(Production, Distribution & Consumption)

SS6E8 – Analyze the benefits of and barriers to voluntary trade in Europe.

a. Explain how specialization encourages trade between countries.

- Trade between nations only works when it is voluntary and mutually beneficial. When nations look for trading partners, alliances are taken into account. Acquiring trading partners who can meet the product/service demands which one's own country cannot meet is a more important consideration.
- Although some nations are rich in natural resources and highly developed technologies, it is not always in a country's best interest financially to produce everything it is capable of. Often times, nations choose to market only those products/services which they are capable of providing fastest, cheapest, and in great abundance. This phenomenon is known as economic **specialization**, and it is what sustains voluntary trade partnerships worldwide.
- Examples of European specialization include Germany's automotive industry, Russia's natural gas industry, and the United Kingdom's finance and banking industries.

specialization – focusing on a narrow range of products/services that can be produced most efficiently and cost-effectively

voluntary trade– trade in which both partners freely agree to and benefit from the exchange of goods/services

SS6E8 – Analyze the benefits of and barriers to voluntary trade in Europe.

b. Compare and contrast different types of trade barriers, such as tariffs, quotas, and embargos.

- Voluntary trade between nations may be hindered by **trade barriers**. Such barriers exist to protect domestic markets from foreign competition. Others are intended to block the importation of dangerous products. Trade barriers may also be employed to **sanction** an enemy nation.
- There are three major barriers to trade which students should be aware of in the context of Europe:
    - **Tariffs** place a tax on imported good. This is done to artificially inflate the price of a cheaper foreign product so as to make the price of domestic products more competitive.
    - **Quotas** place a limit on imported goods. This is done so that cheaper imports do not flood domestic markets and put domestic producers out of business.
    - **Embargoes** block all trade with another nation. An embargo may be employed for safety reasons, but is more frequently used to punish rogue states (US embargo against Cuba)
        - A **boycott** of a specific product or of a specific country's or company's product(s) may be exercised by citizens within a country even when there is no official embargo in place at the national level.

boycott – refusal to purchase a good/service from a specific company or country

embargo – a trade barrier which blocks all trade with another nation

quota – a trade barrier which places a limit on imported goods

sanction – the act of economically punishing another nation

tariff – a trade barrier which places a tax on imported goods

trade barrier – any activity which slows or outright blocks the free exchange of goods and services between nations

SS6E8 – Analyze the benefits of and barriers to voluntary trade in Europe.

c. ***Explain why international trade requires a system for exchanging currencies between nations.***

- In order for countries in Europe to trade, a system of **currency exchange** must exist. This is due to the fact that there are some two dozen unique **currencies** in use in Europe today. Nineteen of the European Union's twenty-eight member nations use the **euro** for monetary exchange. The other nine are currently using their own national currencies until they meet the E.U.'s financial criteria. (Hungary uses the forint. Poland uses the złoty. Sweden uses the krona.) Don't forget the continent's twenty-eight non-E.U. members, such as Switzerland (Swiss franc), Norway (krone), Russia (ruble), and Ukraine (hryvnia). Without a method to convert monetary values between disparate currencies, international trade would be impossible.
- **Exchange rates** are used to determine how much one nation's currency is worth in terms of another's. (e.g., 1.00 U.S. dollar ≈ 0.96 Euros)

currency – a nation's money
currency exchange – converting one nation's money into an equivalent value/quantity of another's
euro – common currency of most European Union member states; those E.U. nations currently using the euro are referred to collectively as the Eurozone
exchange rate – the approximate value of one nation's currency in terms of another's

SS6E8 – Analyze the benefits of and barriers to voluntary trade in Europe.

d. ***Describe the purpose of the European Union and the relationship between member nations.***

- The political and economic partnership which has evolved into the modern **European Union** can be traced back to the early years of the Cold War. Beginning in 1950, a movement to combine coal and steel mining/refining in Europe emerged. The idea behind such a measure was twofold: first, it would help revitalize the economies of Western and Central Europe in the wake of two devastating World Wars; second, it would serve as a means by which to keep an eye on Germany and Italy and prevent another major continental war. By 1958, a distinct and interconnected economic community had emerged among Belgium, Italy, France, Luxembourg, the Netherlands, and West Germany. This economic union would, in 1992 under the **Maastricht Treaty**, evolve into the European Union. The European Union today is composed of twenty-eight member states:

    Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden & United Kingdom

    - Although the U.K. intends to separate from the E.U., there are several other European nations hoping to soon join. These countries include: Albania, Macedonia, Montenegro, and Turkey.

- The European Union exists to promote security and economic cooperation across the continent. The guiding purpose of the E.U. is that countries who are economically interdependent are less likely to wage war. This economic interdependence has been nurtured by abolishing border controls between member nations in order to promote the free movement of labor, through the adoption of a common currency – the euro – to facilitate intracontinental trade, and by eliminating import/export tariffs among E.U. members.
- The E.U. also models and promotes clear, democratic practices through the European Council, which serves as its general assembly. The promotion of human rights is also a major feature of the E.U. as evidenced by the Charter of Fundamental Rights of the European Union, which became legally binding on all members states, both present and future, under the 2007 **Treaty of Lisbon**.

European Union – economic and political union of 28 European nations
Maastricht Treaty – legal document which created the European Union
Treaty of Lisbon – legal document which amended and consolidated the Maastricht Treaty and the Treaty of Rome, and which forms the basis of the current constitution of the European Union

SS6E9 – Describe factors that influence economic growth and examine their presence or absence in the United Kingdom, Germany, and Russia.

a. Evaluate how literacy rates affect the standard of living.

- In order for a region to maintain high-quality, well-paying, in-demand jobs, its labor force must be **literate**. The **literacy rates** across Europe vary tremendously. Eastern Europe has some of the highest literacy rates, with some of the continent's lowest being in Southern and Southeastern Europe, particularly in the **Balkans**.
- Low literacy rates typically relate to lower **standards of living**; however, high literacy rates do not always translate to higher standards of living in Europe. The United Kingdom, Germany, and Russia all have literacy rates in the 99th percentile; however, in the case of Russia, which has one of the highest literacy rates in the world, more than 13% of Russians live at or below the poverty line.

Balkans – the countries of Europe's southeastern Balkan peninsula, including Croatia, Bosnia and Herzegovina, Slovenia, Serbia, Montenegro, Kosovo, Macedonia, Romania, Bulgaria, Albania, and Greece
literate – able to read and write in one's native language
literacy rate – the percent of a nation's population over the age of 15 who are able to read and write
standard of living – the level of wealth and material comfort available to a people

SS6E9 – Describe factors that influence economic growth and examine their presence or absence in the United Kingdom, Germany, and Russia.

b. Explain the relationship between investment in human capital (education and training) and gross domestic product (GDP per capita).

- The economic strength of a nation is determined by measuring its gross domestic product, or GDP. GDP is the estimated total value of the all the final goods and services produced in a nation in a year's time. In other words, GDP represents what a nation is worth.
- Nations who wish to compete economically must maintain a competitive GDP relative to other nations' in their region and among their trading partners. One way to ensure a healthy and growing GDP is to invest in **human capital**, the health, education, and training of a nation's labor force. Unhealthy, poorly educated, and/or untrained workers cannot be expected to support a strong national economy, let alone obtain high-quality, well-paying, in-demand jobs. A nation's GDP directly relates to its level of human capital investment.
- Countries who do invest in human capital tend to see a rise in GDP per capita incomes. GDP per capita measures the average annual income of citizens in a given nation. Europe has some of the highest human capital investment. Of the 130 nations analyzed in 2016, Germany ranked 11th, the U.K. ranked 19th, and Russia ranked 28th.

human capital – the knowledge, skills, and relative health of a nation's labor force

SS6E9 – Describe factors that influence economic growth and examine their presence or absence in the United Kingdom, Germany, and Russia.

c. ***Explain the relationship between investment in capital goods (factories, machinery, and technology) and gross domestic product (GDP per capita).***

- Another factor which can greatly impact a nation's GDP is its level of investment in **capital goods** (also called physical capital.) Capital goods are the factories, machinery, technology, etc. that are necessary to maintain a service or industry. Older, less efficient factories, old-fashioned machinery, and obsolete or out-of-date technology slow production and hinder the growth of national GDP. Germany has invested heavily in capital goods, particularly its automotive industry. Russia's capital goods investment is toward oil and natural gas exploration and refinement. The United Kingdom has invested in upgrading and expanding its telecommunications.

capital goods – the factories, machinery, technology, etc. that are necessary to sustain a service or industry

SS6E9 – Describe factors that influence economic growth and examine their presence or absence in the United Kingdom, Germany, and Russia.

d. ***Describe the role of natural resources in a country's economy.***

- A third factor which can affect a nation's GDP is the presence, diversity, and management of natural resources. In the United Kingdom, there is an abundance of rich farmland. Large forested areas support a booming lumber industry in Germany. Russia has numerous rivers which are used to produce hydroelectric power. All three nations have deposits of coal, petroleum, iron ore, and natural gas.

natural resource – a material on or in the earth that has economic value

SS6E9 – Describe factors that influence economic growth and examine their presence or absence in the United Kingdom, Germany, and Russia.

e. ***Describe the role of entrepreneurship.***

- In any given country, **public sector** (government-owned) industries will maintain a nation’s GDP, but they will not typically grow it. It is in the **private sector** (businesses owned and operated by private citizens) that the most GDP growth occurs. A solid investment in human capital will create the entrepreneurship necessary to generate private sector growth.
- **Entrepreneurs** are private citizens who invest their own capital resources toward the creation of a new business or industry, frequently at some financial risk. Those whose business ideas succeed will profit; those whose do not will fail. This is the very essence of the free market/capitalist system.

entrepreneur – those who risk their own money and resources to create a new business or service
private sector – the part of the economy owned and operated by private citizens
profit – as a verb, to gain financially; as a noun, the economic gains of a business
public sector – the part of the economy owned and operated by the national government