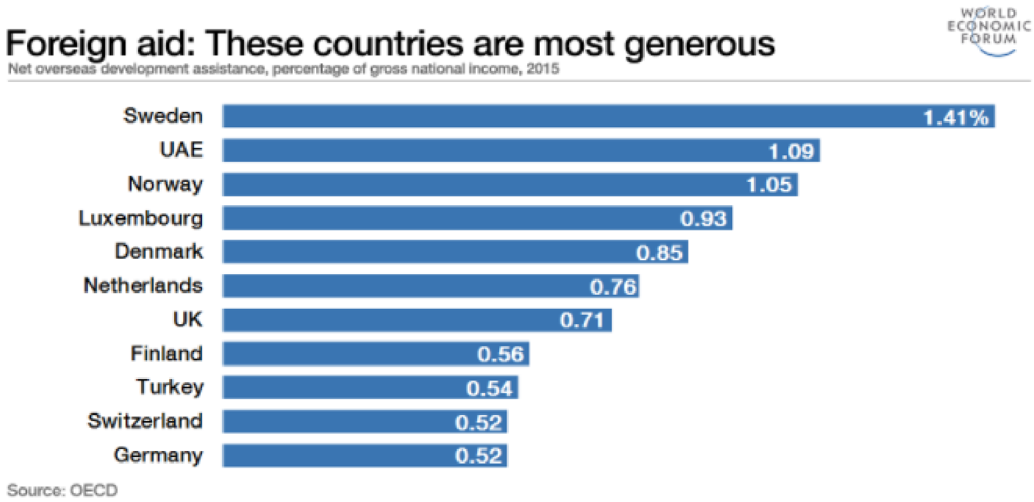
Aid

Aid seems like something that is a universal good. It is giving money to people in need, a form of national charity, and must surely be beneficial. And in many ways it is, there is absolutely no doubt that hundreds of millions of lives have been saved from poverty and starvation by aid. But aid can also have unexpected consequences, and a growing number of people oppose many of the trends in aid.

Domestic Complaints

Many of the loudest voices who speak out against aid are in the countries where aid originates from. The United States spend billions of dollars on foreign aid. And yet 16% of Americans still live in poverty, and the American government is in huge debt. Many domestic voices thus call for the American government to cut foreign aid, and send this money to either reduce the national debt or to focus on helping people in the country. They argue that the government has an obligation to focus on their own country first, and so long as problems remain at home money should focus on addressing those problems first. This isn't quite as simple as it seems, however. Firstly, governments tend to spend a small fraction of their budget on foreign aid. The American government only spends 1% of their budget on foreign aid. Secondly, foreign aid can benefit the country giving this aid. America, for example, sells its goods to countries in Africa, while also importing vital mineral and energy resources from the continent. America can import and export much easier from countries that are stable and growing, and aid helps this happen. Giving aid also gives you influence in countries, not directly, but through the bonds of friendship that this aid generates. This influence is generally referred to as soft power.





The UN calls for economically advanced countries to spend at least 0.7% of gross national income on ODA. The OECD argues this is perhaps the "best known target in international aid". However, as the chart above shows, few countries have met it.

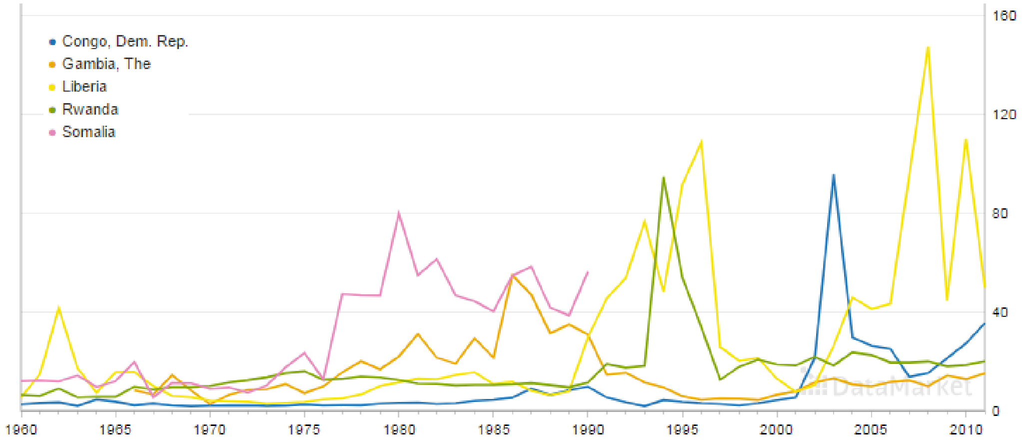
Aid Conditionality

While debates over whether to give aid have long happened in the country giving the aid, debates also rage within the countries receiving the aid. One of the most controversial areas is on aid conditionality. When countries give aid, they often attach certain conditions that must be met before the aid will be given. There are a broad range of conditions that can be placed on aid, but three should be noted: political, administrative, and tied aid. Political conditions refer to things like the respect for human rights in the recipient country, or the political system the country uses, which can broadly be thought of as democratic or a dictatorship. These conditions are meant to assure the aid is used for the right purposes. A dictator, for example, might use the aid in ways that benefit themselves, while a democratic government would be under pressure to use the aid in ways that help the people. However, many of the most vulnerable countries, which are most in need of support, are ruled by governments that are abusive dictatorships. The people of North Korea, for example, often suffer from deprivation and starvation, and could find their lives vastly improved by aid. And while their government may be problematic, is it really fair that the people have to suffer because of this? Much of the aid may be used for purposes that help the government, but perhaps this is worth it so some people can still be helped by this aid. Administrative conditions are, in part, a way to get around this. They include a broad range of conditions on how the money is spent and how the government is run. For example, much of the aid extended by the International Monetary Fund and World Bank required what was called structural adjustment. Structural adjustment policies required that governments cut costs, lower taxes, and reduce regulation. These conditions were meant to improve the competitiveness of the countries, making sure they can develop and thus eventually stop relying on aid. However, these conditions are serious restrictions on sovereignty. Even if the people of a democratic country demanded the government increase spending or increase taxes, they would not be able to do, because they were reliant on aid and thus had to obey the conditions set by foreigners. Often, this meant that the policies applied were not appropriate, since they did not adequately take into account local knowledge and demands. Finally, tied aid is a specific type of condition that limits how countries can spend their aid. Particularly, the aid can only be spent on goods coming from the country that gave the aid. For example, Japan recently pledged $4.5 billion to assist India in developing a large road and businesses development project. However, conditions on this aid required that India spend this money hiring Japanese engineers and construction companies to complete the work. Proponents of tied aid say it helps the country benefit directly from giving aid, and thus makes it easier to justify to their own people. While opponents argue it forces countries to spend their aid on specific companies, which might not be the best for the job.

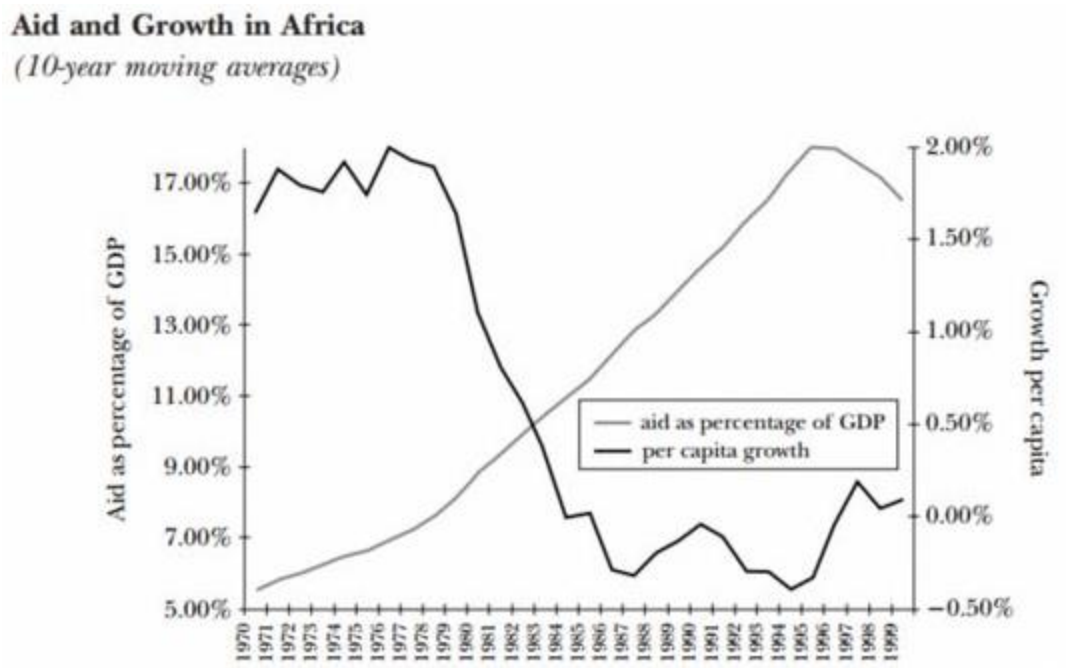
Aid Dependence

A further concern is overreliance on aid. While many least developed countries often have no choice but to accept aid, the portion of their budget that relied on foreign assistance has been growing substantially. At the height of this problem, countries like Mozambique funded 74% of their budget from foreign aid, while as recently as 2000 Rwanda funded 85% of government spending with aid. Even a relatively more stable country like Ghana relied on aid for 47% of their budget. When the country is so dependent on aid, it exacerbates many of the problems discussed above and raises new ones. One major problem is of control. When aid agencies fund most of the government's activities, you have to ask yourself who is really running the country: the government, or the people with the money? Similarly, who is the government accountable to: the people, or their aid donors? This reliance can dilute democracy and sovereignty. Aid flows are also unreliable. After the financial crisis hit 2008, many European countries with struggling economies scaled back their aid programs. Swings in the flow of money can dramatically change the size and capacity of government. Despite all this, it is wrong to think of aid dependency as bad in itself. Rather aid dependency is bad when it doesn't help the country progress to a situation in which it will eventually be free of reliance on aid. A country could be 100% aid funded, so long as 10 years down the line that is reduced to 50% aid funded, and maybe 30 years later to 0% reliance. Aid must help countries progress, otherwise this reliance can do more harm than good.

Net official development assistance as a % of GDP



There is no robust evidence that aid affects growth. Of course, this does not imply that aid is necessarily ineffective. Much of the aid is not given to affect growth in the first place. A large share is given as humanitarian aid following disasters. Parts of aid are given to fight terror, please political allies, or influence decisions in important international organisations. Moreover, the motive for donating aid can affect the outcome within the country. (1) Emergency and humanitarian aid; (2) aid that affects growth over a long period of time; and (3) aid that affects growth over a short period of time. The second category includes aid to health and education as well as to support democracy and the environment, while the third category includes budget support, infrastructure investments and aid for productive sectors. The authors found that the third aid category had a significant effect on growth over a four-year period, while the other categories had no significant effect.



Natural Wealth vs. Economic Wealth

But what natural resources are around us is not the only thing that matters. The Democratic Republic of the Congo is a huge country (about the size of Western Europe) in central Africa, with incredible natural wealth. It is estimated that $24 trillion of untapped resources lie underground in the Congo, just waiting to be extracted. And yet the country itself is one of the poorest in the world. The Korean economy, which is has very few natural resources, is 83 times larger the economy of the Congo. How is this possible? There are a range of possible explanations, but the core reason is that Korea has a much better manufacturing sector, with big successful companies like Samsung or Hyundai. One of the reasons these companies do so well is because Korea invests a lot in its best resource: its people. By spending lots on education, the country has improved its human capital, which refers to the education and skills of the population.

Economics is often thought of as the study of businesses and the economy, and that is broadly right. But economics captures a very broad range of studies, and there are many ways to tyink of the subject.

Some consider economics to be the study of people's choices. Most of the choices people make have economic consequences. What you buy, what you study, or what job you decide to do can all be understood by studying economic facts. In economics, people are assumed to be rational actors, meaning that a person will always choose that which makes them happy. Since companies want to provide people with that which makes them happy, so that they can make money, economies should reflect the desires and choices of everyone in the country.

Another way of thinking of economics is as the study of scarcity. If the world had an unlimited supply of goods, then we would never put a price on anything. If chocolate rained from the sky whenever we wanted it to, then everyone would be happy for chocolate to be free, since one person eating some did not diminish the total supply of chocolate. But we live in a world of finite resources. My eating a slice of pie means there's less for you. Prices were created as a system to manage this scarcity, it allowed us to be sure people don't consumer recklessly, and offered a way to decide who got to eat which products.

Economic institutions

World Bank

The World Bank has set two goals for the world to achieve by 2030

- End extreme poverty by decreasing the percentage of people living on less than $1.90 a day to no more than 3%
- Promote shared prosperity by fostering the income growth of the bottom 40% for every country

The World Bank provides low interest loans, zero to low interest credits and grants to developing countries. These support investments such as education, health, public administration, infrastructure, financial and private sector management, agriculture and environmental and natural resource management. Some projects are co-financed with govts, other multilateral institutions, commercial banks, export credit agencies and private sector investors. It provides support to developing countries through policy advice, research and analysis and technical assistance. Provided $61 billion in loans and assistance to developing countries in 2014 and total lending for the last 10 years was ~$117 billion. The WBG started in 1945 following the international ratification of the Bretton Woods agreements, initially issuing post-war reconstruction loan to France of $250M.

The World Bank comprises two institutions: the International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA). The IBRD provides debt financing on the basis of sovereign guarantees, while the IDA provides concessional financing (interest-free loans or grants) with sovereign guarantees.

The World Bank is part of the United Nations system,[8] but its governance structure is different: each institution in the World Bank Group is owned by its member governments, which subscribe to its basic share capital, with votes proportional to shareholding. Membership gives certain voting rights that are the same for all countries but there are also additional votes which depend on financial contributions to the organization. The President of the World Bank is nominated by the President of the United States and elected by the Bank's Board of Governors

As of 15 November 2009 the United States held 16.4% of total votes, Japan 7.9%, Germany 4.5%, the United Kingdom 4.3%, and France 4.3%. As changes to the Bank's Charter require an 85% super-majority, the US can block any major change in the Bank's governing structure.

Goals

- Eradicate Extreme Poverty and Hunger
- Achieve Universal Primary Education
- Promote Gender Equality
- Reduce Child Mortality
- Improve Maternal Health
- Combat HIV/AIDS, Malaria, and Other Diseases
- Ensure Environmental Sustainability
- Develop a Global Partnership for Development

Criticisms: Free market reforms can be harmful to economic development, cause shock therapy if implemented too quickly or in the wrong sequence. Moreover, loan agreements can force procurements of goods and services at non market prices. Uses a uniform model of development

IMF

The IMF's primary purpose is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other. Its mandate also includes all macroeconomic and financial sector issues that bear on global stability. 189 member countries with 24 directors each representing a single country or group of countries. US$668 billion in total quotas and US$668 billion additional pledged resources. US $159 billion under current lending arrangements

- Promote international monetary cooperation
- Facilitate the expansion and balanced growth of international trade
- Promote exchange stability
- Assist in the establishment of multilateral system of payments
- Make resources available (with adequate safeguard) to members experiencing balance of payments difficulties

Biggest borrowers: Portugal, Greece, Ukraine, Pakistan

Surveillance: monitors the economic and financial policies of its member countries on a global and national level. The IMF identifies possible risks to stability and advises on needed policy adjustments.

Lending: Provides loans to member countries experiencing actual or potential balance of payments problems; this enables countries to rebuild their international reserves, stabilize their currencies, continue paying for imports and restore conditions for strong economic growth while undertaking policies to correct underlying problems. Unlike development banks, the IMF doesn't lend for specific projects.

Capacity development: technical assistance and training helps member countries design and implement economic policies that foster stability and growth by strengthening their institutional capacity and skills.

Each member of the IMF is assigned a quota, based broadly on its relative size in the world economy, which determines its maximum contribution to the IMF's financial resources. Upon joining the IMF, a country normally pays up to one-quarter of its quota in the form of widely accepted foreign currencies (such as the U.S. dollar, euro, yen, or pound sterling) or Special Drawing Rights (an international reserve asset to supplement its member countries' official reserves). The remaining three-quarters are paid in the country's own currency. The IMF remains one of the world's largest official holders of gold. Quotas are reviewed every 5 years. The IMF can supplement its quota resources through borrowing through two standing multilateral borrowing arrangements—the New Arrangements to Borrow (NAB) and the General Arrangements to Borrow (GAB) if it believes that it might fall short of members' needs. Decision making in the IMF is designed to reflect the relative positions of its member countries in the global economy.

Cooperation and reconstruction post WWII (1944-1971): While rebuilding national economies post WWII, the IMF oversaw the international monetary fund to ensure exchange rate stability and encouraging members to eliminate exchange restrictions that hinder trade.

End of the Bretton Woods System (1972-1981): The system of fixed exchange rates collapsed in 1971 and countries were free to choose their exchange arrangements. Bretton Woods system were an obligation for each country to adopt a monetary policy that maintained the exchange rate (± 1 percent) by tying its currency to gold and the ability of the IMF to bridge temporary imbalances of payments. Also, there was a need to address the lack of cooperation among other countries and to prevent competitive devaluation of the currencies as well. Oil shocks occurred in 1973-1974 and 1979. Argentina, which had been considered by the IMF to be a model country in its compliance to policy proposals by the Bretton Woods institutions, experienced a catastrophic economic crisis in 2001,[90] which some believe to have been caused by IMF-induced budget restrictions—which undercut the government's ability to sustain national infrastructure even in crucial areas such as health, education, and security—and privatisation of strategically vital national resources.[91] Others attribute the crisis to Argentina's misdesigned fiscal federalism, which caused subnational spending to increase rapidly.

Debt and painful reforms (1982-1989): Oil shocks lead to an international debt crisis and the IMF assists in coordinating the global response

Societal Change for Eastern Europe and Asian Upheaval (1990-2004): The IMF plays a central role in helping former soviet bloc countries transition from central planning to market driven economies

Globalization and Credit Crisis (2005-present): The implications of the continued rise of capital flows for economic policy and the stability of the international financial system are still not entirely clear. The current credit crisis and the food and oil price shock indicate the potential for global economic instability. Globalization encompasses three institutions: global financial markets and transnational companies, national governments linked to each other in economic and military alliances led by the United States, and rising "global governments" such as World Trade Organization (WTO), IMF, and World Bank. These interacting institutions create a new global power system where sovereignty is globalized, taking power and constitutional authority away from nations and giving it to global markets and international bodies, exacerbating global inequality between western countries and majority world.

Criticisms and characterizations of the IMF

- Developed countries were seen to have a more dominant role and control over less developed countries (LDCs).
- Worked off the incorrect assumption that all payment deficits were caused domestically, without negative externalities (oil crises, etc) and prescribed stabilisation programmes for government overspending deficits. They provided a standard solution to the following narrow range of problems – poor governance, excessive govt spending, excessive govt intervention in markets and too much state ownership.
- The typical IMF proposed solution is to tighten the budgetary belt and promote free market-orientated approaches such as privatization of all state-owned enterprises and deregulation internally and a reduction of trade barriers externally (focusing economic output on direct export and resource extraction). Conditions typically include currency devaluation, higher taxes, lower govt spending, restructuring foreign debts, loans from central banks, eliminating food subsidies, raising the price of public services and cutting wages. Some policies has an anti-developmental effect, causing deflationary effects = loss of output and employment in economies where incomes were low and unemployment was high. Burden of deflation disproportionately borne by the poor (no govt employment or public healthcare system)
- The policies lack a clear economic rationale, using theoretical foundations to deal with widely varying economic circumstances. This can result in policies that are out of touch with local economic conditions, cultures and environments.
- IMF policies exacerbate inequality, as countries with IMF programs faced increased income inequality. This could significantly harm social and political stability
- The conditionality of IMF loans reduces a country's autonomy, especially as a country can pledge collateral of "acceptable assets" to obtain waivers on the loans
- IMF policy makers supported military dictatorships friendly to American and European corporations, but also other Anti-communist and Communist regimes (such as Mobutu's Zaire and Ceaușescu's Romania, respectively). Critics also claim that the IMF is generally apathetic or hostile to human rights, and labour rights. Arguments in favour of the IMF say that economic stability is a precursor to democracy; however, critics highlight various examples in which democratised countries fell after receiving IMF loans.
- Reduced access to food in developing nations, as they treated food and agriculture like any other commodity. Moreover, made it difficult for indebted countries to say no to environmentally harmful projects that generate revenues (oil, coal, and lumber or agriculture projects. Ecuador had to deny IMF advice repeatedly to pursue protection of its rain forests

IMF loan conditions should be paired with other reforms—e.g., trade reform in developed nations, debt cancellation, and increased financial assistance for investments in basic infrastructure.[100] IMF loan conditions cannot stand alone and produce change; they need to be partnered with other reforms or other conditions as applicable.

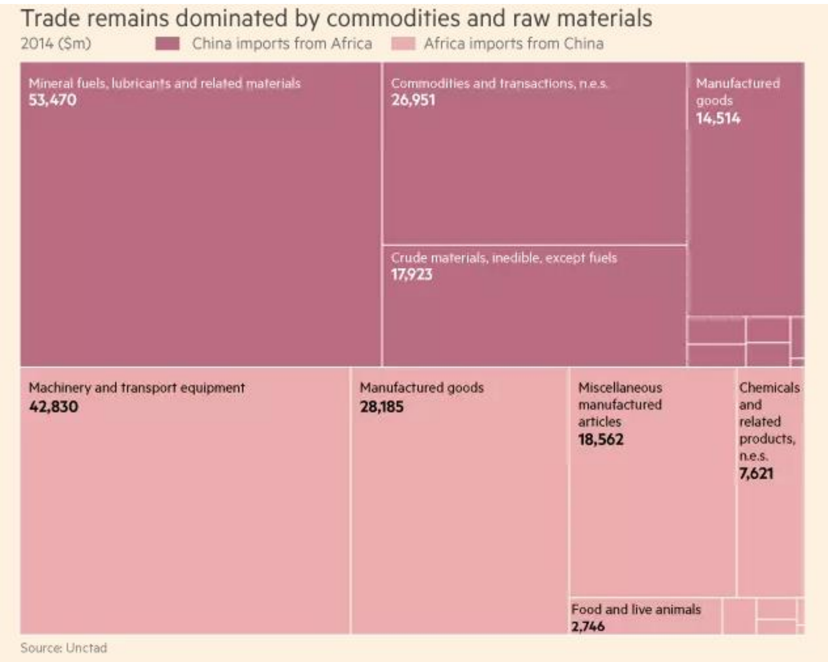
Lagarde and her two predecessors have been investigated by authorities and face trial. Lagarde had been accused of giving preferential treatment to businessman-turned-politician Bernard Tapie as he pursued a legal challenge against the French government.

Alternatives: The African Monetary Fund, the BRICS Contingent Reserve Arrangement (CRA) which is a framework to provide liquidity through currency swaps in response to short-term balance-of-payments pressures. The Asian Infrastructure Investment Bank was established in 2014 and it aims to support the building of infrastructure in the Asia-Pacific region

Chinese Involvement in Africa

China is Africa's largest trading partner, Africa is China's major import source, the second largest overseas construction project contract market and fourth largest investment destination. Chinese investment in Africa $7 billion in 2008 to $26 billion in 2013. More than 2000 Chinese companies have invested in Africa, mostly in energy, mining, construction and manufacturing. The China National Petroleum Corporation invested $6 billion.

This trading relationship seems to be weakening, as China's economy faces increased volatility. Chinese influence is exerted in Africa, not be the govt (who maintains a non-interventionist stance) but by Chinese consumers.



China strongly supported African Independence Movements and gave aid to newly independent African nations in the 1960s and 1970s. Among the most notable early projects was the 1,860 km TAZARA Railway, linking Zambia and Tanzania, which China helped to finance and build from 1970 to 1975. Some 50,000 Chinese engineers and workers sent to the continent to complete the project. By 1978, China was giving aid to more African countries than the United States. China has been engaged in a kind of "health diplomacy" towards Africa since the 1960s. Health care development and medical assistance have been one of the main successful areas of cooperation.

Poverty alleviation schemes

How to lift the billion people living under the poverty line up

- Aid
- Trade
- Security
- Governance

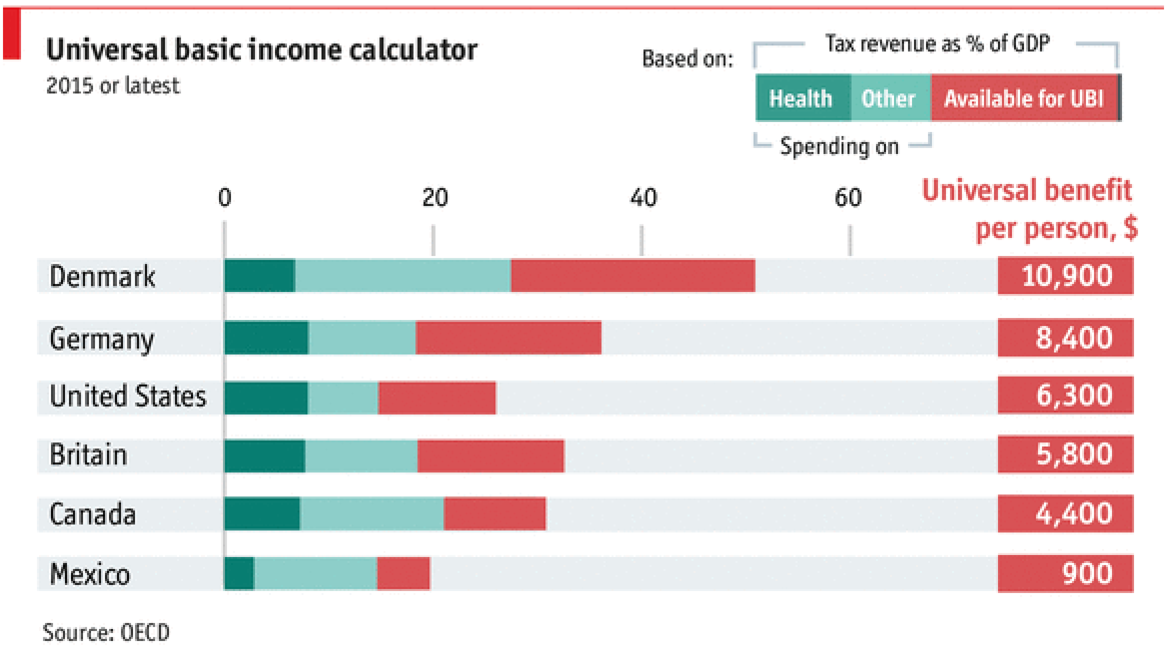
Universal basic income

A guaranteed income can offset certain systemic problems, explicitly income inequality, poverty and an uncertain future of increased automation. Many of these problems exist due to rising living standards and stagnant wage growth around the world. 1797 UBI first discussed, however states built welfare along different lines: as programmes of insurance for those who found themselves out of work. Proponents of UBI suggest that the welfare system is not working as intending.

Finland's scheme, launched earlier this year, will provide its citizens with a basic income regardless of employment status. The two-year experiment offers 2000 unemployed Finish citizens of varying ages with a monthly basic income of $581.48 which will replace their other social benefits. This cohort will continue to receive the stipend even if they find work.

Advantages	Disadvantages
Poorer workers and those with no work would get a big boost to their incomes (gives women more financial independence and potential to leave abusive situations, acknowledges stay at home parents).	Expensive = a country the size of the United States would need to raise the share of GDP collected in taxes by nearly 10% to pay every child and adult about $10,000 per year. More generous programs would require larger tax hikes and the cannibalization of most non-

	health related social spending. It requires a very large increase in taxes
Entrepreneurship would become less risky. A more robust safety net would give workers more bargaining power with employers and force firms to work harder to retain workers	Money cannot be targeted at those who need it most, instead being contributed to everyone in your society, even those that do not need it
More people could invest time and money in education or training	Many people may choose not to work at all, as there is no incentive to find a job. A lot of our societal interactions are based on work
People are not disincentivised from getting a job, as they would not lose their welfare benefits. Minimum wage jobs can leave people in a worse off financial position especially in the short term	The availability of a basic income would almost certainly harden attitudes towards immigration, as people would not want immigrants gaining money that their taxes fund
Less intrusive and paternalistic, allowing people to spend money as they choose. A recent study showed that beneficiaries do not mismanage cash aid when it is given to them directly	While people may have money, large increases in taxation may force businesses to increase prices, leading to inflation
A guaranteed national income would reduce the tendency to segregate the poor geographically	Can only be implemented in highly developed countries where the tax base is large



Microfinance

In developing economies, especially in rural areas, many financial activities are not monetised. The poor cannot access the funds to access services such as Lifecycle needs (weddings, funerals, childbirth, education, homebuilding), Personal Emergencies (sickness, injury, unemployment, theft, harassment or death), Disasters (fires, floods) and Investment Opportunities (expanding a business, buying land and improving housing/job). Moreover, poor people struggle to gather a "usefully large" amount of money. Microlending provides this lump sum but does not alleviate the tendency of poor people to need to get into debt.

Microloans are small loans that are issued by individuals rather than banks or credit unions. Sometimes a number of applicants will band together to “insure” one another in a loan application. These loans can be issued by a single individual or aggregates across a number of individuals who each contribute a portion of the total amount. Microloans are frequently used in developing countries, where traditional financing is not available, in order to assist individuals starting small businesses or farms. As the credit of the borrowers is low and the risk of default high, microloans command above market interest rates making them enticing for some investors. These loans are not backed by any collateral, so if a borrower defaults the lender will get little to nothing back.

Lenders are typically individuals, as finance institutions believe the risks outweigh the rewards. Microloans serve two purposes; firstly to assist the poor in developing work start small businesses; the second is to lend to individuals in developed countries that have bad credit. Microfinancing produces many benefits for poverty stricken, or low- income households. One of the benefits is that it is very accessible. The benefit produced from the microfinancing initiative is that it presents opportunities, such as extending education and jobs. Families receiving microfinancing are less likely to pull their children out of school for economic reasons. As well, in relation to employment, people are more likely to open small businesses that will aid the creation of new jobs.

A benchmark impact assessment of Grameen Bank and two other large microfinance institutions in Bangladesh found that for every $1 they were lending to clients to finance rural non-farm micro-enterprise, about $2.50 came from other sources, mostly their clients' savings.

Poor people face many obstacles, including saving the money that they earn. Some microfinance institutions provide a place to save money. The microfinance project of "saving up" is exemplified in the slums of the south-eastern city of Vijayawada, India. This microfinance project functions as an unofficial banking system where Jyothi, a "deposit collector", collects money from slum dwellers, mostly women, in order for them to accumulate savings. The microfinance project of "saving through" is shown in Nairobi, Kenya which includes a Rotating Savings and Credit Associations or ROSCAs initiative. Everyday 15 women would save 100 shillings so there would be a lump sum of 1,500 shillings and every day 1 of the 15 women would receive that lump sum. This would continue for 15 days and another woman within this group would receive the lump sum. At the end of the 15 days a new cycle would start.

Critics of micro lending suggest that it simply drives poor people into a debt trap. The global average interest and fee rate is estimated at 37%, with rates reaching as high as 70% in some markets. The traditional approach to microfinance has made only limited progress in resolving the problem it purports to address: that the world's poorest people pay the world's highest cost for small business growth capital. The high costs of traditional microfinance loans limit their effectiveness as a poverty-fighting tool. There has been a long-standing debate over the sharpness of the trade-off between 'outreach' (the ability of a microfinance institution to reach poorer and more remote people) and its 'sustainability' (its ability to cover its operating costs—and possibly also its costs of serving new clients—from its operating revenues).

Micro financers generally agree that women should be the primary focus of service delivery. In many cases over 90% of the borrowers are women. Evidence shows that they are less likely to default on their loans than men. Industry data from 2006 for 704 MFIs reaching 52 million borrowers includes MFIs using the solidarity lending methodology (99.3% female clients) and MFIs using individual lending (51% female clients).

Reparations for historical injustices

Reparations

Measures taken by the state to redress gross and systematic violations of human rights law or humanitarian law = compensation for abuse or injury.

Canada: for +100 years Canada removed indigenous children from their families and placed them in church-run Indian residential schools, as part of their effort to homogenize society. This also included banning native language and cultural practices. 1991 Royal Commission on Aboriginal Peoples; govt and Pope Benedict XVI issued apologies and govt set up a $350 million fund to help those affected by the schools. Also agreed to provide reparations totalling $2 billion

Chile: 1990 National TRC to investigate human rights abuses under General Augusto Pinochet's 1973-1990 dictatorship (disappearances, political executions and torture). The TRC recommended reparations for the victims, including monthly pensions, educational benefits, exemption from military service and priority access to healthcare. Criticized for not identifying perpetrators and for failing to recognise the range of victims to whom reparations are due.

Morocco: 1960s-1990s "years of lead" massive human rights abuses (political oppression, executions, torture and detention). 1999 King Mohammad VI created a commission to compensate victims. 5000 cases decided and $100 million awarded but commission criticised for lack of transparency. Led to Arab world's first truth seeking commission the Equity and Reconciliation Commission which upheld gender equity and resulted in $85 million paid to almost 10 000 people.

Other reparations programs have been proposed and/or implemented in: Argentina, Brazil, Cambodia, Colombia, the Democratic Republic of Congo, East Timor, El Salvador, Germany, Ghana, Guatemala, Haiti, Iraq, Malawi, Liberia, South Africa, Kenya, the United States.

Reparations for slavery: One major bill demanding slavery reparations has been proposed in the US. 1999 TransAfrica advocacy organisation says race riots, lynching and institutional discrimination have resulted in $1.4 Trillion loss for African Americans. In the UK 2004 descendants of African slaves filed a class action lawsuit against insurance firm Lloyd's of London, stating that by insuring and financing the slaving ships they were complicit in genocide. 2006 and 2007 PM Tony Blair makes an apology for Britain's role in the slavery trade.

Logistical problems = clearly defined objectives and processes by which reparations will be distributed, balancing economic development with financing reparation efforts. UN guidelines equate human rights violations with violations of civil and political rights, ignoring abuses of economic, social, and cultural rights. Explicitly state intent to restore victims to their status in peace time but rights and resources not necessarily equal even in peace. In 2007, women's groups mobilized to examine how reparations policies could be more responsive to victims of gender-based violence. Their efforts led to the "Nairobi Declaration on Women's and Girl's Right to a Remedy and Reparation," which states that "reparations must go above and beyond the immediate reasons and consequences of the crimes and violations; they must aim to address the political and structural inequalities that negatively shape women's and girl's lives." Reparations ought to also have a child specific component to target abuses specifically suffered by children.

Land redistribution

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