thiswill have a large effect on the economy as it will also cause a negative multiplier effect. It could result in a fall in real incomes and GDP so there is likely to be job losses which would lead to a fall in the standard of living. Therefore cutting public expenditure would have far less harmful effects than raising taxes to reduce the fiscal deficit.

In the long run the WTO would intervene and reduce the trade barriers implemented by the trading blocs which could reduce trade diversion and help promote globalisation. Trading blocs diverts countries' focus from the WTO agreements. Although disagreements occur between trading blocs and the WTO, the WTO finds it easier to negotiate agreements with a trading bloc than lots of individual countries.

Trading blocs are usually regional therefore there is limited integration between developed and developing countries. This could lead to increased inequality between member and non-member countries. There is also a different degree of integration between trading blocs, with EU being the greatest. Therefore joining the Eurozone would result in loss of sovereignty for individual countries within the bloc. Trading blocs will increase vulnerability of countries within it for example the government debt in Greece and Italy has affected all the Eurozone members since they share a common currency.

International competitiveness (IC) is the ability to compete and sell goods and services in domestic and international markets at a price and quality that is attractive in those markets.

Prior to 2008 the UK had a very strong pound against other countries. This meant that imports became cheaper for UK consumers and exports became more expensive for foreign consumers therefore international competitiveness worsened. Therefore the current account deficit worsened, reducing AD which resulted in domestic output falling, falling incomes, rising unemployment and falling standards of living, further reducing exports.

Another reason for a fall in UK competitiveness was due to high inflation relative to other countries. Our goods were more expensive therefore our exports fell.High inflation can also lead to a wage price spiral which would increase the cost of production for firms due to rising wage costs. This makes the UK less attractive for TNCs to invest, therefore the FDI would be invested in countries such as China and India as they have lower wage costs. Furthermore, the UK has high non-wage costs relative to other developing countries in the form of pensions, NI contributions, health and safety and environmental regulations. This has reduced their international competitiveness against the BRIC nations.

The UK has low relative productivity as compared to other countries eg. Germany. This is due to the fall in the standards of education and training relative to other countries, this reduces the quality of products and increases relative unit labour costs. Therefore the price of the goods will be high so the firms will be less likely to experience economies of scale and making it less likely for TNCs to invest in the economy.

UK competiveness has also been decreasing due to a decline in non-price factors. The quality and design of UK goods along with availability and reliability is relatively lower than competing economies. Moreover, the UK has a low level of customer service which has made it less attractive for exporting goods in foreign markets.

In the short run the low exchange rate will mean our competitiveness will not fall but in the long run as the exchange rate becomes stronger, international competiveness will decrease and the current account balance of payments will worsen due to rising imports. Competitiveness may not fall if exporters cut profit margins by charging a lower price for their goods so exports become more competitive and domestic consumption will rise.

The government may use supply side policies to resolve the problem of low productivity, rising wage costs and inflation through education and training schemes, reducing the National Minimum Wage and trade union power and a reduction in tax rates but many of these have significant lags until their effects will filter into the economy and it is difficult to finance at a time when the government is trying is trying to reduce the fiscal deficit.

they need to spend the money on necessities. Given this, it will not achieve long-term sustainable economic growth, as the money is unlikely to be invested. In contrast, those who already have relatively established businesses can invest this loan and in turn create more jobs, output and long-term economic growth.

The problem with the Lewis model is that it assumes that there is surplus labour in the agricultural sector. If investment was made in capital equipment and technology, there would be no need for labourers in the manufacturing sector. This would limit growth and development in these countries. The demand for tourism is income elastic so in a recession demand for tourism falls. It also leads to external costs such as pollution, congestion and seasonal unemployment as jobs are created for only certain times in the year.

The TNC will bring their own managers and professional staff and therefore only higher low skilled domestic workers. Also, the jobs created may only be seasonal. There will also be negative effects on the environment and more pollution. Given that tourism is income elastic, in times of recession, there will be a more than proportionate decrease in demand for tourism, as such a country that is over reliant on tourism will be very negatively effected by an economic downturn. It is also dangerous to be overly reliant on tourism because a single event can have a lasting negative impact. For example, the 2004 Tsunami in the Indian Ocean had a devastating effect on the number of tourists for the following. Tourism tends to be quite fashionable and destinations that may be in demand today may not be as popular tomorrow.

Aid and debt cancellation could lead to a dependency culture making countries inefficient. It also has a moral hazard problem where the countries might not carry out the best macroeconomic policies because they know they will be bailed out again. Resources are not always diverted to the main recipients due to corruption. Moreover, there is no evidence that debt cancellation and aid have helped promote growth and development and reduce inequality.

This states that in many developing countries, firms and industries would not have developed to a point where they could compete against big multinational corporations. Since these industries in the developing countries are relatively small they will not be able to exploit the economies of scale that exist in that industry. By protecting these industries, it will give them time to grow and tap into their economies of scale so that they can compete with the MNCs in the long run. Developed countries may decide to 'dump' their excess supply in the developing world and set the price below the AC. This is a form of predatory pricing and is illegal under WTO rules. By having protectionist policies in place, developing countries can prevent or at least limit dumping. Protectionist policies protect domestic employment, which is one of the macro- economic objectives for any government. Since firms face less competition, they can cater for more of the domestic demand thus increasing employment rates and increasing their profits.