Current Account surplus = currency appreciation A Current Account surplus is likely to lead to an appreciation of a currency in a floating exchange rate system. This is because less of a country's currency is being supplied to forex to purchase imports than is being demanded from forex to pay for export, therefore the currency appreciates.	**Economic integration** Occurs when countries take steps to co-ordinate and link their economic policies. Stages: 1. Preferential trade area 2. Free trade area 3. Customs Union 4. Common Market 5. Economic and Monetary union
1. Preferential Trading Area: Preferential access to certain products from certain countries. Tariffs are reduced on these products, but not eliminated.	**2. Free trade areas:** The members of the trading bloc agree to free trade between themselves. However, countries are allowed to set their own trade policies with countries outside the bloc.
3. Customs union Free trade amongst bloc members and they agree to set the same tariffs against non bloc member countries – Common External Tariff.	**4. Common or single market** - Free trade between bloc members. Common External Tariff and: Common product standards. Products produced in bloc meet the same standards. - Free movement of factors of production. Labour and capital can move freely throughout the bloc.
5. Economic and monetary union Free trade between bloc members. Common External Tariff and: Common product standards. Free movement of factors of production and **Common currency and a common central bank.**	**Advantages of monetary union** 1. Eliminates of exchange rate fluctuations 2. Price transparency 3. Stable currency 4. Exchange rate costs are eliminated
Disadvantages of monetary union 1. Loss of control over interest rates In a monetary union the i/r is no longer set by the county's government – it is set by the central bank for the bloc of countries. 2. Loss of control over the exchange rate of the currency In MU a country uses the bloc's currency and therefore they have no control over the exchange rate. 3. Initial costs of changing to the 'new' currency	**Advantages of a trading bloc to member countries:** 1. Better access to markets of fellow bloc members (lower/no tariff barriers). 2. Protection from competition from more developed economics outside the bloc (CET etc). 3. Lower prices for the consumer because: - firms able to exploit economies of scale - access to members state goods without tariffs, many of which will be cheaper etc 4. Increased FDI.
Disadvantages of a trading bloc to member countries: 1. If a country's firms are uncompetitive compared to its blocs partners' firm them: - a country's imports will increase (can no longer hide behind tariff barrier). - a country's exports will decrease. Combined, this will cause Current Account problems. - unemployment will increase and most of it will be structural. 2. Loss of government revenue if tariffs had been in place	**Non Members** Non member of a trading bloc will face the common external barrier (Customs Union and after) when they try to export their goods to members of the trading bloc. This will decrease their exports and be harmful to these countries at least in the short run.