

International Specialisation

The Advantages of International Specialisation (ORE):

An **increase** in the **output of goods and services** - In comparison to what they could achieve on their own

A **widening** of the **range of goods** that are **available in an economy**

Increased **exchange** between **developed** and **developing economies**

The Disadvantages of International Specialisation (WIFT):

Bad weather – It can wipe out a whole years crops

De-industrialisation – Due to cheap imported goods displacing workers

Finite Resources – If they run out trouble will ensue, unless the income gained from it has been wisely invested in the future

Tastes or needs of consumers may change – Hardship among those producing goods that are no longer wanted / needed is inevitable

Productivity Definition – Output, or production of a good or service, per worker per period of time

Production Possibility Curve

Production Possibility Curve (Firm) – This shows the maximum quantities of different combinations of output of two products, given current resources and the state of technology

Production Possibility Curve (Country) – This shows the maximum quantities of different combinations of output of capital and consumer goods, given current resources and the state of technology

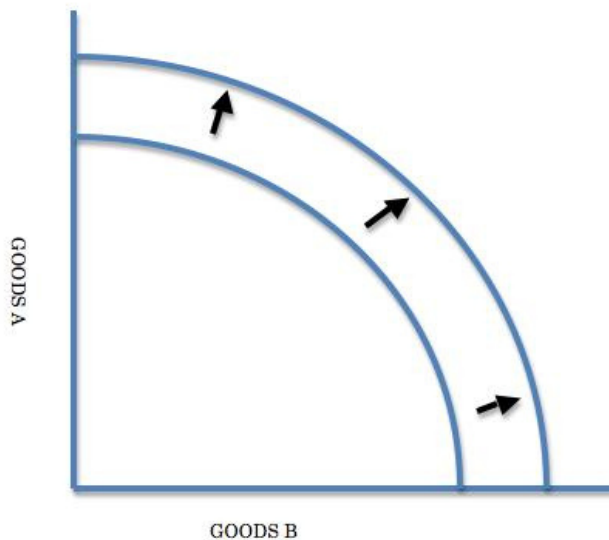
Developed Economy – An economy with a high level income per head

Developing Economy - An economy with a relatively low level of income per head

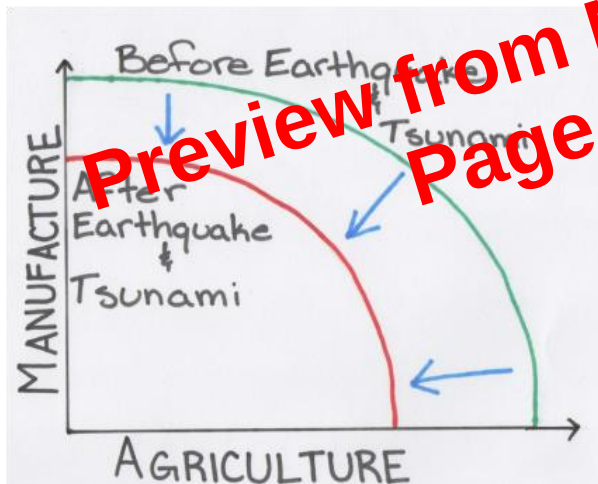
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NOTE – The fact that the line isn't straight for any of the diagrams is because they are imperfect substitutes

PPC Shifter Right (Graph):



PPC Shifters (Left):



- **Natural Disaster** (Less resources Less of each product can be produced)

The advantages of a free market economy / The disadvantages of command economies(CIGE):

Choice – Firms will **produce whatever consumers are prepared to buy** and there is no restriction on what they produce in the FM. **Planners are more concerned that there are enough essentials goods to go around** rather than allocating resources efficiently between all goods

Innovation – Firms will look to **produce something new in order to be competitive**.

Because of property rights(intellectual property rights through patents) there are **incentives for innovation and producing better quality products**. Planners do not have this incentive, they are happy just producing essentials.

Higher Economic Growth Rates – Countries with economic systems closer to the free market tend to have higher economic growth.

Efficiency – Free markets are **very competitive**. Most of their industries are assumed to be perfectly competitive and so **allocative** and **productive efficiency** occur. This is because **decisions about what to produce are made by the consumers** rather than by planners

The advantages of command economy / The disadvantages of free market economies(PmdIE):

Public, Merit and Demerit Goods - **Public goods cannot be provided in the private sector**. Merit goods are likely to be under consumed in the free market and demerit goods over consumed. In a command economy **demerit goods are likely to be banned or heavily taxed** and **public goods and merit goods will be provided at high levels**.

Unequal Distribution of Income – Benefits will be low and health service and school unaffordable for a lot. Those who are poor are likely to fall to destitution. A command economy may not allow the successful to make millions but it will at least try to make sure the poor are not left to destitution so the economy is fairer

Environment – Free market economies are likely to produce more pollution. **Command economies** will attempt to make sure that **the level of output is the socially optimal level of output** through things such as taxes and pollution permits although pollution does tend to still be high

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Externalities, Social Costs and Benefits

Externality – A cost imposed or benefit felt by a third party (a party not involved in the economic decision)

Private Costs – The costs incurred by those taking a particular action

Private Benefits – The benefits accruing to those taking a particular action

External Costs – The costs that are the consequence of externalities to third parties

External Benefits – The benefits that accrue as a consequence of externalities to third parties

Social Costs – Private Costs + External Costs

Social Benefits – Private Benefits + External Benefits

Negative Externality – This exists where the social cost of an activity is greater than the private cost

Positive Externality – This exists where the social benefit of an activity is greater than the private benefit

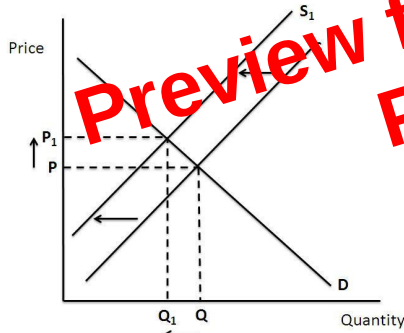
Positive Externalities:

Inoculation / Medicine – External Benefit = Less likely for other people to catch the disease

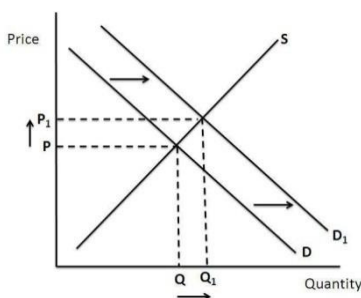
Cross rail – External Benefit – Reduced road traffic congestion

Education and Training – External Benefits – Better qualified employees for firms and enhanced longer-term for the economy as a whole

Negative Externality Graph:



Positive Externality Graph:



Normal Supply and Demand diagram can be used to show externalities but you have to say that Q₁ may not be the exact social optimum but that it is hopefully (for the government's sake) closer.