

World economy

The emergence and development of the world economy

1. BASIS AND ORIGIN OF THE GLOBAL ECONOMY

Global economy

- Discipline of science – applied discipline.
- Subject of the research is global socio-economic system

SE is internally contradictory and heterogeneous complex of each state economies or other units that are connected with international economic relations

Origin and existence are caused by two assumptions

- Segmentation of human society to relative productive closed and economically individual social units, bound to a particular area
- Transformation of social division of labour into an international and later global division of labour.

Global economic development:

1. **phase** – *origin and global economy formation* (last third of 19. century)
 - Assumptions of SE origin began in feudalism and early capitalism
 - Then gradually formed classical colonialism
displacement of wealth from colony to metropolis,
political subordination of colony to metropolis
 - Colonial division of labor was accompanied by inequivalent

- The most important power – Great Britain, France,
- Global market development started thanks to industrial Revolution
- Machine production was material core for world trade
- Deepening of an international division of labor went to internationalization of production
- SE was formed with colonial system at the same time

Global economic development:

2. phase – *development of united and internally differentiated SE*

(Turnof the 19. century to the end of the 1. world war)

- Massive economic development, intensifying national and international conflicts,
- The most important conflicts between metropolis due to recreating colonies,
- National conflicts, especially social (beginning of the Social Revolution in Tsarist Russia in 1917).

Global economic development :

3. phase – *interwar development of SE*

- Increasing conflict between winning and defeated countries from 1. world war
- Economic crisis 1929 – 1932,
- Beginning crisis of colonial system – rebellion in Indochina and Korea,
- National Liberation Movement in China, India, Iran, Iraq and Egypt,
- Building of socialistic, centrally planned economy in Russia and Mongolia,

Global economic development:

4. phase – *postwar development of SE*

1. **Phase: 50. a 60. years**

- Turn of the 40. and 50. years – dissolution of SE to two national systems – capitalist and socialistic – creation of centrally planned economy,
- 60. years – dissolution of colonial system,
- in 60. years is also formed third core of global economy (USA, western Europe,
- *The period of relative prosperity*

4. phase – *Postwar development of SE*

2. phase: 70. and 80. years

- Structural crisis, that was mingled with general monetary crisis at the same time, and increasing environmental issues,
- Structural crisis – food, raw material and energy crisis,
- Food crisis took place in years 1972 – 1974.

Two main factors of food crisis:

- hundred years of crop failure in Southeast Asia and sub-Saharan Africa,
- Economic and political measures of developed countries – limiting of crop area during the Global Price decrease of an agricultural production.

Global economic development:

5. phase – *90. years – beginning of the new phase in SE development*

- *In 90. years SE stopped being divided to the capitalistic and socialistic*
- *Internationalization of SE turned into more quality form, globalization has positive and negative results*
- *Deepening of differentiation proces between developed economies and developing countries*
- *Problems in SE enforced bigger and more efficient international cooperation*

2. AN INTERNATIONAL TRADE AND EXCHANGE RATE

Mezinárodní obchod

- Is exchange of goods and services of different subjects of particular state within whole Global Economy. Integration rate of state into an international trade is marked as economical openness and closeness. Openness rate is possible to express as a quotient of exports and imports in GNP in %.

Reasons of an international trade:

- Disparity of production conditions
- Decreasing costs of mass production,
- Differences in consumer tastes

Consequences of an international trade in economic process:

- export,
- import.

Exchange rate

- Is ratio between values of various monetary values, or ratio, where are various currencies exchanging to each other. Formation of exchange Rates caused an international trade.

Exchange rate development:

- depreciation,
- evaluation,
- devaluation,
- revaluation.

Benefits from an international trade:

POSITIVE:

- Worker gets higher amount of consumer goods for the same amount of labor.
- Increase of national income
- Trade creates pressure for national prices of goods
- Creating a competitive environment

NEGATIVE:

- Short-term increase in unemployment
- social consequences

Protectionism

= any measure accepted by particular country to protect domestic industry from import.

REASONS FOR PROTECTIONISM:

- non-economic arguments,
- arguments, not concerning about reasonable economic argumentation
- valid arguments in dynamic conditions

Protectionalism forms:

- duties – tax imposed to an import
- Import quotas – quantitative limits for import prices
- Non-tariff barriers – e.g. health, quality certificates

3. AN INTERNATIONAL TRADE THEORY FROM ANTIQUITY TO THE PRESENT.

Absolute advantage theory

Countries should focus on specific product production in international division of labor, that are possible to produce in the cheapest way and with absolutely lowest labor costs in comparison with other countries. (result of natural conditions and level of economic development, country has absolute advantage if it has highest labor productivity)

Assumptions:

- Labor is the only one factor of production,
- Value of product is based on amount of labor spent during the production itself
- Labor productivity of different branch is different in each country

Absolute advantage theory

- **Adam Smith** (1723 - 1790) – Absolute advantage theory – ability of specific group to produce more goods and services than competition by using the same amount of resources – he was the first who described this principle „Wealth of nations“ - 1776

Comparative advantage theory

A country, that is less effective with all goods will specialize to a production and export of products, that have smallest absolute disadvantage. More effective country with all goods will specialize to the most advantage product production

Assumptions:

- Different technology – different labor productivity
- Same amount of labor creates different value added
- Homogeneous work, perfectly mobile within the state, perfectly immobile internationally
- Constant returns to scale, an international trade is not limited

Comparative advantage theory

- **David Ricardo** (1772 – 1823) – his view was completely different than his predecessors – discovered a law of "comparative advantages", thanks to this law is possible to exchange goods between two countries, and also in case where only one country is able to produce all goods with absolute lower costs

Main protectionist theory of an international trade:

- Mercantilists – T. Mun, B. de Mandeville,
- Keynesians – J. M Keynes,
- Alternative MO theory
- Immature industry
- Peripheral economy theory
- Impoverishing growth theory

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