

Cambridge AS & A Level · Economics 9708 · Notes

Globalisation A2

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Read first: [The reasons for international trade](#), [Protectionism](#), [Economic development](#), [Relationship between countries at different levels of development](#)

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What you need to know

This topic draws together ideas from earlier ones. **The reasons for international trade** gave comparative advantage, **Protectionism** gave the tariff diagram, **Economic development** gave the measures of living standards, and **Relationship between countries at different levels of development** covered MNCs, FDI, aid, migration and debt one by one. Here the question is about the whole process: what globalisation is, why it happened, who gains and who loses, and how groups of countries integrate their economies. By the end you should be able to explain:

1. **Globalisation:**
 - what it **means**;
 - its **causes**;
 - its **consequences**, for high-income and low-income countries, consumers, firms, workers, governments and the environment.
2. The **distinction** between a **free trade area**, a **customs union**, a **monetary union** and a **full economic union**.
3. **Trade creation** and **trade diversion**: what each is, how to show them on a diagram, and what decides which is bigger.

Understand it

What globalisation means

Globalisation is the process by which the world's national economies become more and more **integrated and dependent on each other**, as goods, services, capital, labour, technology and information move across borders more freely and in larger amounts. It has five strands:

Strand	What crosses borders
Trade	goods and services, often as parts in global supply chains : a phone may be designed in one country, its chips made in a second and assembled in a third

Strand	What crosses borders
Capital	foreign direct investment by multinational companies, portfolio investment and loans
Labour	migrant workers, and the remittances they send home
Technology and ideas	production methods, patents, management skills, the internet
Culture and politics	brands, media and tastes; trade agreements and international institutions

Globalisation is **more than a rise in trade**. A country could trade a great deal while blocking foreign investment and migration; globalisation means all of these flows growing together, so that what happens in one economy quickly affects others. That is **interdependence**: a factory closure, a blocked shipping route or a banking crisis in one place causes shortages, price rises or job losses far away.

Causes of globalisation

- **Cheaper, faster transport**: container ships, bigger cargo aircraft and better ports cut the cost of moving goods, so it pays to make parts wherever costs are lowest.
- **Information and communication technology**: the internet, mobile phones and cheap data let firms manage production in many countries at once, sell online worldwide and trade services (call centres, software, design) across borders.
- **Trade liberalisation**: tariffs and quotas cut through rounds of negotiation in the World Trade Organization (WTO) and through regional trade agreements.
- **Freer movement of capital**: governments removed controls on money moving in and out, so firms and investors can invest abroad easily.
- **The growth of multinational companies**: MNCs spread production across countries to gain economies of scale and use cheaper labour and materials, and they carry technology with them.
- **More countries joining the world economy**: China, India and the former planned economies of Eastern Europe opened up to trade and investment, adding billions of workers and consumers.
- **Specialisation by comparative advantage**: the gains from trade give every country a reason to open up.

Consequences of globalisation

Benefits

- **Higher output and living standards**: countries specialise where they have a comparative advantage and gain **economies of scale** in a world market, so world output rises. Consumers get **cheaper goods and more choice**, which raises real incomes.
- **Growth in low-income countries**: FDI, exports and technology transfer raise investment, jobs and productivity (AD and LRAS shift right; the PPC shifts out). Higher incomes bring more **tax revenue** to spend on health, housing and education, so the non-material standard of living improves too. Many people have left absolute poverty this way.

- **Competition:** firms facing foreign rivals must cut costs and innovate, which raises efficiency.
- **Wider markets for firms:** exporters reach far more customers and can buy inputs from the cheapest source.
- **Spread of skills and ideas:** training by MNCs, migration and the internet spread knowledge.

Costs

- **Structural unemployment:** in high-income countries, industries that compete with cheaper imports (textiles, steel, assembly) shrink, and their workers may lack the skills for the new jobs.
- **Inequality within countries:** in high-income countries, skilled workers and owners of capital gain most while low-skilled wages are held down; in low-income countries, people in cities and export industries gain more than rural workers. The gap **between** countries can still narrow while the gap **within** them widens.
- **Exploitation of workers** in low-income countries: low wages, long hours and poor safety, where labour laws are weak.
- **Environmental damage:** long-distance transport adds pollution and carbon emissions; resource extraction and polluting production can move to countries with weak rules. These are **negative externalities**: the costs fall on third parties and on future generations, and the market price does not include them.
- **Vulnerability to shocks:** interdependence means a recession, a financial crisis or a supply-chain break in one country spreads to others. Long supply chains are cheap but fragile.
- **Loss of control:** governments find it harder to tax mobile firms (profits are booked in low-tax countries) and may compete to offer lower taxes and looser rules; MNCs may gain power over small economies.
- **Dependence:** countries that rely on a few exports, or on foreign capital that can leave quickly, have unstable incomes.
- **Loss of local culture and firms:** global brands replace local ones.

Who gains and who loses

Group	Likely gains	Likely losses
High-income countries	cheap imports, wider export markets for high-value goods and services, profits from MNCs abroad	jobs in import-competing industries, pressure on low-skilled wages, some inward migration costs
Low-income countries	FDI, jobs, exports, technology, remittances, faster growth	profits sent abroad, exploitation, environmental damage, unstable commodity incomes, brain drain
Consumers	lower prices, more choice	fewer local products
Workers	new jobs in exporting and MNCs	job losses in industries that cannot compete
Firms	bigger markets, cheaper inputs, economies of scale	more competition

The benefits are **not shared equally**, so "globalisation is good for everyone" is rarely true. How much a country gains depends on its **infrastructure, skills and institutions** (which decide whether FDI arrives), on what it exports (manufactures and services gain more than unstable primary products), and on how the government **uses** the extra income and tax revenue.

Threats to globalisation

Globalisation can slow or reverse. It is threatened by anything that makes countries **less open**:

- **protectionism**: tariffs and quotas put on to save domestic jobs, or in retaliation, possibly leading to a trade war;
- **political tensions** between large economies, and sanctions;
- **public opposition**: fear of losing jobs to imports or to migrant workers, and pressure from **trade unions and firms in industries that compete with imports**, who lobby for protection;
- **concern about fragile supply chains**, which leads firms to move production back home or to nearby countries.

A government **ending support for inefficient industries** is the opposite: it opens those industries to competition, so it is not a threat to globalisation.

Economic integration: four types of trading bloc

Countries often integrate more closely with a group of neighbours or partners than with the world as a whole, by forming a **trading bloc**. There are four levels, each including everything in the one before:

	Free trade between members	Common external tariff	Single currency and monetary policy	Harmonised economic policies
Free trade area ✓				
Customs union ✓		✓		
Monetary union ✓		✓	✓	
Full economic union ✓		✓	✓	✓

- **Free trade area (FTA)**: members remove **tariffs and quotas on trade with each other**, but **each member keeps its own tariffs** on goods from non-members. Because those tariffs differ, goods from outside could enter through the member with the **lowest** tariff and then move freely to the rest (**trade deflection**). To stop this, FTAs use **rules of origin**: only goods mostly made inside the area travel tariff-free, which means paperwork at the borders. Examples: the United States–Mexico–Canada Agreement, the ASEAN Free Trade Area.
- **Customs union**: free trade between members **plus a common external tariff (CET)**: every member charges the **same** tariff on goods from outside, and the members negotiate trade deals as **one bloc**. No rules of origin are needed, but members give up the right to set their own trade policy. Example: the

Southern African Customs Union.

- **Monetary union:** members share a **single currency**, with one central bank and therefore one interest rate and one monetary policy. Exchange rates between members disappear. In the ladder of integration it is built on a customs union, often with free movement of labour and capital as well (a **single market**). Example: the euro area. A monetary union does **not** in itself mean the same fiscal policy or the same tax rates: each government still sets its own taxes and spending, usually within agreed limits.
- **Full economic union:** a single market and a single currency **plus** harmonised fiscal, social, competition and other economic policies, run largely by shared institutions, so the members act almost as one economy. No group of countries has gone the whole way; the European Union is the closest.

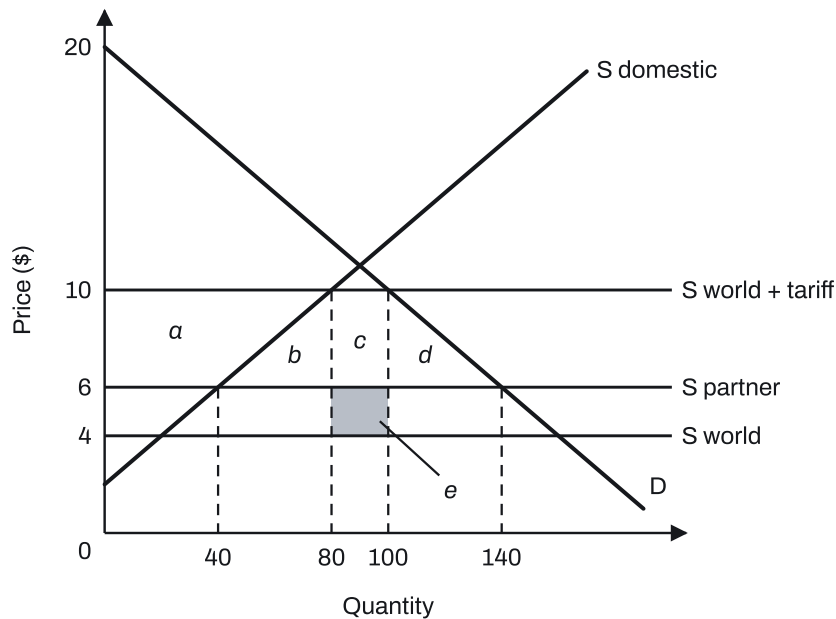
What deeper integration adds, and what it costs

Step	Extra benefit	Extra cost
FTA → customs union	no rules of origin; protection from outside competitors; more bargaining power in trade talks; a large, protected market that attracts FDI from outside firms jumping the tariff wall	loss of control over trade policy; more trade diversion if the CET is high; outsiders may retaliate
Customs union → monetary union	no currency conversion costs or exchange rate risk inside the union; prices easy to compare, so more competition	no independent interest rate or exchange rate to deal with a recession or a loss of competitiveness in one member
Monetary union → full economic union	policies that support each other; transfers to weaker regions	loss of control over fiscal policy; one set of rules may not fit every member

Trade creation and trade diversion

When a country joins a free trade area or customs union, it stops charging a tariff on its partners' goods. Two things can happen to its trade:

- **Trade creation:** **higher-cost domestic production is replaced by lower-cost imports** from a partner, and consumers buy more because the price has fallen. Resources move to more efficient producers, so world efficiency and the country's welfare **rise**.
- **Trade diversion:** imports **switch from a lower-cost producer outside the bloc** (which still pays the tariff) **to a higher-cost producer inside it** (which now pays none). The world uses more resources to make the same goods, and the government loses tariff revenue, so welfare **falls** by that amount.



In the diagram (demand $Q_d = 200 - 10P$, domestic supply $Q_s = 10P - 20$):

- **Before the union**, the cheapest world producer sells at \$4, but the country's \$6 tariff makes its price \$10. The partner, at \$6 plus the tariff, would cost \$12, so all 20 imported units come from the world producer. Domestic firms supply 80 and consumers buy 100.
- **After the union**, the partner's goods enter tariff-free at \$6, cheaper than the world producer's \$10. The price falls to \$6, domestic supply falls to 40, consumption rises to 140, and **100** units are imported from the partner.
- **Trade created**: imports rise by 80 units: 40 replace domestic output that cost more than \$6 to make, and 40 are extra consumption.
- **Trade diverted**: the 20 units once bought from the world producer at \$4 now come from the partner at \$6.

Area	What it is	Value (\$)
<i>a</i>	producer surplus lost by domestic firms, gained by consumers (a transfer)	$4 \times \frac{80+40}{2} = 240$
<i>b</i>	production effect of trade creation: domestic output that cost more than \$6 replaced by imports	$\frac{1}{2} \times 4 \times 40 = 80$
<i>c</i>	tariff revenue on the old imports, now kept by consumers (a transfer)	$4 \times 20 = 80$
<i>d</i>	consumption effect of trade creation: extra consumer surplus on the extra 40 units	$\frac{1}{2} \times 4 \times 40 = 80$
<i>e</i>	trade diversion : tariff revenue lost because the 20 units now cost \$6 instead of \$4	$2 \times 20 = 40$

Consumers gain $a + b + c + d = 480$ dollars. Producers lose a and the government loses $c + e = 120$ dollars of tariff revenue. So the **net change in welfare** is

$$b + d - e = 80 + 80 - 40 = \$120 \text{ gain.}$$

Here trade creation outweighs trade diversion. If the partner were much dearer than the world producer, or the old tariff smaller, e could be bigger than $b + d$, and the country would lose by joining.

Without an outside supplier (if the partner is already the cheapest producer, or the question shows only one foreign supplier), there is no trade diversion: removing the tariff gives a pure gain of the two triangles, $b + d$. Reading the same diagram in **reverse** (from the lower price up to the price with a tariff) shows the effect of **putting on** a tariff: domestic output up, imports down, tariff revenue for the government and the two triangles lost.

What makes trade creation bigger than trade diversion

- the **old tariff was high**, so the price falls a lot when it goes;
- demand and supply are **price elastic**, so the quantities respond strongly;
- the partners' costs are **close to the world's lowest**, so little is lost by switching;
- the **common external tariff is low**, so there is little to divert;
- the members already **traded a lot with each other** before joining.

Key facts and formulas

There is no formula list in the 9708 exam, so everything here is "Learn it".

Formula	Status
Globalisation: growing integration and interdependence of national economies through freer cross-border flows of goods, services, capital, labour, technology and information	Learn it
Free trade area: no tariffs or quotas between members; each member sets its own tariffs on non-members	Learn it
Customs union: free trade between members plus a common external tariff on non-members	Learn it
Monetary union: members share a single currency, one central bank and one monetary policy	Learn it
Full economic union: single market and single currency plus harmonised fiscal and other economic policies	Learn it
Trade creation: higher-cost domestic output replaced by lower-cost imports from a partner (welfare rises)	Learn it
Trade diversion: imports switched from a lower-cost non-member to a higher-cost member (welfare falls)	Learn it
Imports at a price = quantity demanded – domestic quantity supplied at that price	Learn it
Tariff revenue = tariff per unit $\times$ imports from outside the bloc	Learn it

Formula	Status
Net welfare effect of joining a bloc = production triangle + consumption triangle – trade diversion rectangle	Learn it
Trade diversion loss = (partner's price – world price) × quantity once imported from outside	Learn it

How to do it

We tagged 24 questions for this topic, from March 2023 to March 2026 (21 different; 3 are repeats across paper variants): 14 Paper 3 multiple choice and 10 Paper 4 questions (9 essays and 1 data-response question, of which only part (c) is about this topic). Each question is counted under one type.

Question type	Questions
Causes and consequences of globalisation (MCQ)	6
Evaluate globalisation's effect on living standards in low- or high-income countries (essay)	5
Read a tariff-removal or customs-union diagram (MCQ)	5
Evaluate membership of a free trade area or customs union (essay)	3
Features of a free trade area, customs union or monetary union (MCQ)	3
Evaluate tariffs as a response to globalisation (essay)	1
Explain globalisation and assess its net benefit from an extract (data response)	1

1. Causes and consequences of globalisation (6 questions)

1. **Likely results:** more trade and specialisation by comparative advantage, cheaper goods, higher living standards, **longer** supply chains and **more** exposure to shocks from abroad. Comparative advantage stays the basis for trade ([9708/32/O/N/24 Q30](#)).
2. **What came with global growth:** more trade, urbanisation, depletion of non-renewable resources and pollution. A **fall** in trade did not ([9708/32/O/N/23 Q26](#)).
3. **Spotting interdependence:** an event in one place (a blocked trade route, a factory fire, a crisis) causing shortages or price rises in many countries shows **interdependence** ([9708/32/O/N/23 Q28](#)). Cheaper products, more choice and migration are other consequences, but they are not what such an event shows.
4. **"Both partners benefit":** check that **each** side gains something. A low-income country sending seasonal workers to fill a labour shortage abroad, with wages sent home as remittances, helps both; options where one side faces corruption, high-interest short-term loans or profits leaving the country do not ([9708/31/O/N/24 Q30](#)).
5. **"Not a threat to globalisation":** threats push towards protection or less openness (fear of losing jobs to migrants or imports, political tensions, unions in import-competing industries pressing for tariffs). Withdrawing support from inefficient industries is liberalisation, so it is **not** a threat ([9708/33/M/J/24 Q23](#)).

also Paper 31).

2. Evaluate globalisation's effect on living standards (5 questions)

Paper 4 essays, 20 marks: Table A (knowledge, understanding and analysis, 14 marks; Level 3 is 11–14) and Table B (evaluation, 6 marks; Level 2 is 4–6). The wording changes: the impact on a low-income country's living standard (9708/42/M/J/24 Q5, 9708/42/F/M/23 Q5); "equally beneficial" for high- **and** low-income countries (9708/42/M/J/25 Q5); growth in high-income economies that "automatically" improves living standards (9708/42/F/M/24 Q5); benefits for high-income countries "at the expense of" low-income ones (9708/41/O/N/23 Q5).

1. **Define:** globalisation (all five flows, not only trade); the country type (low-income: low GDP per head, low productivity, high dependency ratio, reliance on primary exports; high-income: high productivity and GDP per head, mainly secondary and tertiary output); **standard of living** (material: real income per head; non-material: health, education, housing, environment); economic growth (a rise in real GDP) if the question uses it.

2. **Analyse 3–4 developed chains**, each ending at living standards:

- trade → specialisation by comparative advantage and economies of scale → lower costs and prices, more choice → higher real incomes;
- FDI and investment → AD shifts right (actual growth, with the multiplier) and capital, technology and training shift LRAS right (potential growth) → more jobs and higher incomes;
- higher incomes → more **tax revenue** → more spending on health, housing and education → better non-material living standards;
- for high-income countries: bigger export markets, cheap imported inputs, MNC profits flowing home; for low-income countries: technology transfer, remittances, access to large markets. An AD/AS diagram with AD and LRAS both shifting right (or a PPC shifting out) supports the growth chains.

3. **Cover every group named.** "Both", "equally" or "at the expense of" means analysing **high- and low-income** countries; the mark scheme for "equally beneficial" capped answers covering only one at Level 2.

4. **Evaluate** with at least three developed points:

- the gains may not reach most people (inequality, exploitation of workers, low-paid jobs while skilled posts go to expatriates);
- **negative externalities:** long-distance transport and resource extraction pollute and deplete resources, lowering living standards now and later; say **who** bears the cost;
- cheap imports cause structural unemployment in high-income countries;
- MNCs may destroy local firms, gain monopoly power or move profits to tax havens, cutting tax revenue for health and education;
- the gains depend on **how they are used:** a government that does not invest the extra revenue in infrastructure, health and education gets little long-run improvement;
- growth is a quantitative measure; living standards are hard to measure, so the link is not automatic;
- short run against long run.

5. **Conclude** on the question's own word ("equally", "automatically", "at the expense of"): who gains more, under what conditions, and in the short or long run. For "equally", a likely judgement is that both gain but not equally: high-income countries gain more at first, low-income countries can gain more in percentage terms if they attract FDI and use the revenue well.

3. Read a tariff-removal or customs-union diagram (5 questions)

1. **Imports at any price** = the horizontal gap between domestic supply and domestic demand at that price.
2. **Label the quantities**: with a tariff the price is higher, so domestic supply is larger and demand smaller (imports are the **inner** gap); without it, imports are the **outer** gap. If the four quantities are, left to right, domestic supply without the tariff, domestic supply with it, demand with it and demand without it, then imports before are the middle gap, imports after are the whole width from first to fourth, and the **change in imports** is the whole width minus the middle gap ([9708/34/M/J/25 Q24](#); imports after the removal, [9708/33/O/N/23 Q29](#)).
3. **Customs union with one partner**: the partner's supply plus the tariff sets the price before; its supply alone sets the price after. Imports from the partner go from the inner gap to the outer gap ([9708/32/M/J/25 Q30](#)).
4. **Welfare areas**: the trapezium next to the price axis is producer surplus **transferred** to consumers; the rectangle is tariff revenue **transferred** to consumers; the **two triangles** are the net gain from trade creation ([9708/33/M/J/25 Q29](#), also Paper 31). If there is a non-member that was cheaper, subtract the trade diversion rectangle.

4. Evaluate membership of a free trade area or customs union (3 questions)

Essays such as whether FTA membership is "always beneficial" ([9708/41/O/N/24 Q5](#), "with the help of a diagram") or whether a free trade area gets all the benefits of a customs union while avoiding all its costs ([9708/43/M/J/25 Q5](#), also Paper 41).

1. **Define** each bloc precisely: FTA (free trade inside, own external tariffs); customs union (free trade inside plus a **common external tariff**). Define tariffs and non-tariff barriers if the question uses them.
2. **Analyse the benefits of membership**: trade creation (draw the tariff-removal diagram: price falls, consumer surplus rises, imports rise, the triangles are the gain); a bigger market gives **economies of scale** and productive efficiency; competition gives lower prices and allocative efficiency; cheaper imported raw materials and components cut firms' costs and make exports more competitive; faster growth, jobs and incomes; inward FDI. With net exports rising, AD rises, with a multiplier effect.
3. **Analyse what is different about a customs union**: members share protection from outside competitors and act as one bloc in trade talks; no rules of origin; a large protected market attracts FDI from firms outside; closer political cooperation.
4. **Evaluate**:
 - **trade diversion** can outweigh trade creation, especially with a high CET;
 - a customs union means **loss of sovereignty** over trade policy (and wider economic and political sovereignty as integration deepens);
 - an FTA needs **rules of origin**, with their paperwork, and faces trade deflection; it lacks the bloc's bargaining power;

- the size of the gains depends on **PED and PES**: inelastic demand and supply mean small changes in quantity and small gains; strong preferences for local goods mean little change;
 - structural unemployment in industries that cannot compete with partners;
 - polluting production may move to the member with the weakest rules;
 - outsiders may retaliate; non-tariff barriers between members may remain;
 - on the macroeconomic side, the effect on AD depends on whether exports or imports rise more.
5. **Conclude** on the question's words: "always" is rarely right; for "gains all the benefits and avoids all the costs", say which benefits an FTA does share (trade creation, competition, scale), which it does not (common protection, bargaining power, no rules of origin) and which costs it really avoids (loss of control over external tariffs, some diversion).

5. Features of a free trade area, customs union or monetary union (3 questions)

1. **FTA**: no tariffs or quotas between members; **each member's own tariffs on non-members** remain. So a tariff on goods **from outside** is likely to be found in an FTA; tariffs, quotas or subsidies on trade **between** members are not (9708/32/F/M/26 Q25).
2. **Customs union**: no tariffs or quotas between members **and** a common external tariff. A **shared currency** is not a feature of a customs union; it belongs to a monetary union (9708/33/O/N/25 Q24).
3. **Monetary union**: the members have the **same currency**. Not the same fiscal policy, the same sales taxes or balanced budgets (9708/31/O/N/25 Q27).
4. **Full economic union**: all of the above plus harmonised fiscal and other policies.

6. Evaluate tariffs as a response to globalisation (1 question)

An essay on high-income countries putting high tariffs on some imports to reduce globalisation's negative effects, "with the help of a diagram" (9708/43/O/N/24 Q5); the mark scheme capped answers without a correct diagram at Level 2.

1. **Define** globalisation, a tariff and the features of high-income countries.
2. **Explain the problem**: low-cost imports from other countries cause unemployment in import-competing industries.
3. **Draw the tariff diagram** (the diagram above read from the world price up to the price with the tariff): price rises, domestic output and jobs rise, imports fall, the government gains tariff revenue, consumer surplus falls and two deadweight triangles are lost.
4. **Analyse the effects on stakeholders**: domestic producers and their workers gain; the government can use tariff revenue for investment; consumers pay more.
5. **Evaluate**: retaliation and a possible trade war; higher prices for consumers and for firms using imported inputs, so higher costs and possibly **more** unemployment elsewhere; trade diversion and a net welfare loss; inefficient firms protected from competition; lost benefits of globalisation (choice, cheap inputs).
6. **Conclude** with a cost–benefit judgement: the net effect on the economy, short run against long run.

7. Explain globalisation and assess its net benefit from an extract (1 question)

A point-marked data-response part, 8 marks: explain globalisation and assess, with reference to the article, whether there is enough evidence that it gives a net benefit to everyone (**9708/43/O/N/25 Q1(c)**).

1. **Explain globalisation** (2): the growing interdependence of economies (1), through cross-border flows of goods and services, capital, people, technology and information (1).
2. **Benefits from the extract** (2): quote them, with figures (rising incomes, longer lives, more literacy, fewer people in absolute poverty).
3. **Costs from the extract** (2): quote them (environmental harm, exploitation, unemployment from cheap imports, dependence on other countries).
4. **Judgement on the evidence** (2): weigh the two, then question the claim itself: is there data to **compare** benefits and costs? Do averages hide who lost? Does "everyone" fit when some groups clearly lose? What does "net benefit" mean (more goods, more choice, or wider welfare)? Did the gains come **from** globalisation, or just at the same time?

Worked examples

Example 1

The table describes four trade agreements.

Agreement	Tariffs between members removed	Same tariff on all non-members	Single currency
W	yes	no	no
X	yes	yes	no
Y	yes	yes	yes
Z	no	yes	no

Which agreement needs rules of origin to stop goods from non-members entering through the member with the lowest tariff?

A W B X C Y D Z [1]

Only in a **free trade area** does each member keep its own tariffs on non-members, so only there can outside goods enter through the lowest-tariff member and then move on tariff-free. W is the free trade area: **A** (1).

X is a customs union and Y a monetary union: both have a common external tariff, so there is no cheaper way in. Z is not a trading bloc at all, since members still charge tariffs on each other.

Example 2

Country H's demand for cheese is $Q_d = 300 - 20P$ and its domestic supply is $Q_s = 20P - 40$, where Q is in thousands of kilograms and P is the price in dollars per kilogram. The cheapest producer in the world, a non-member, sells at \$4 per kg. Country H charges a tariff of \$3 per kg on all imported cheese. Then H joins a customs union with Country K, which can supply any quantity at \$5.50 per kg; the tariff on K's cheese is removed, and the \$3 tariff stays on cheese from outside.

(a) Calculate the price of cheese in H, and the quantities H produces and consumes, before and after it joins. [2]

(b) Calculate the trade created and the trade diverted, saying where H's imports come from before and after. [2]

(c) Calculate the net effect on Country H's welfare, and state whether joining is a gain or a loss in this market. [2]

(a) Before: the world producer's price with the tariff is $4 + 3 = 7$, cheaper than K's $5.50 + 3 = 8.50$, so the price in H is **\$7**: H produces $Q_s = 140 - 40 = 100$ and consumes $Q_d = 300 - 140 = 160$ thousand kg (1).

After: K's cheese at \$5.50 is now cheaper than the world producer's \$7, so the price falls to **\$5.50**: H produces $Q_s = 110 - 40 = 70$ and consumes $Q_d = 300 - 110 = 190$ thousand kg (1).

(b) Imports rise from $160 - 100 = 60$ thousand kg, all from the world producer, to $190 - 70 = 120$ thousand kg, all from K. Trade created: $120 - 60 = 60$ thousand kg: 30 replace domestic output ($100 - 70$) and 30 are extra consumption ($190 - 160$) (1). Trade diverted: the **60 thousand kg** once bought from the world producer at \$4 now come from K at \$5.50 (1).

(c) Gains from trade creation, the two triangles: $\frac{1}{2} \times 1.5 \times 30 + \frac{1}{2} \times 1.5 \times 30 = 22.5 + 22.5 = 45$, so \$45 000 (1). Loss from trade diversion: $(5.50 - 4) \times 60 = 90$, so \$90 000. Net effect = $45\ 000 - 90\ 000 = -45\ 000$ dollars: joining is a **loss** in this market, because trade diversion outweighs trade creation (1).

(Check: consumer surplus rises by $1.5 \times \frac{160+190}{2} = 262.5$; producer surplus falls by $1.5 \times \frac{100+70}{2} = 127.5$; tariff revenue of $3 \times 60 = 180$ is lost; $262.5 - 127.5 - 180 = -45$ thousand dollars.)

Marks: $2 + 2 + 2 = 6/6$.

Example 3

Extract: Over twenty years the cost of shipping a container between Asia and Europe fell sharply, and the share of adults in Country T using the internet rose from 5% to 70%. T joined the World Trade Organization and cut its average tariff from 25% to 8%. Foreign firms opened call centres and electronics assembly plants in T's cities, paying about twice the average rural wage. Over the same period, a third of the jobs in T's steel industry, which had been protected by high tariffs, disappeared.

(a) Using the extract, explain two causes of globalisation. [4]

(b) Analyse two ways in which globalisation may have affected workers in Country T. [4]

(a) Cheaper shipping is a cause (1): when transport costs fall, it pays firms to make goods or parts wherever production is cheapest and ship them across the world, so trade and global supply chains grow (1).

Trade liberalisation is a cause (1): by cutting its average tariff from 25% to 8% as a WTO member, T made imports cheaper and opened its market, and its exporters gained lower tariffs abroad in return, so trade between T and other countries rose (1).

(Wider internet use, which lets foreign firms run call centres in T and sell services across borders, would also earn the marks.)

(b) Workers who moved to the foreign-owned call centres and assembly plants gained (1): wages there are about double the rural average, so their real incomes rose, and with them spending on food, housing and schooling, raising their living standards (1).

Steel workers lost (1): with the tariff cut, cheaper imported steel replaced T's higher-cost output, and a third of the jobs disappeared; if their skills do not match the new jobs, this is structural unemployment, and the gap between workers in the new industries and those left behind widens (1).

Marks: (a) 2 + 2 + (b) 2 + 2 = **8/8**.

Example 4

"Globalisation makes economies more vulnerable to shocks from abroad, so its costs now outweigh its benefits." Evaluate this view. **[20]**

Model answer (paragraph plan):

1. **Definitions:** globalisation (growing integration and interdependence through freer flows of goods, services, capital, labour, technology and information); an economic shock (a sudden unexpected change in demand or supply, such as a financial crisis, a pandemic or a break in a supply chain); interdependence. (AO1)
2. **Why globalisation spreads shocks:** a recession abroad cuts demand for a country's exports, so AD falls and, through the multiplier, output and jobs fall; long supply chains mean one closed port or factory stops production in many countries, a negative supply shock (SRAS shifts left, prices rise, output falls); free capital flows let money leave a country quickly, causing currency falls and financial crises; countries that depend on a few commodity exports face unstable earnings. (AO2)
3. **The benefits on the other side:** specialisation by comparative advantage and economies of scale raise world output; cheaper goods and more choice raise real incomes; FDI and technology transfer raise productivity and growth (AD and LRAS shift right); many low-income countries have cut absolute poverty and raised life expectancy and literacy as incomes and tax revenue rose. (AO2)
4. **Weighing vulnerability:** globalisation also **spreads risk**. A country hit by a poor harvest or a local disaster can import food and receive aid and investment; a closed economy has no outside help when its own industry fails. Diversified trade with many partners makes a country less dependent on any one market. (AO3)

5. **Which costs matter most, and to whom:** the costs fall unevenly: workers in import-competing industries, regions hit by structural unemployment, and countries reliant on one commodity or on short-term capital. The environmental costs of long-distance transport and resource extraction are negative externalities that GDP figures ignore. (AO3)
6. **Policies that change the balance:** firms can shorten or diversify supply chains; governments can hold foreign currency reserves, regulate short-term capital flows, retrain workers and use automatic stabilisers. These keep most of the benefits while reducing the vulnerability, which is a better answer than turning away from trade, since protection invites retaliation and raises prices. (AO3)
7. **Conclusion:** the first half of the statement is right: interdependence does transmit shocks faster. But the second half does not follow: for most countries the long-run gains in income, productivity and poverty reduction are larger than the occasional losses from shocks, and the vulnerability can be reduced by policy. The costs may outweigh the benefits for particular groups and for countries dependent on one export or on volatile capital. (AO3)

Table A Level 3 (11–14): accurate definitions, developed chains for both the transmission of shocks and the benefits, with an AD/AS diagram for an external shock. Table B Level 2 (4–6): both sides weighed with developed points, and a justified conclusion that answers "costs now outweigh benefits", saying for whom and why. **20/20.**

Common mistakes

- **Treating globalisation as just more trade.** In March 2023 ([9708/42/F/M/23 Q5](#)) the stronger answers explained that it also involves the free movement of capital and labour and the transfer of technology. Define all the flows before you analyse.
- **Not linking the type of country to living standards.** In the same question, the characteristics of low-income countries were often mentioned but not built into the argument, so analysis marks were lost. Good answers ran longer chains: more trade → growth → more tax revenue → more spending on health care, housing and education → a higher standard of living. They also weighed the benefits against resource depletion, environmental damage and the exploitation of labour, and considered the role of MNCs.
- **Stopping at GDP or employment.** In June 2024 ([9708/42/M/J/24 Q5](#)) weaker answers analysed the effects of FDI on investment, jobs and GDP but did not carry them through to income and the standard of living, which was the question. Better answers analysed both actual and potential growth.
- **Naming a cost without developing it.** In June 2024 ([9708/42/M/J/24 Q5](#)) most answers named costs such as resource exploitation and then moved on. Develop each one: say who bears the cost (third parties, future generations), call it a negative externality, and show how it lowers living standards.
- **Mixing up the blocs.** A common external tariff is what makes a customs union; a single currency is what makes a monetary union. An FTA has neither, and a monetary union does not by itself mean the same fiscal policy.
- **Counting transfers as gains.** When a tariff is removed, the producer-surplus trapezium and the tariff-revenue rectangle move from producers and the government to consumers; only the two triangles are a net gain. Trade diversion is a loss to subtract.

- **Reading imports from one side only.** Imports are the gap between demand and domestic supply at the price, not the change in domestic supply or the change in demand alone.
- **Calling every switch to a partner "trade creation".** If the goods used to come from a cheaper outside producer, the switch is trade **diversion**; it is creation only when the imports replace dearer **domestic** output or are extra consumption.

How to get the marks

- **Multiple choice:** for a bloc, check each feature (free trade inside, common external tariff, single currency, harmonised policies). For a diagram, find imports as the gap between demand and domestic supply at each price, and separate transfers from net gains. Read "not", "least" and "most likely" carefully.
- **Definitions earn the first marks:** globalisation (with its flows and interdependence), free trade area, customs union, common external tariff, monetary union, full economic union, trade creation, trade diversion, standard of living.
- **Diagrams:** essays on FTAs, customs unions or tariffs need the tariff diagram with price and quantity axes, domestic demand and supply, horizontal world supply with and without the tariff, the quantities and the welfare areas labelled; the mark schemes for "with the help of a diagram" capped answers without a correct one at Level 2. Essays on living standards do not require one, but an AD/AS diagram (AD and LRAS shifting right) supports the growth chains.
- **"Analyse"** needs chains that reach the outcome in the question: flow → investment, exports or jobs → output and income → tax revenue and spending → living standards.
- **"Evaluate", "assess", "to what extent"** need both sides with developed points, then a judgement. Good evaluation says **what it depends on**: elasticities, the size of the tariff and the CET, partners' costs, how gains are shared and used, the type of country, short run against long run.
- **Cover every part of the question:** both country types for "both", "equally" or "at the expense of"; both blocs when two are compared; every claim in a quoted statement ("automatically", "always", "all the benefits").
- **Essays (20 marks):** Table A (14) rewards accurate definitions, relevant labelled diagrams and developed analysis of every part of the question; Table B (6) rewards developed evaluation and a conclusion that answers the question's own words, not a summary.
- **Data response:** quote figures from the extract on **both** sides, then judge whether the evidence is enough and say what is missing.

Quick check

1. Countries A, B and C remove all tariffs and quotas on trade with each other and agree to charge the same 10% tariff on goods from every other country. Each keeps its own currency and central bank. (i) What type of bloc is this? (ii) What further step would make it a monetary union? (iii) What more would make it a full economic union?

2. A country's demand for a good is $Q_d = 150 - 5P$ and its domestic supply is $Q_s = 5P - 10$. The world price is \$8, and the country removes a tariff of \$4 per unit. Find the change in imports, the changes in consumer surplus, producer surplus and tariff revenue, and the net gain.
3. Country A imports washing machines from Country W, a non-member, at \$300 each plus a 20% tariff. A then joins a customs union with Country V, which makes them at \$340 each. Where will A buy washing machines after joining? Is the switch trade creation or trade diversion? For each machine A used to import, find the change in the price consumers pay, in tariff revenue, and the net loss to Country A.
4. Explain why globalisation might increase income inequality within a high-income country. **[4]**

Answers

- (i) A customs union: free trade between members plus a common external tariff. (ii) Adopting a single currency, with one central bank and one monetary policy. (iii) Harmonising fiscal and other economic policies (taxes, spending, competition and social rules) under shared institutions, on top of a single market.
- With the tariff (price \$12): $Q_d = 90$, $Q_s = 50$, imports 40. Without it (price \$8): $Q_d = 110$, $Q_s = 30$, imports 80. Imports rise by **40**. Consumer surplus rises by $4 \times \frac{90+110}{2} = 400$ dollars; producer surplus falls by $4 \times \frac{50+30}{2} = 160$ dollars; tariff revenue of $4 \times 40 = 160$ dollars is lost. Net gain = $400 - 160 - 160 = 80$ dollars, the two triangles $\frac{1}{2} \times 4 \times 20 + \frac{1}{2} \times 4 \times 20$.
- Before, W's machines cost $300 \times 1.2 = 360$ dollars, cheaper than V's $340 \times 1.2 = 408$ dollars. After joining, V's machines enter tariff-free at \$340, cheaper than W's \$360, so A buys from **V**. The switch from a lower-cost outside producer to a higher-cost member is **trade diversion**. Per machine: consumers pay \$20 less ($360 - 340$); the government loses \$60 of tariff revenue ($360 - 300$); the net loss is $60 - 20 = 40$ dollars, the extra real cost of buying from V at \$340 instead of W at \$300. (Any extra machines bought because the price fell are trade creation.)
- Cheaper imports from low-wage countries cut demand for goods made by low-skilled workers in import-competing industries (1), so their wages fall or they become structurally unemployed (1). Meanwhile skilled workers, owners of capital and firms that export or produce abroad gain from bigger markets and cheaper inputs, so their incomes and profits rise (1). The incomes of the two groups move apart, so the Gini coefficient rises (1).

Past questions to try

- 9708/32/M/J/25 Q30: imports from a partner before and after a customs union, on a diagram.
- 9708/31/O/N/25 Q27: what a monetary union involves.
- 9708/31/O/N/24 Q30: which trade between a low-income and a high-income country benefits both.
- 9708/41/O/N/24 Q5: a 20-mark essay, with a diagram, on whether membership of a free trade area is always beneficial.