

September 21, 2005

The IMF Center of the International Monetary Fund, in partnership with the U.S.'s National Council on Economic Education (NCEE), has launched an instructional program for secondary school students about the effects of globalization and the importance of understanding the dynamics of the global economy. *Thinking Globally: Effective Lessons for Teaching about the Interdependent World Economy* are eight classroom-tested lessons on globalization, comparative advantage, economic growth, exchange rates, and other international topics.

Lessons #1 and 2 focus on the IMF and its role in the global economy.

Lesson #1: [Ten Basic Questions about Globalization](#) focuses on the history, impact and future implications of living in a globalized economic system.

Lesson #2: [What is the IMF and What Does it Do?](#) Introduces the IMF and its role in fostering global economic stability through monetary and financial cooperation.

Lessons #3-8, on trade, international organizations, currencies and foreign exchange, are previously-released lesson plans produced by NCEE.

Lesson #3: [Why People Trade](#) Students participate in a trading simulation and use this experience to discover the benefits of free trade.

Lesson #4: [Comparative Advantage and Trade in a Global Economy](#) Students observe or participate in a role-play situation in which one person is better at both of two activities.

Lesson #5: ["Hey, Hey! Ho, Ho! Why Do We Need the WTO?"](#) Several activities are used to introduce students to six international institutions that play important economic roles, especially in the areas of international trade, finance and development.

Lesson #6: [Why are Some Nations Wealthy?](#) Students work in groups to examine data from several nations regarding size, natural resources and population.

Lesson #7: [Foreign Currencies and Foreign Exchange](#) Students participate in a simulated foreign exchange market. Provides an opportunity for students to use supply and demand analysis to explain how flexible exchange rates are established in currency markets.

Lesson #8: [Exchange Rates: Money around the World](#) Students participate in two auctions to demonstrate the determination of flexible exchange rates and the need for foreign currency to purchase goods from other countries.

See also:

Press Release: IMF Launches Lesson Plans for Secondary School Economics Teachers, September 21, 2005 (<http://www.imf.org/external/np/sec/pr/2005/pr05211.htm>)

Lesson plans #1-8 are available in PDF format here:
<http://www.imf.org/external/np/exr/center/econed/index.htm#think>

Lesson 1 - Ten Basic Questions about Globalization

INTRODUCTION

Economics

The term “globalization” generally refers to the opening of international borders to flows of free trade, immigration, direct investment, information and technology. International organizations such as the International Monetary Fund, the World Bank and the World Trade Organization work to promote globalization's benefits and address its risks in the world's economies, with particular focus on helping the poorer countries. Globalization has many obvious benefits to consumers and businesses in rich and poor countries alike. But globalization also has critics.

Reasoning

Economists generally agree that although free trade, a major component of globalization, results in losses for some people, the overall benefits outweigh the costs. When people in different countries specialize where they have a comparative advantage and trade voluntarily with people in other countries, there are overall benefits to people in both countries. Opening borders leads to voluntary exchanges of capital and workers as well as goods and services, leading to overall worldwide growth. Critics of globalization argue in part that more could be done to help people in poor countries achieve the living standards of those in richer countries.

CONCEPTS

Globalization

International trade

Multinational corporations

Outsourcing

Role of the International Monetary Fund,

World Bank and World Trade Organization

CONTENT STANDARDS

5. Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation, and among individuals or organizations in different nations.
6. When individuals, regions, and nations specialize in what they can produce at the lowest cost and then trade with others, both production and consumption increase.
9. Competition among sellers lowers costs and prices, and encourages producers to produce more of what consumers are willing and able to buy. Competition among buyers increases prices and allocates goods and services to those people who are willing and able to pay the most for them.
15. Investment in factories, machinery, new technology, and the health, education, and training of people can raise future standards of living.

OBJECTIVES

The students will:

1. Participate in an information-sharing activity to learn basic facts and issues about globalization.
2. Answer 10 basic questions on globalization.
3. Discuss how globalization affects them.

LESSON DESCRIPTION

This lesson introduces some of the basic issues about globalization. It could serve as a starting point for a longer unit or a summary for a unit on global issues. Small groups of students are given one question (out of 10) relating to globalization, along with the answer. By sharing information with other student groups, they discover the answers to 10 basic questions about globalization. They participate in a class discussion to confirm and expand on their answers and the underlying issues.

TIME REQUIRED

50 - 60 minutes

MATERIALS

1. Visual 1.1
2. Copies of Activity 1.1, cut apart so that each student receives one section. (You may wish to copy this on card stock for use in multiple classes.) For example, for a class of 20 students, prepare two copies, each cut into 10 cards. For 30 students, prepare three copies, each cut into 10 cards.
3. A copy of Activity 1.2 for each student
4. **(Optional)** One sticky-note for each student.

PROCEDURE

Note: This lesson uses the following economic terms that are not directly defined in the lesson--capital, communist, economic development, exports, foreign direct investment, free trade, imports, investment, market economy, profit and trade barriers. If your students are not familiar with these terms, you may wish to have definitions available. Economics dictionaries are available on the Web site of the American Economic Association under "Resources for Economists" at <http://www.vanderbilt.edu/AEA/>

1. Write the word "globalization" on the

board, and ask the students what they think it means. Accept all answers. Write some of their responses on the board. If the students are aware of differing opinions about globalization, ask why they think globalization is controversial. Again, accept all answers.

2. Announce that the class will take part in an activity to learn about some basic issues relating to globalization. Display Visual 1.1, and tell the students that at the end of the lesson, they will have answers to all of the 10 questions shown.
3. Randomly pass out one card from Activity 1.1 to each student. Tell the students that they each have an answer to one of the questions shown on the visual. They and the others who have the same card will become experts on the answer to that question. Designate 10 areas of the classroom, and tell those with the answers to Question 1 to go to the first area, those with the answers to Question 2 to go to the second area, and so on. As you distribute the cards, you may wish to emphasize that this lesson and the answer cards provide very brief answers to some complex and sometimes controversial questions.
4. Once the students have formed 10 small groups, tell them to discuss their question and the answer within their group. Since they are the experts on that question, they should make sure that everyone in the group is able to explain the answer to their question without the answer card. This should take five to 10 minutes. Then collect all answer cards from each group.
5. Distribute a copy of Activity 1.2 to each student. Tell the students to write a brief answer to the question for which they are the expert. Tell them that now they must find experts on the other nine questions to complete the activity. They should circulate among their classmates and share the answer to their question as they learn the answers to the other questions. To

avoid having to repeat their answer nine times, tell the students that they may discuss the questions and answers in groups (e.g., three to five students) as well as in pairs. Give the students about 20 minutes to talk to other students to complete Activity 1.2. Circulate around the room to make sure that the students are learning the answers from the experts and not just copying each other's papers. (You may wish to specify a recommended length for each written answer, e.g., a minimum of three bulleted items for each response. Also, to make it easier to locate experts for specific questions, you could have the students write the number for which they are the expert on a sticky-note and put it on their sleeve.)

6. Ask the students to take their seats with their completed activities. Display Visual 1.1 again. Discuss the questions in turn. For each question, first ask the experts to raise their hands so you can identify them, and then call on someone else to answer the question. Ask the experts to expand on the answers if necessary. Explain that the answers provided can be explained in much more detail than on the brief answer cards, and encourage the students to follow news stories and do further research on the questions.

CLOSURE

1. To reinforce the information in this lesson, ask the students to discuss how globalization directly affects them. What clothes are they wearing from other countries? (Ask the students to check the labels on the outer clothing of another student, with girls checking girls and boys checking boys.) Where were their family cars and appliances made? Who do they know who has recently immigrated to this country? What would their lives be like without globalization?
2. Share a recent news article about globalization, or ask the students to bring in articles to discuss the next day.

SOURCES USED IN THIS LESSON, AND FOR FURTHER INFORMATION

American Economic Association

<http://www.vanderbilt.edu/AEA/>

See "Resources for Economists" for economics glossaries, dictionaries and encyclopedias.

Brookings Institution

<http://www.brookings.edu>

See The Brookings Review, e.g., "Managing a Globalizing World: An Overview" by Barry Bosworth and Philip H. Gordon, fall 2001, and Policy Briefs such as "Offshoring Service Jobs: Bane or Boon and What to Do?" by Lael Brainard and Robert E. Litan, #132-2004.

The Fruits of Free Trade

W. Michael Cox and Richard Alm

2002 Annual Report of the Federal Reserve Bank of Dallas.

<http://www.dallasfed.org>

Globalization Facts and Figures

Paul Masson

Discussion Policy Paper No. 01/4.

Nov. 1, 2001.

<http://www.imf.org>

Globalization and Its Discontents

Joseph Stiglitz

New York: W.W. Norton and Co., 2002.

Globalization: Threat or Opportunity?

International Monetary Fund

International Monetary Fund Issues Brief.

April 12, 2000 (Corrected Jan. 2002).

<http://www.imf.org>

International Monetary Fund

<http://www.imf.org>

See the section "For Students."

Why Globalization Works

Martin Wolf

New Haven: Yale University Press, 2004.

World Bank

<http://www.worldbank.org>

World Trade Organization

<http://www.wto.org>

VISUAL 1.1 TEN BASIC QUESTIONS ABOUT GLOBALIZATION

1. What is globalization?
2. How new is globalization?
3. What has led to increased globalization?
4. What are some positive effects of globalization?
5. When people trade, how do both sides benefit?
6. What are some negative effects of globalization?
7. What roles do the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO) play in globalization?
8. What are some effects of multinational businesses?
9. What are some of the issues involved with outsourcing jobs?
10. What is the future of globalization?

ACTIVITY 1.1

ANSWERS TO TEN BASIC QUESTIONS ABOUT GLOBALIZATION

1. What is globalization?

Although there is no one precise definition, the term **globalization** usually refers to the increased flow of trade, people, investment, technology, culture and ideas among countries. Opening up international borders results in global markets instead of local or national markets. This includes markets for goods, services, labor and capital. For example, in our global economy a business in one country often interacts with people and businesses in other countries to produce and sell its goods and services. When your family buys fruit from your local U.S. grocery store, you may end up buying apples from New Zealand, apricots from China, bananas from Ecuador and tangerines from South Africa.

The term “globalization” sometimes takes on different meanings for different people and in different circumstances. For example, sometimes the term is used to refer to the increased role of large, multinational corporations in the world economy. People in developing countries outside the United States sometimes use the term to refer to the dominance and influence of the United States on the world economy.

2. How new is globalization?

The term “globalization” is a current buzzword frequently used in the news. The term probably was coined in the 1960s, and came into wide use in the 1990s. But globalization itself has been around for centuries. For example, Marco Polo made a trading expedition from Venice, Italy, to what is today Istanbul, Turkey, in the thirteenth century. Native Americans traded with others from different territories and with different languages long before they began trading with European settlers in the seventeenth century. French textile firms had branches in Rhode Island and Latin America in the early nineteenth century.

Although globalization has been going on for centuries, historians and economists agree that today we are in a period of rapid globalization and that it is on the increase worldwide. International migration is on the rise. Businesses are expanding their operations in other countries. Foreign direct investment is estimated to have increased 10 times since 1990. According to the Federal Reserve Bank of Dallas (2002), U.S. trade and capital flows both tripled as a percentage of GDP between 1972 and 2002, and “the United States isn’t alone. The rest of the world has seen a similar surge in cross-border business.”

ACTIVITY 1.1 (continued)

ANSWERS TO TEN BASIC QUESTIONS ABOUT GLOBALIZATION

3. What has led to increased globalization?

The increase in globalization throughout the world in recent decades is due to many factors. Of major importance is the fact that trade barriers have gradually been reduced around the world, as have restrictions on the free flow of investment capital between countries. The growth and sharing of technology are also important. Methods of transportation have improved, making it easier for people to travel and to move goods and services across borders. Methods of communication such as the Internet have improved, making it easier for people to spread information and share ideas around the world. When business owners are free to earn profits, they may try to do so by hiring people or buying and selling in other countries. Another important factor is the fall of communism. Countries of the former Soviet Union, the Eastern Bloc and China that were once isolated due to communist regimes now have more market-oriented economies and are doing business with the rest of the world.

4. What are some positive effects of globalization?

Globalization has many benefits. In many ways, globalization represents increased freedom. When international borders are open, people are free to travel and immigrate to other countries, to trade with whomever they wish, to invest wherever they wish and to experience new cultures and new ideas. Opening up international trade provides consumers with a wider variety of goods and services. By buying raw materials and hiring workers from other countries, some businesses are able to lower their costs. These lower costs usually generate lower prices leading to greater consumer demand for products of all types. In addition to lower prices, international competition results in higher-quality goods. When markets operate across borders, people on both sides can benefit from economic growth and increased wealth and more jobs overall. Developing countries benefit when they rely on exports for economic growth. They also benefit when multinational corporations provide jobs in their countries, usually paying higher wages than those prevailing for other jobs requiring similar skills. Globalization provides people with better access to medicine, information, education and new technology. Because of globalization, many people in the world now live longer and with a higher standard of living. As a nation experiences economic growth and its standard of living rises sufficiently, citizens are able to afford and often begin demanding a cleaner and healthier environment.

ACTIVITY 1.1 (continued)

ANSWERS TO TEN BASIC QUESTIONS ABOUT GLOBALIZATION

5. When people trade, how do both sides benefit?

Voluntary trade makes both parties better off. All countries have scarce resources and cannot produce everything that everyone wants. To benefit from trade, countries specialize in producing products where they have a comparative advantage. This means that instead of producing everything for themselves, they specialize in producing the goods that they can make at a lower opportunity cost than their trading partners. When they trade these goods, consumers in both countries benefit by being able to buy a greater variety of goods at lower prices. For example, the United States and China are trading partners. The United States can produce computers at a lower opportunity cost than China, and China can produce toys at a lower opportunity cost than the United States. When U.S. businesses import and sell Chinese toys and Chinese businesses import and sell U.S. computers, many people gain. The winners include U.S. businesses that import and sell Chinese toys, U.S. consumers of Chinese toys, Chinese toy producers, U.S. computer producers, Chinese businesses that import and sell U.S. computers and Chinese consumers of U.S. computers. Even if a country made everything more efficiently than another country, the two countries could trade based on differences in opportunity costs.

6. What are some negative effects of globalization?

In recent years there have been large demonstrations against globalization in Seattle, Prague, Washington and other cities. The concerns of these demonstrators vary. Some are upset because they have lost their jobs due to foreign competition. Others believe that globalization is partly to blame for increased environmental damage throughout the world, since globalization results in increased industrialization. Others say that open borders lead to more terrorism, more illegal drug sales and the spread of AIDS and other diseases. Others argue that globalization leads to less cultural diversity as Western ideas and values spread around the world.

Some critics claim that industrialized countries, including the United States, receive more benefits from globalization than low-income countries. Some economists believe that although increased globalization has had many benefits for people in the developing world in the past, it has not led to the elimination of world poverty. The number of people living in poverty throughout the world remains unacceptably high. In addition, critics claim that globalization has not led to more stability in developing countries, as evidenced by financial crises in Asia and Latin America in the 1980s and 1990s.

ACTIVITY 1.1 (continued)

ANSWERS TO TEN BASIC QUESTIONS ABOUT GLOBALIZATION

7. What roles do the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO) play in globalization?

Countries have their own laws and regulations with respect to trade, labor standards, finance and the environment. There is not one worldwide organization that sets laws and handles disputes in the global economy. However, the IMF, the World Bank and the WTO play important roles.

The **International Monetary Fund** is a separate, specialized agency of the United Nations system established in 1944 to help the world economy by encouraging countries to adopt sound policies affecting exchange rates and currency values. In this way, it promotes world trade. It gives advice to member countries and makes loans to its members that have shortages of currency necessary for trade. As of 2005, the IMF had 184 member countries.

The **World Bank**, officially called the International Bank for Reconstruction and Development, is also a specialized agency of the United Nations established in 1944. It also had 184 member countries in 2005. The World Bank's purpose is to fight world poverty by promoting economic development. It does this by providing loans, policy advice and technical assistance for development projects in poorer countries.

The **World Trade Organization** is an international organization established to promote international free trade. The WTO had 148 member countries in 2005. It enforces rules to promote free international trade, and helps countries negotiate to reduce trade barriers.

8. What are some effects of multinational businesses?

A **multinational corporation** (MNC) is a corporation that operates in two or more countries. It has headquarters in one country and offices or plants in other countries, either developing or developed. Examples include General Motors, Coca-Cola, Nestle and Volkswagen. The major goal of businesses, including MNCs, is to maximize profits, and successful MNCs report higher profits due to their global operations. One result of MNCs is foreign direct investment such as when a company builds production facilities in other countries. In addition to providing capital, MNCs provide jobs in the countries where they operate.

Critics of MNCs argue that foreigners pay very low rents for the right to use land and other resources in poorer countries, and that they hire mostly unskilled labor and pay only subsistence wages. They argue that when the goods or services produced are exported, the foreign firms--not the people in poor countries--reap most of the benefits through increased revenues and profits.

ACTIVITY 1.1 (continued)

ANSWERS TO TEN BASIC QUESTIONS ABOUT GLOBALIZATION

9. What are some of the issues involved with outsourcing jobs?

Outsourcing across international borders, sometimes called offshoring, occurs when, for example, a firm in the United States tries to reduce costs by locating production facilities in other countries and hiring cheaper foreign workers. Another example is when a U.S. firm hires workers in another country (e.g., India) to write computer software programs or provide other services.

The U.S. business benefits because it has lower costs and can earn higher profits. Consumers benefit because lower costs may result in lower prices and thus the ability to demand more products. Foreign workers benefit because they have more jobs available to them. U.S. workers benefit from the outsourcing from other countries when they work for foreign firms in the United States and abroad.

Some U.S. workers are hurt because they lose their jobs to foreign workers who are willing to work for less money. These U.S. workers may end up earning lower wages when they find new jobs. However, in the long run, the increased demand by consumers will likely generate many new jobs with higher wages.

Although it has recently become a political issue, international outsourcing has been going on for centuries. One challenge for American workers is to make sure that they are able to compete successfully in the global economy.

10. What is the future of globalization?

It is hard to imagine a world without globalization. There would be no imports, no exports, no international travel, no immigration, no working abroad and no investing in other countries. Globalization is here to stay. However, globalization did experience setbacks in the first half of the twentieth century--from two world wars, a worldwide depression and the spread of communism. Some people think that the growth of international terrorism could cause countries to become less open in the future. Despite this serious problem, most experts believe that the future will see more globalization, rather than less. The benefits of globalization are strong and widespread, and international organizations such as the IMF, the WTO and the World Bank encourage its spread. The critics of globalization bring up some valid points, and the world of the future must find ways to deal with these problems. Governments can ease the problems resulting from globalization by establishing job-training programs and providing a safety net for those who have lost jobs due to foreign competition.

ACTIVITY 1.2

TEN BASIC QUESTIONS ABOUT GLOBALIZATION

Directions: Write the answers to each question. Use the back of this page if you need more space.

1. What is globalization?
2. How new is globalization?
3. What has led to increased globalization?
4. What are some positive effects of globalization?
5. When people trade, how do both sides benefit?
6. Why are some negative effects of globalization?
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