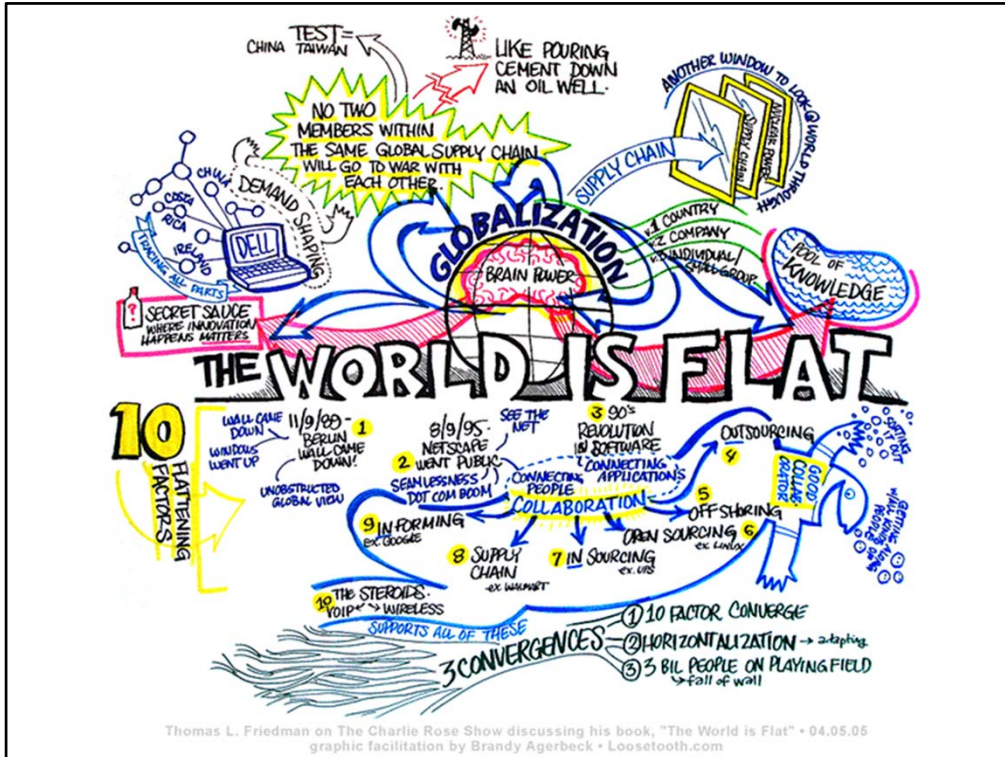


# Global Economics



This image was taken from <http://www.loosetooth.com/Viscom/gf/worldisflat.htm> – and is based on the blog author’s (Brandy Agerbeck) work, which she calls “Graphic Facilitation.” Much like the video I showed you before the break about the credit crisis, it tells a story – this one is the story of a book, The World is Flat – by Tom Friedman. I’m going to start at the bottom – with the 10 “flattening factors.”

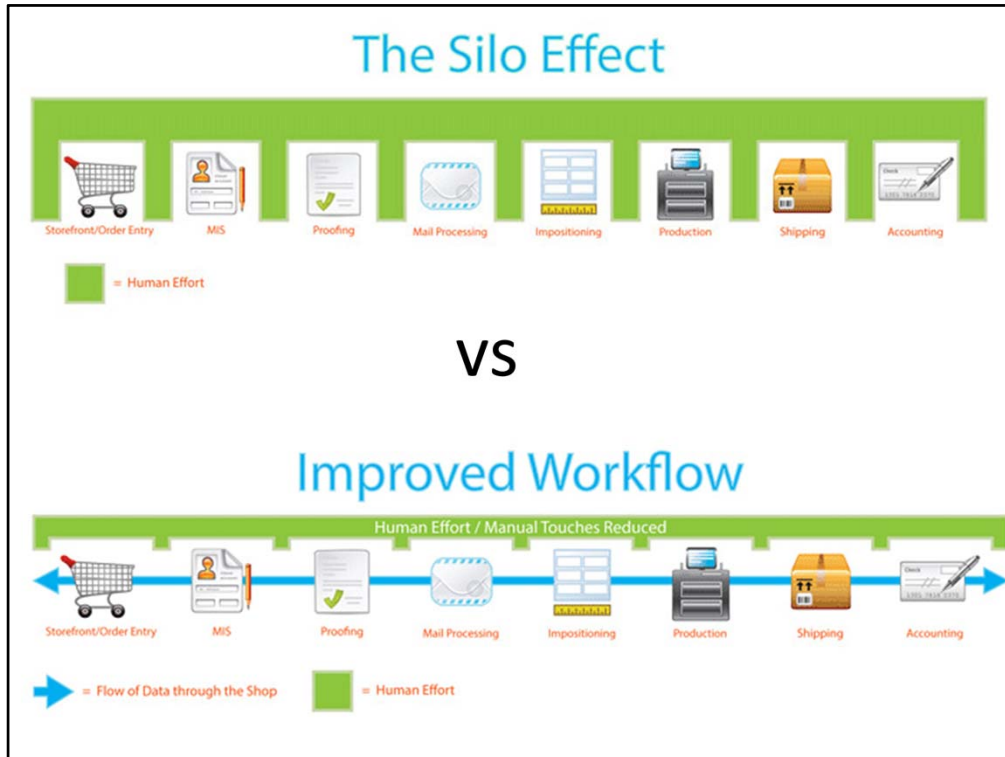


[http://books.google.com/books?id=-mv\\_ryTuvo0C&pg=PR7&lpg=PR7&dq=Tom+Friedman+-+The+World+is+flat+10+flatteners&source=bl&ots=xfXJhU\\_QBy&sig=IOrTYGK4fUS08FYM2crov-axd1o&hl=en&sa=X&ei=IZI7Vle8lorasATy6YCQCA&ved=0CCMQ6AEwATgK#v=onepage&q=Tom%20Friedman%20-%20The%20World%20is%20flat%2010%20flatteners&f=false](http://books.google.com/books?id=-mv_ryTuvo0C&pg=PR7&lpg=PR7&dq=Tom+Friedman+-+The+World+is+flat+10+flatteners&source=bl&ots=xfXJhU_QBy&sig=IOrTYGK4fUS08FYM2crov-axd1o&hl=en&sa=X&ei=IZI7Vle8lorasATy6YCQCA&ved=0CCMQ6AEwATgK#v=onepage&q=Tom%20Friedman%20-%20The%20World%20is%20flat%2010%20flatteners&f=false)

The first of the flatteners Friedman identified was the fall of the Berlin Wall – in November of 1989 – which he argued ended the Cold War and oriented the formerly communist world toward capitalism. From an economic standpoint, the fall of the Berlin wall triggered a shift away from tightly planned and centrally controlled economies



Friedman's next flattener is "When the Web Went Around and Netscape Went Public – the IPO was on 8/9/95 and effectively made the web's connectivity available to everyone – not just the tech-savvy.



Friedman's 3<sup>rd</sup> flattener is "work-flow" software. Friedman argued that work flow software helped create global (not just local) supply chains. Based on standards, the software allowed people in different companies, in different countries, to work together effectively.

Image from <http://www.presswise.com/about/print-workflow-automation/>



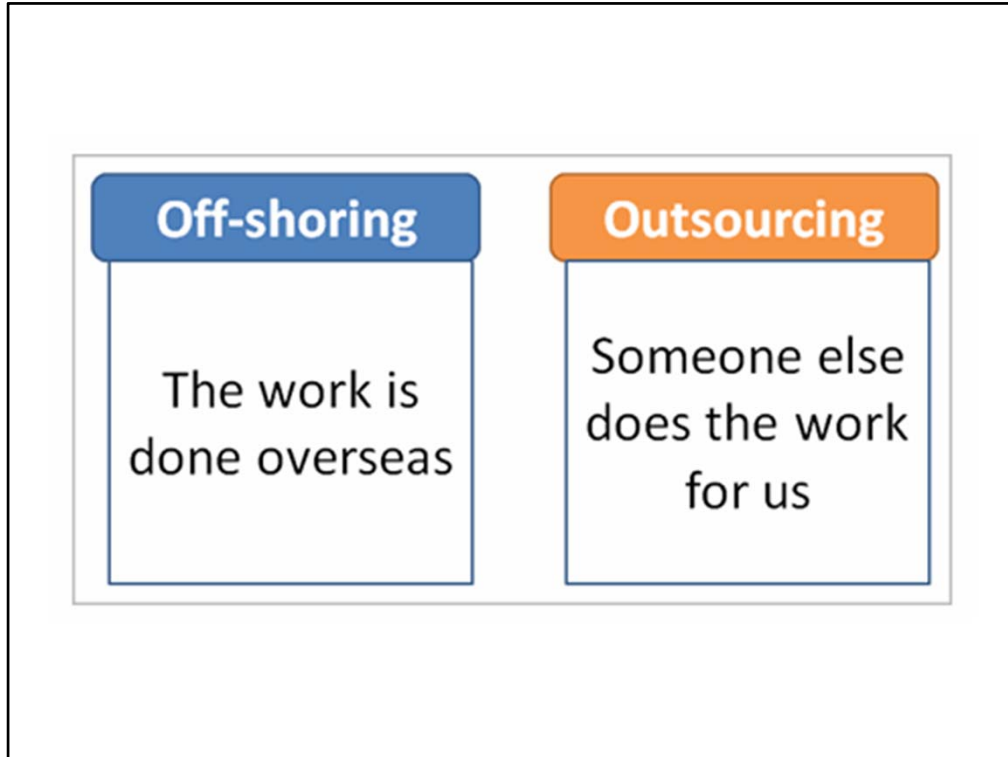
The 4<sup>th</sup> flattener is what Friedman called “uploading” -- basically he’s talking about “open sourcing” -- from software, to other “content” that can be easily “plugged in” to whatever people happen to be working on. In one sense, it’s about harnessing the power of communities, and breaking down the kind of silos we just saw on the earlier slide.



The fifth flattener is outsourcing – Wikipedia says “In business, **outsourcing** involves the contracting out of a business process to another party (compare business process **outsourcing**). The term "**outsourcing**" dates back to at least 1981. **Outsourcing** sometimes involves transferring employees and assets from one firm to another, but not always.”

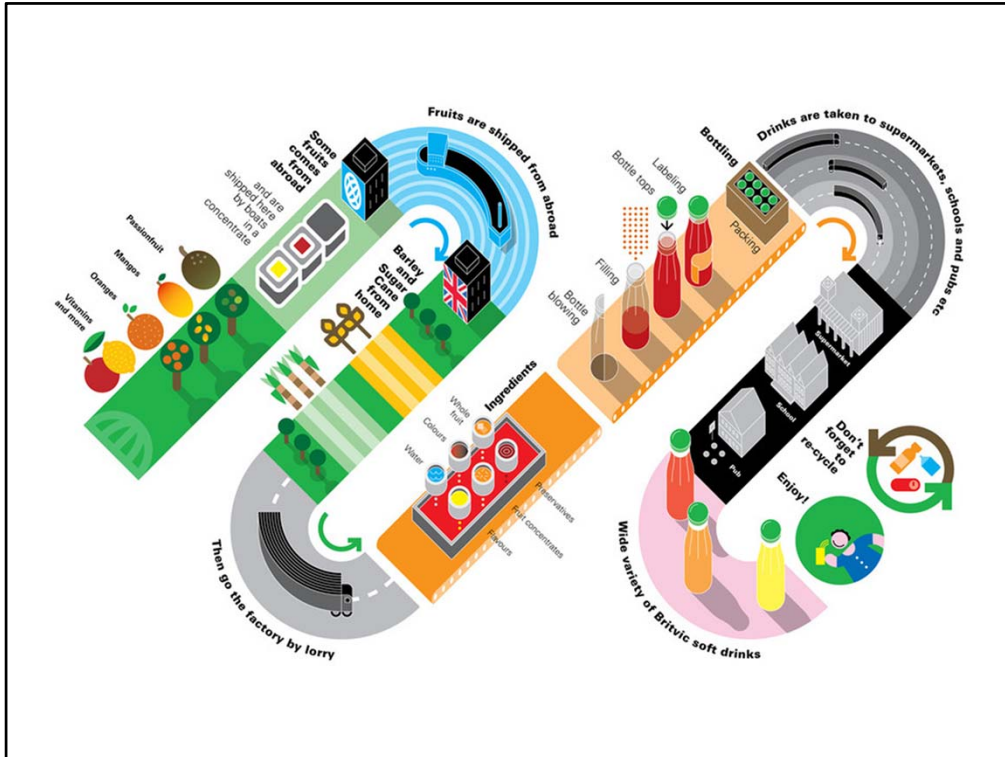
Investopedia says “A practice used by different companies to reduce costs by transferring portions of work to outside suppliers rather than completing it internally. “

Some of the reasons to outsource include “focus”, conservation of capital, Quality control, Cost reduction, etc.



The sixth is off-shoring = comparative advantage at work.





The 7<sup>th</sup> is supply chaining – streamlining item procurement, manufacturing, sales, distribution, shipping.

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# INSOURCE VS OUTSOURCE

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**“ BEGIN  
WITH THE  
END IN  
MIND ”**

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**STEPHEN COVEY**

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The eighth is in-sourcing – this is where a company uses internal resources in which it has some core competency – essentially some activity in which it has a competitive advantage -- to perform a service which may – or may not – be part of its core business. UPS repairs Toshiba computers for example.




The ninth is “informing” – search-fueled collaboration might be a better way to thinking about this. The basic idea is that we all have access to a lot more information, and tools, to help us collaborate in a more informed and intelligent way.

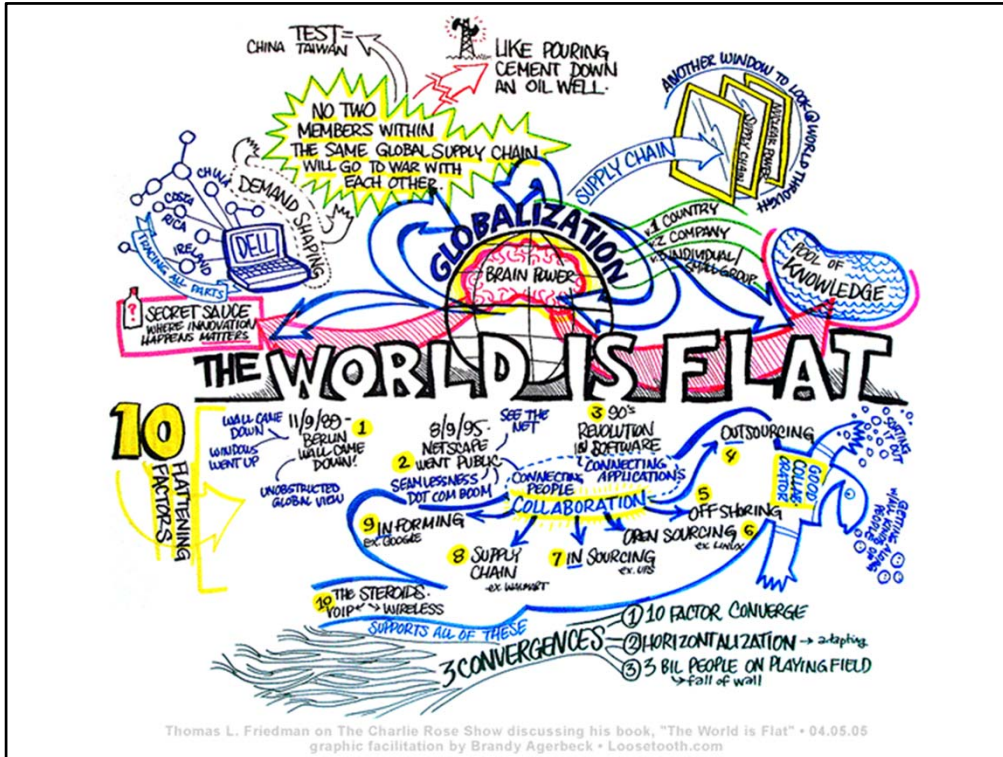


And the 10<sup>th</sup> is “steroids” – no, not that kind. Friedman looks at wireless connectivity, VoIP, etc. as further flatteners.

## 10 Flatteners on One Slide

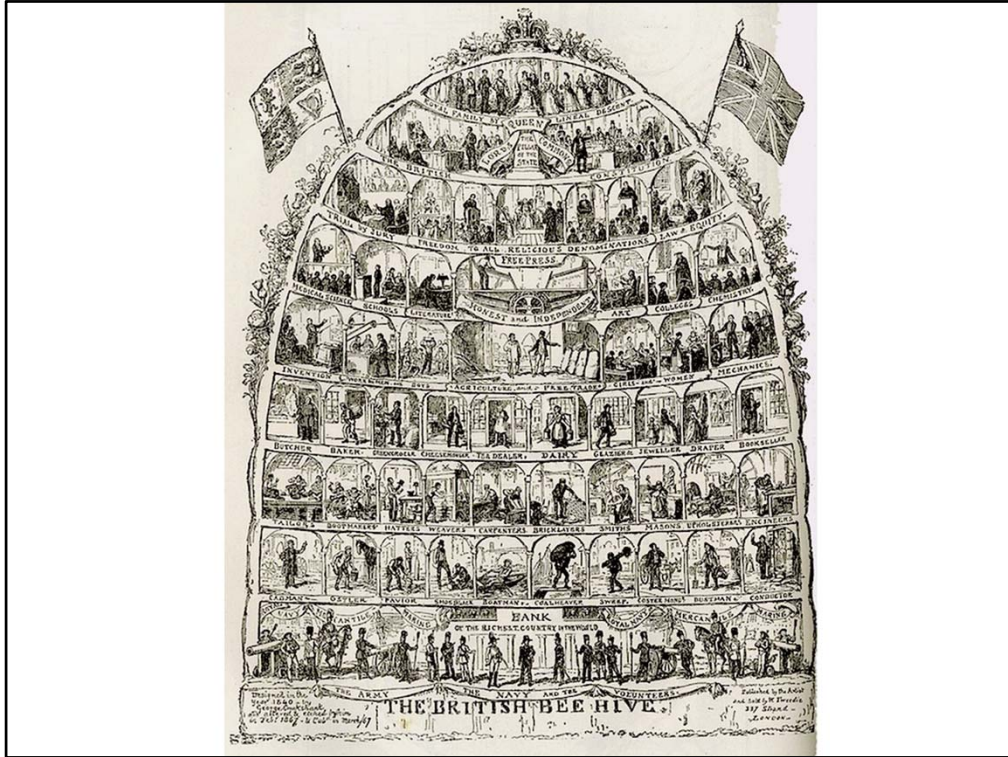
- 1. Berlin Wall Falls
  - 2. Netscape IPO & the Web
  - 3. Workflow Software
  - 4. "Uploading" =Open Sourcing
  - 5. "Outsourcing" = Having somebody else do the work, possibly overseas
  - 6. "Off-shoring" = Doing the work yourself, but overseas
  - 7. "Supply-chaining" = Streamlining Procurement, Mfg., Distribution, Sales, etc.
  - 8. "Insourcing" = Doing what you do best for other people
  - 9. "Informing" = Search & Collaboration
  - 10. "Steroids" – Universal (or almost universal) connectivity
- 

To recap --



All those elements, contribute to what Friedman calls “horizontalization” -- a kind of globalization where interactions between and among companies and countries is fueled by the collective brainpower in the world’s “pool of knowledge” -- which, by the way, is getting deeper as more people look through the windows horizontalization and globalization creates.

So what does this have to do with  
Global Economics?



19<sup>th</sup> century free trade policies – seen here as “the British Beehive,” with its rigid hierarchy of authority, and roles – was the beginning of the interdependent global economy.





Panic of 1857 – Seaman’s Savings Bank “run” – International events affected domestic economies.



The Great Depression was a global event.

# The New York Times

Copyright, 1936, by The New York Times Company.

NEW YORK, MONDAY, MAY 8, 1936.

SH  
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## WOMAN LEADS FIGHT ON LAUNDRY GANGS TO END TERRORISM

Mrs. T. H. Whitney is Chosen as Dictator in Move to Clean Up Brooklyn Industry.

## TO WIPE OUT "RACKET"

M. T. Director Will  
thout Pay as a  
pability."

DO TRIBUTE

## \*1,028 Economists Ask Hoover To Veto Pending Tariff Bill

Professors in 179 Colleges and Other Leaders Assail Rise in Rates as Harmful to Country and Sure to Bring Reprisals.

Special to The New York Times.

WASHINGTON, May 4.—Vigorous opposition to passage of the Hawley-Smoot tariff bill is voiced by 1,028 economists, members of the American Economic Association, in a statement presented to President Hoover, Senator Smoot and Representative Hawley by Dr. Clark Wilson, associate professor of economics at Swarthmore College, and made public here today. They urge the President to veto the measure if Congress passes it.

Economists from forty-six States and 375 colleges, among them Irving

## ROOSEVELT SUBMITS LONG-RANGE PLAN TO AID EMPLOYMENT

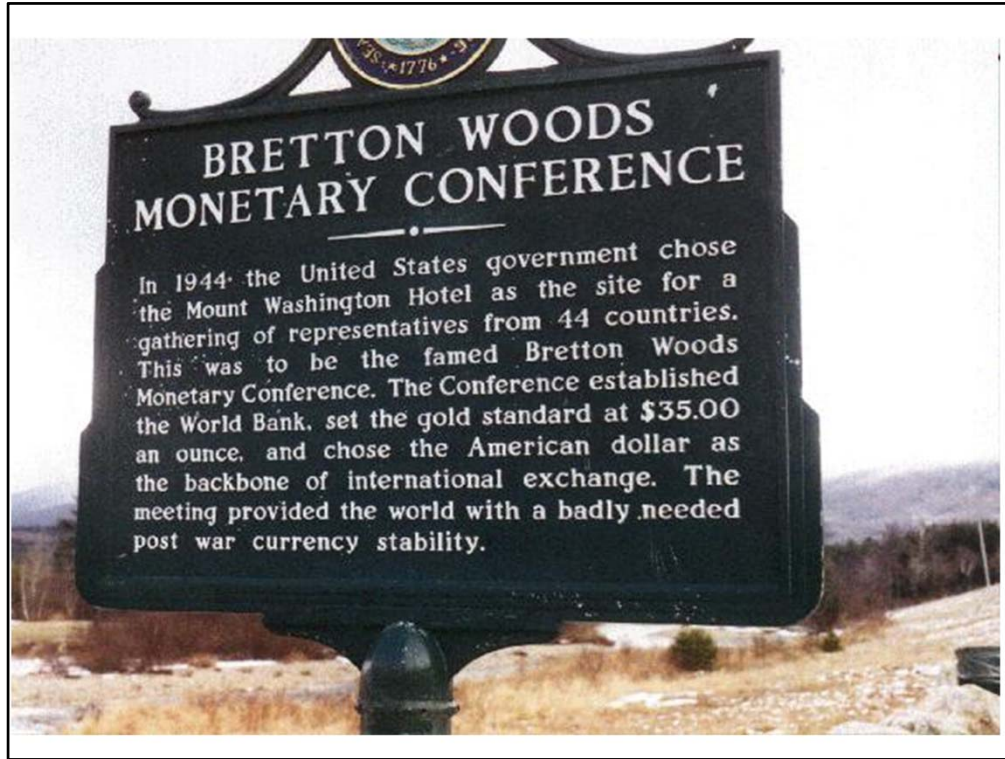
Governor, in a Letter to Local Executives, Advises Preparing for Fall and Winter.

## "CORNER NOT YET TURNED"

He Offers a Five-Point Program for Fact-Finding and Stimulation of Industry

BUILDING GAIN P

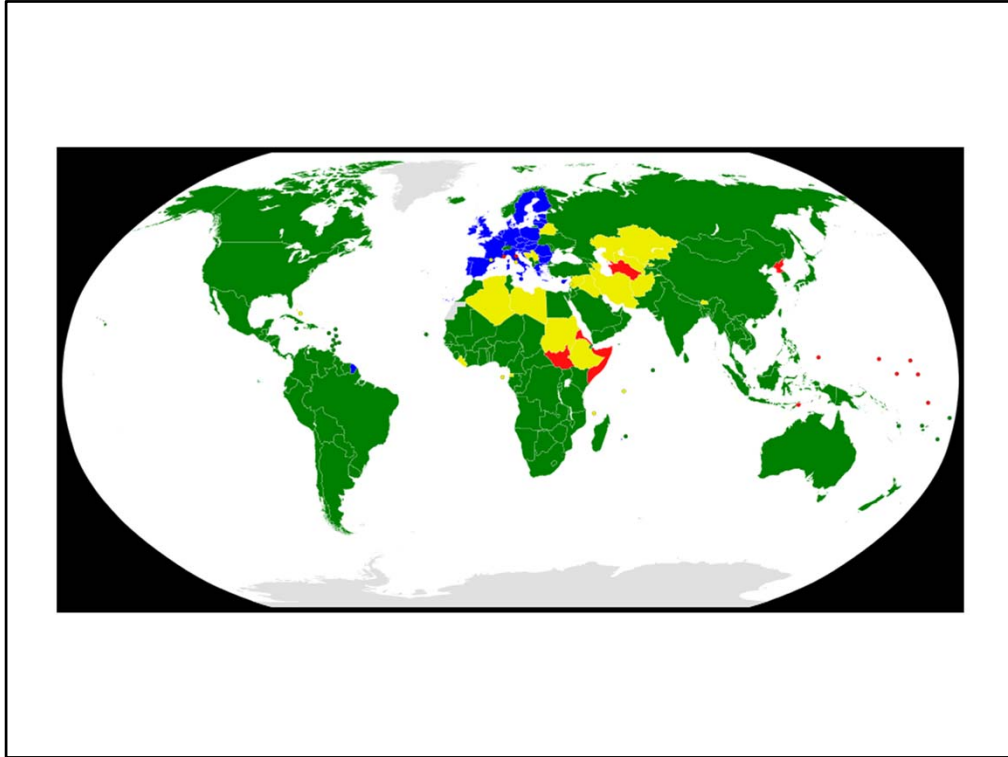
Trade protectionism – here in the form of the Smoot-Hawley tariffs, made stagnation worse.



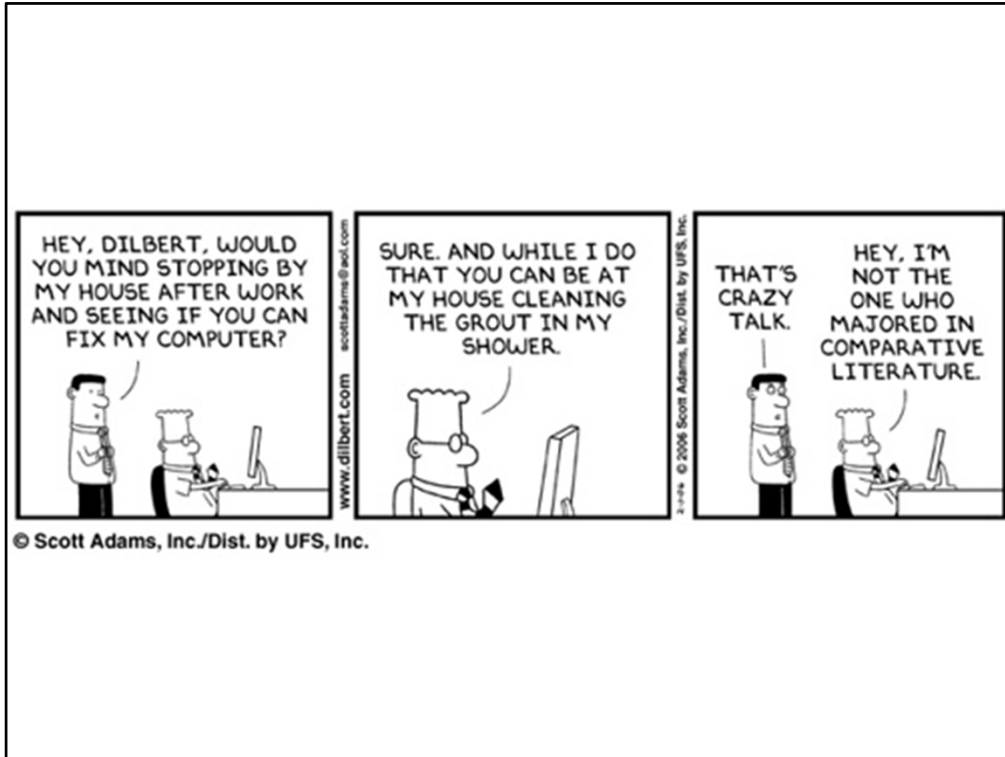
It took a World War (caused it, too, most likely) and an international conference to create mechanisms for a global currency system and the IMF (international monetary fund), plus GATT.





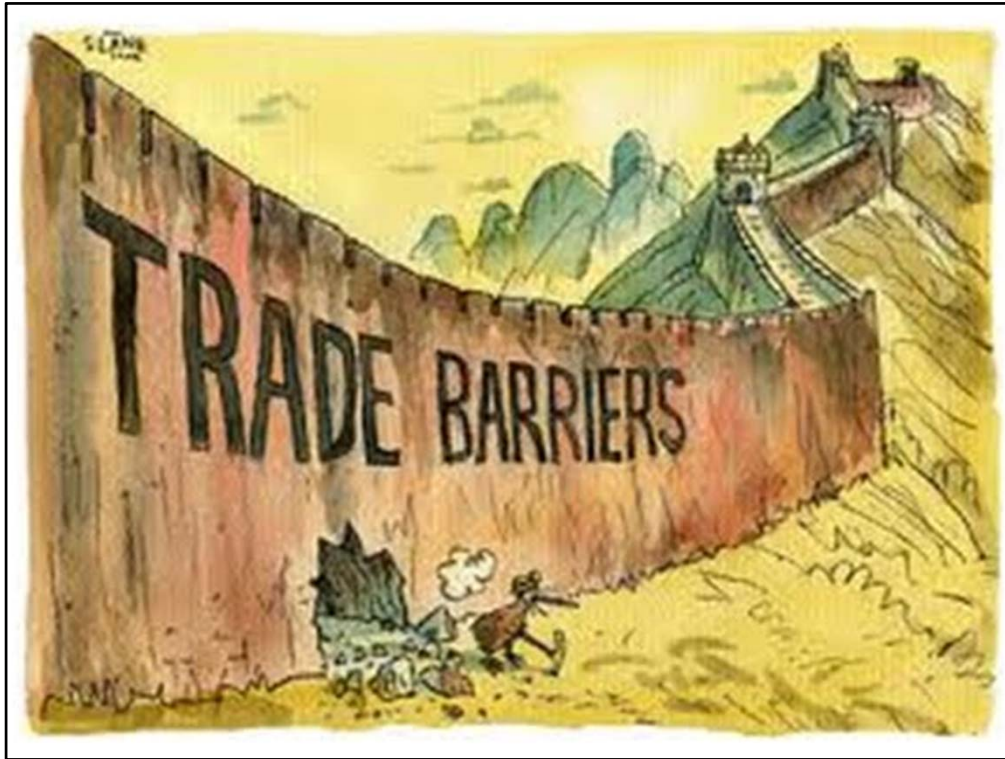


A world map of WTO participation: Green Members Blue Members, dually represented with the [European Union](#) Yellow Observers Red Non-members

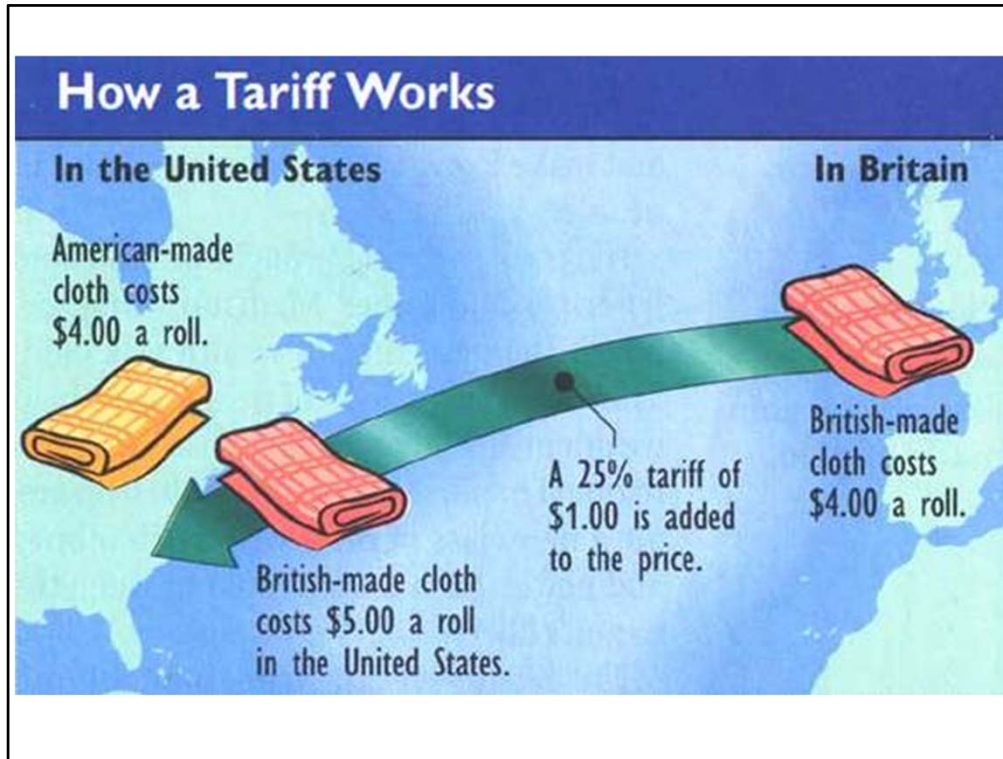


Comparative Advantage Drives Global Trade

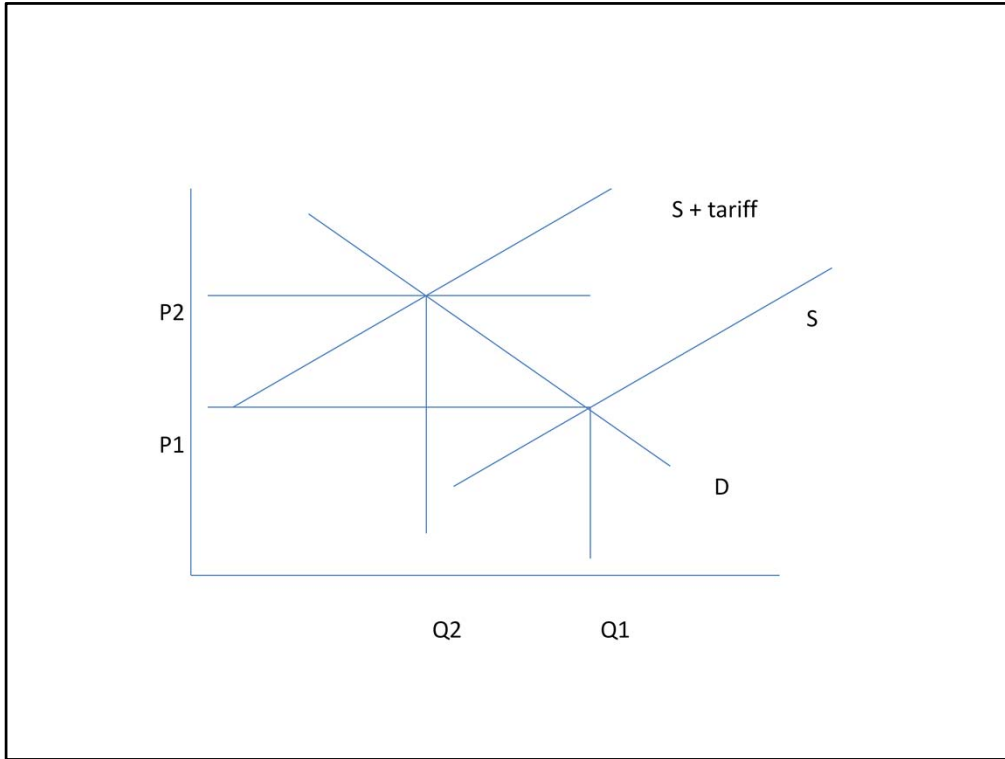




Trade barriers offset comparative advantage – governments may decide to protect domestic industries by imposing barriers – there are two kinds:



The first barrier is called a tariff – you’ve seen this before. In the next slide, we’ll look at how this works in graphic form



Tariffs decrease the supply of the imported good. The new supply curve is above the old one. The price rises from P1 to P2. Quantity decreases from Q1 to Q2.

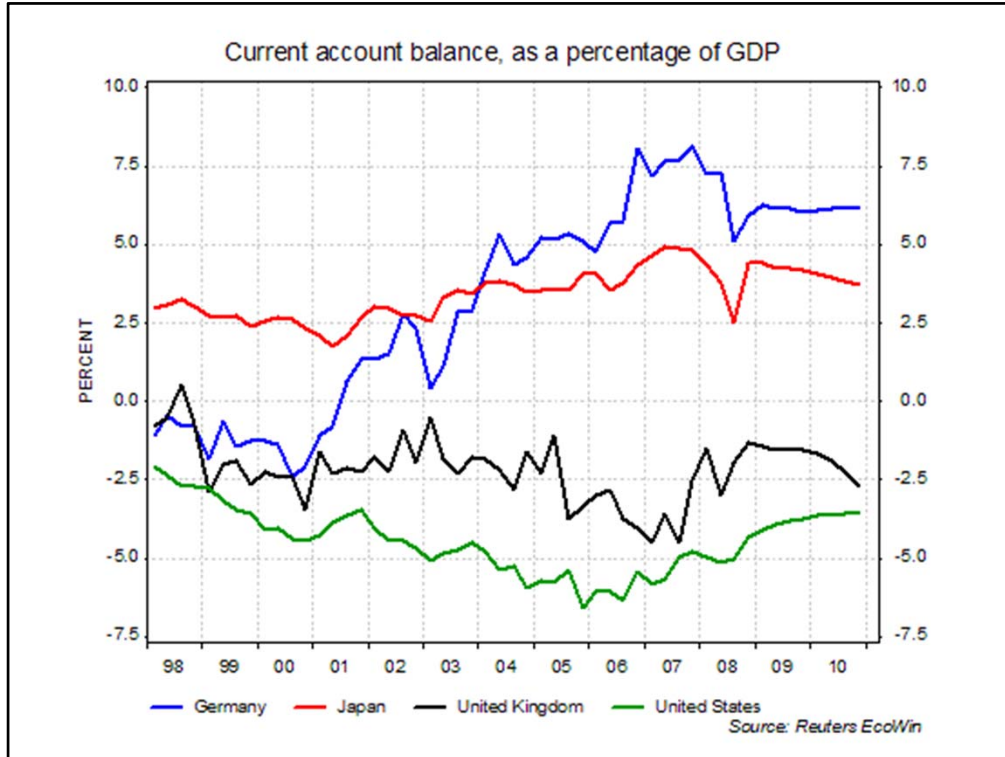


## *Non-Tariff Trade Barriers*

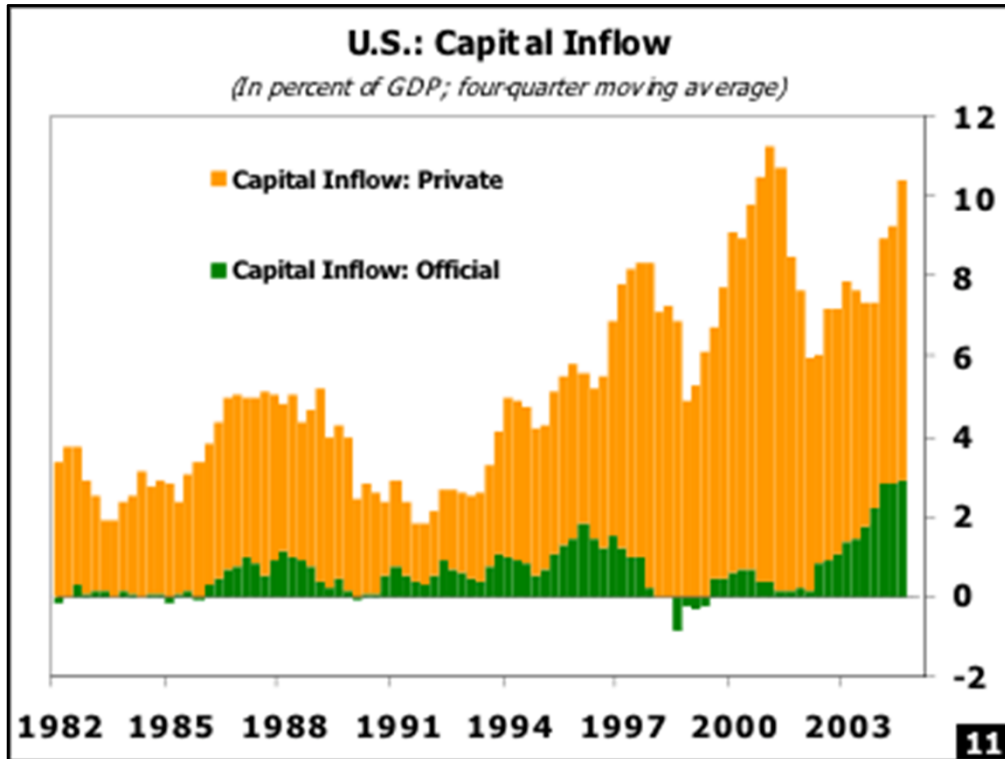
- ◆ Import Quotas
- ◆ Voluntary Export Restraints
- ◆ Health and Safety Standards
- ◆ Government Procurements
- ◆ Domestic Content Requirements
- ◆ Intellectual Property Rights
- ◆ Export Subsidies

[http://images.slideplayer.us/5/1600695/slides/slide\\_2.jpg](http://images.slideplayer.us/5/1600695/slides/slide_2.jpg)

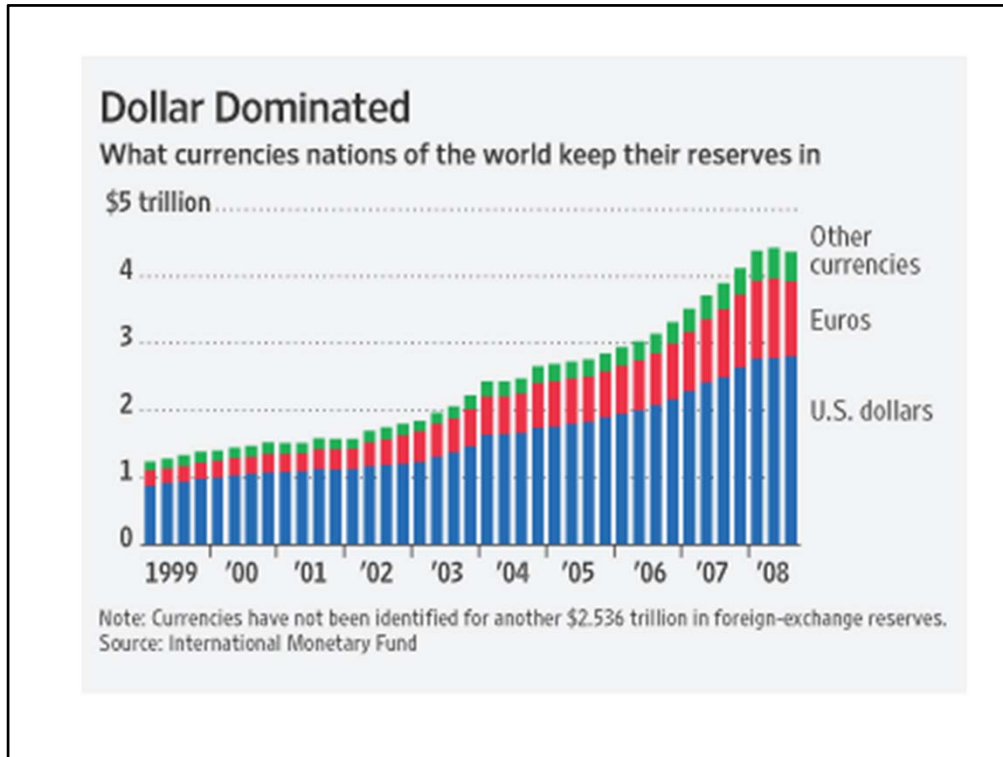
NB – governments do not collect money (directly) from non-tariff barriers --



Balance of payments accounts (3) keep track of international transactions.  
 1<sup>st</sup>. Current account – records exports, imports, net interest, and net transfers



Capital account – records foreign investment in the US and and US investments abroad



Official settlements account – shows changes in US official reserves

**DEFINITION of 'Official Settlement Account'**

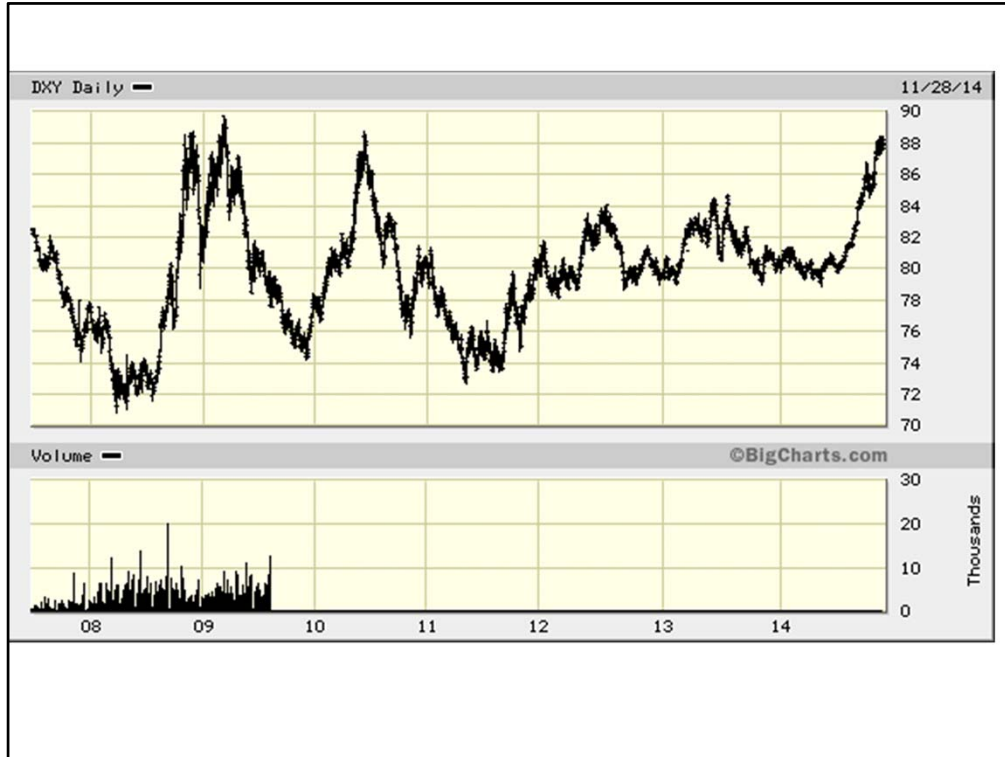
A type of account used in balance of payments accounting to keep track of central banks' reserve asset transactions with each other. The official settlement account keeps track of transactions involving gold, foreign exchange reserves, bank deposits and special drawing rights (SDRs). Essentially, this account keeps track of transactions related to international assets.

Investopedia

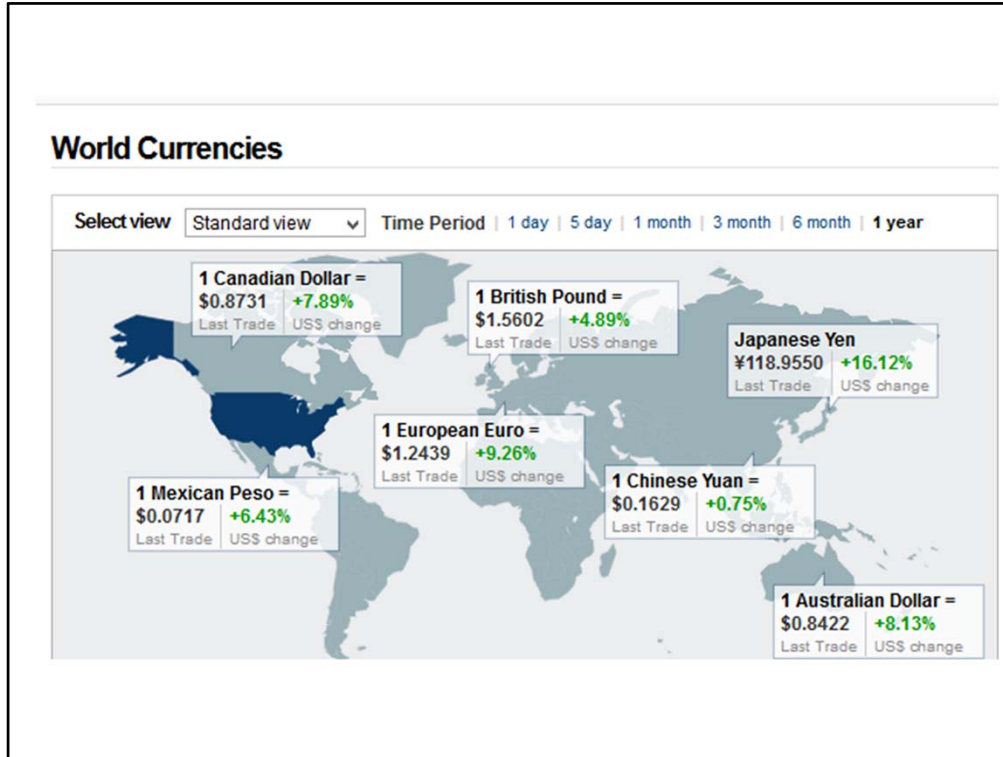


US dependence on borrowing (due to high debt) has created active effort to support a “strong” (relative to other currencies) dollar policy





This chart shows the change in the value of the US Dollar Index or DXY – Note the sharp rise in the strength of the dollar over the last several months.



Foreign Exchange Market has 3 primary functions – 1. transfer purchasing power; 2. provide credit; 3. minimize exchange risk.  
 The price at which one currency can be exchanged for another is called the foreign exchange rate.

This chart shows the appreciation of US Dollars vs a selection of foreign currencies over the last year. Has US currency appreciated? Or depreciated? What about foreign currencies? Which currencies have appreciated/depreciated most? Least? What are the implications of such changes?