

SESSION 15: Globalization

Session Description

Students will learn that people engage in trade voluntarily because they expect to benefit.

Talking Points

1. Generally, when a country imports a good or service, domestic producers of that good or service are made worse off and domestic consumers are made better off. However, the country as a whole is better off because the gains of those who are made better off from trade will exceed the losses of those who are made worse off.
2. Generally, when a country exports a good or service, domestic producers of that good or service are made better off and domestic consumers are made worse off. However, the country as a whole is better off because the gains of those who are made better off from trade will exceed the losses of those who are made worse off.
3. Trade barriers—those imposed naturally or by governments (tariffs, quotas, embargos, standards, and so on)—reduce trade and, therefore, a country's gains from trade.
4. The formation of trade blocs and participation in free-trade agreements are attempts to lower trade barriers between certain countries.
5. The exchange rate of a currency is its price in terms of another currency and can be determined by market forces or fixed by a country's central bank.
6. When the price of one country's currency increases in terms of another country's currency, it is said to be appreciating in value.
7. When the price of one country's currency decreases in terms of another country's currency, it is said to be depreciating in value.
8. An appreciation in the value of a country's currency makes its exports more expensive to foreigners and imports from other countries less expensive to domestic consumers, leading to a decrease in net exports (NX) and a decrease in aggregate demand.
9. A depreciation in the value of a country's currency makes its exports less expensive to foreigners and imports more expensive to domestic consumers, leading to an increase in NX and an increase in aggregate demand.

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Session 15: Standards and Benchmarks

Arkansas Economic Standards

Strand: Global Economy

Content Standard 7: Students will analyze ways in which trade leads to increased economic interdependence.

- GE.7.E.2 Explain ways in which current trends in globalization affect economic growth, labor markets, rights of individuals, the environment, technological advancement, and resources and income distribution in different nations.
- GE.7.E.3 Research the impact of international and national economic and political policies on global trade using a variety of sources from multiple perspectives.

Common Core State Standards

- CCSS.ELA-Literacy.RH.9-10.1 Cite specific textual evidence to support analysis of primary and secondary sources, attending to such features as the date and origin of the information.
- CCSS.ELA-Literacy.RH.9-10.2 Determine the central ideas or information of a primary or secondary source; provide an accurate summary of how key events or ideas develop over the course of the text.
- CCSS.ELA-Literacy.RH.9-10.4 Determine the meaning of words and phrases as they are used in a text, including vocabulary describing political, social, or economic aspects of history/social science.
- CCSS.ELA-Literacy.SL.9-10.1 Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 9–10 topics, texts, and issues, building on others' ideas and expressing their own clearly and persuasively.
- CCSS.ELA-Literacy.SL.9-10.1d Respond thoughtfully to diverse perspectives, summarize points of agreement and disagreement, and, when warranted, qualify or justify their own views and understanding and make new connections in light of the evidence and reasoning presented.
- CCSS.ELA-Literacy.L.9-10.4 Determine or clarify the meaning of unknown and multiple-meaning words and phrases based on *grades 9–10 reading and content*, choosing flexibly from a range of strategies.
- CCSS.ELA-Literacy.L.9-10.6 Acquire and use accurately general academic and domain-specific words and phrases, sufficient for reading, writing, speaking, and listening at the college and career readiness level; demonstrate independence in gathering vocabulary knowledge when considering a word or phrase important to comprehension or expression.
- CCSS.ELA-Literacy.RH.11-12.1 Cite specific textual evidence to support analysis of primary and secondary sources, connecting insights gained from specific details to an understanding of the text as a whole.

- CCSS.ELA-Literacy.RH.11-12.2 Determine the central ideas or information of a primary or secondary source; provide an accurate summary that makes clear the relationships among the key details and ideas.
- CCSS.ELA-Literacy.SL.11-12.1 Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 11–12 topics, texts, and issues, building on others’ ideas and expressing their own clearly and persuasively.
- CCSS.ELA-Literacy.SL.11-12.1d Respond thoughtfully to diverse perspectives; synthesize comments, claims, and evidence made on all sides of an issue; resolve contradictions when possible; and determine what additional information or research is required to deepen the investigation or complete the task.
- CCSS.ELA-Literacy.L.11-12.4 Determine or clarify the meaning of unknown and multiple-meaning words and phrases based on *grades 11–12 reading and content*, choosing flexibly from a range of strategies.
- CCSS.ELA-Literacy.L.11-12.6 Acquire and use accurately general academic and domain-specific words and phrases, sufficient for reading, writing, speaking, and listening at the college and career readiness level; demonstrate independence in gathering vocabulary knowledge when considering a word or phrase important to comprehension or expression.

Session 15: Resources

1. Lesson 15.1 The Benefits of Trading (Cards and Candy)
2. High School Economics (*Virtual Economics*® 4.5)
 - a. Lesson 25: Why Do People Trade?
3. Lesson: Crossing Borders: The Globalization Debate (Inside the Vault, Federal Reserve Bank of St. Louis);
https://www.stlouisfed.org/legacy_assets/education_resources/assets/lesson_plans/08ITV_Globalization.pdf
4. Lesson: Is a Strong Dollar Better than a Weak Dollar? (*Page One Economics* Classroom Edition, Federal Reserve Bank of St. Louis);
<https://www.stlouisfed.org/education/page-one-economics-classroom-edition/is-a-strong-dollar-better-than-a-weak-dollar>
 - a. Choose “Classroom Edition.”
5. Lesson 15.2: Trading Hurdles (Center for Entrepreneurship and Economic Education at the University of Missouri–St. Louis)
6. The Wide World of Trade (*Virtual Economics*® 4.5)
 - a. Lesson 8: Something’s in the Way
 - b. Lesson 10: Why Trade Money?

Lesson 15.1: The Benefits of Trading (Cards and Candy)

Lesson Objective

Students will experience trade.

Time Required

One class period

Materials

- Bag
 - Five colors of index cards, an equal number of each, with additional cards as needed so that the number of cards equals the number of students in the class
 - Five different desirable items (such as boxes or bars of candy)
 - Notebook paper and a pencil for each student
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Preparation

- Place the index cards in the bag.
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Procedure

1. Show students the five desirable items. Tell them to rank the items on paper (write a list 1 through 5), with 1 being the item they would like to have the most and 5 being the item they would like to have the least.
 2. Explain that each item is represented by a particular color (assign each item one of the five colors of index cards in the bag). Have each student randomly draw (without looking) a card from the bag and tell them to imagine that they now have the item associated with that color.
 3. Write "1st Choice," "2nd Choice," "3rd Choice," "4th Choice," and "5th Choice" in a column on the board. Ask how many students got the item they ranked as their first choice. Count the number and record it next to "1st Choice" on the board. Next, ask how many students got the item they ranked as their second choice. Count the number and record next to "2nd Choice" on the board. Repeat the process for the remaining choices.
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Session 15

4. Ask the students to make observations about the completed chart.
5. Tell the students they may trade cards with each other to try to get the card that represents an item ranked higher on their list. Explain that students who already have their first choice shouldn't trade because they cannot do better. Allow students a few minutes to trade cards.
6. Once the students are unable to make any more trades, return to the choices list and create a second column. Add the trading results (as described in 3).
7. Ask the following:
 - What do you observe when you compare the two columns on the board? (*More students should have their first, second, and perhaps third choices and fewer should be left with their fourth and fifth choices.*)
 - Why do you think this happened? (*When trading was voluntary, each trader was made better off as a result of the trade; that is, both traders moved up on their respective lists.*) Point out that both traders are better off after a trade because no one should make a trade that makes them worse off.
 - Was anyone worse off after trading and, if so, why? (*Someone may have traded "down" in the hopes of making a second trade for a more-desired item.*)

Lesson 15.2: Trading Hurdles

NOTE: This lesson (with slight revisions) is “Lesson 6: Trading Hurdles” in *A Yen to Trade* by Curt L. Anderson from the Center for Entrepreneurship and Economic Education at University of Missouri–St. Louis. Used with permission.

Lesson Description

In this very active lesson, students represent goods being traded among countries. As the students move in trade, they encounter physical barriers (a hurdle, long jump, and limbo bar) that represent natural and government-imposed trade barriers. Through their activity, students see that trade barriers reduce the flow of goods and services among countries and, as a result, reduce the gains from trade.

Objectives

Students will be able to

- define cost, trade barriers, tariff, quota, embargo, and standard;
 - distinguish between natural and government-imposed trade barriers;
 - describe how trade barriers raise the cost of goods from other countries; and
 - explain why trade barriers result in fewer goods being traded.
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Voluntary National Content Standards in Economics

Standard 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.

Time Required

45 to 60 minutes

Economic Concepts

- Cost (opportunity cost)
 - Trade barriers
 - Tariff
 - Quota
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- Embargo
- Standard

Related Area

Physical education

Materials

- Two yardsticks, broom handles, or small jump ropes
 - Gymnastics mats
 - Visual 1
 - Handouts 1 and 2, one copy of each for each student
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Procedure

1. Tell students that today's activity requires a lot of open space in the center of the classroom. Ask them to move their desks toward the classroom walls. Set the gymnastic mats in the center of the room.
2. Explain that trade occurs when people exchange resources, goods, services, or money with one another. When voluntary trade occurs, both traders expect to gain—they expect to get more satisfaction or value from the good received than from the good they traded. If they don't expect to gain from the trade, then they won't trade.
3. Explain that trading involves both benefits and costs. When people trade, they receive something they want more than what they have, which is a benefit. At the same time, they give up what they trade, which is a cost. For example, if Jason trades one of his popular action figures for one of Tim's baseball cards, then the cost to Jason is the fun he would have had playing with the action figure. The benefit of the trade is the satisfaction Jason receives from owning the baseball card.
4. Explain that if Jason pays his friend \$10 for the baseball card, Jason gives up something, and it is not just the \$10. Jason gives up the opportunity to have the next most-valued item on which he could have spent \$10. This next most-valued item that Jason gives up is called his opportunity cost. Opportunity cost is the highest-valued choice that is given up.
5. Point out that whether Jason trades using money or another item, he will trade only as long as he thinks the benefits of owning the baseball card are greater than the cost. This is true for all traders.

6. Explain that students will participate in a trading activity. Select two or three students to act as helpers so that an even number of students remains after the helpers have been selected.
7. Divide the rest of the class in half. Ask one-half of the students to stand in the front of the open area of the room and the other half to stand in the back of the open area of the room.
8. Tell the students in the front of the room that each of them is a “tubble.” A tubble is a good that people in their country, Frontier, specialize in producing.
9. Tell the students in the back of the room that each of them is a “krone.” A krone is a good that people in their country, Outback, specialize in producing.
10. Explain that people in both countries have determined that trading one tubble for one krone makes everyone better off. (That is, the benefit of an extra krone to a Frontier citizen is greater than the benefit of a tubble to them. The benefit of an extra tubble to an Outback citizen is greater than the benefit of a krone to them.)
11. Have the helpers place two yardsticks (or other items, as noted in the Materials section) on the mats next to each other no more than 6 inches apart. (See diagram below.)



12. Draw the following table on the board and then add additional rounds as needed:

Trades	Number of completed trades		
	Round 1	Round 2	Round 3
Standing long jump			

13. Explain that for goods (tubbles and kronen) to move from Outback to Frontier and from Frontier to Outback, students must jump over the yardsticks. Students will execute standing jumps, not running jumps. Each time that one tubble *and* one krone make it over the yardsticks, one trade has been completed.

Session 15

14. Have one student demonstrate a standing jump over the yardsticks. Then, have students alternate jumping over the yardsticks. Count the number of completed trades (one krone and one tubble), and record this information on the table under "Round 1."
15. Have students return to their original countries. Explain that each student in Frontier is once again one tubble and each student in Outback is once again one krone. Tell the helpers to place the yardsticks one foot apart.
16. Explain that the rules are the same. In order for a trade to occur, both a tubble student and a krone student must make it over the yardsticks into the other country. If not, both the tubble and the krone must remain in their original countries. Count the number of trades, and record this information under "Round 2."
17. Repeat steps 15 and 16. In Round 3, move the yardsticks apart another foot. If necessary, add additional rounds so that in the final round no trades can be completed.
18. Refer students to the information recorded on the board and discuss the following:
 - What happened to the number of completed trades as the distance between the two yardsticks increased? (*The number of completed trades decreased.*)
 - Would you expect the people of Frontier to be more or less happy as the distance between the yardsticks increased? (*Less happy*) Why? (*They have fewer kronas.*)
 - Would you expect the people of Outback to be more or less happy as the distance between the yardsticks increased? (*Less happy*) Why? (*They have fewer tubbles.*)
19. Explain that the jump represents transporting goods and services from one country to another. If the distance isn't great, it is less costly to transport goods by air, ship, or truck. However, as the distance increases, the transportation costs are greater. As a result, fewer trades are likely to be made because the costs of the trades are greater than the benefits received from the trades.
20. Discuss the following:
 - Are you more likely to make trades with kids in your neighborhood or with kids in another town? (*Most likely their own neighborhoods because the kids are closer.*) Why? (*It is easier and faster to trade with someone who lives nearby.*)
21. Explain that the costs of trading with someone who lives nearby are less than the costs of trading with someone who lives far away. Discuss the following:
 - As fewer and fewer trades were completed between people in Outback and Frontier, what happened to the gains from trade? (*They were reduced*)

- What does this mean for the people of Outback and Frontier? (*The people receive less satisfaction, or are less happy, with their combination of goods.*)
22. Explain that students have some more jumps to make. Write “Hurdles” in the box under “Standing long jump.” Ask the helpers to hold a yardstick about one foot off the ground. Explain that the students from each country will alternate jumping over the yardstick. Each pair of students (one from Outback and one from Frontier) that completes the jump represents one trade. After the first round of jumps, record the number of completed trades under “Round 1.”
 23. Have the helpers raise the yardstick another foot. Have students from each country alternate jumping over the yardstick. After the jumps are completed, record the number of completed trades under “Round 2.” Repeat until no trades can be completed.
 24. Have students return to their original countries. Discuss the following:
 - What happened to the number of completed trades as the yardstick was moved higher from the floor? (*The number of completed trades decreased.*)
 - Would you expect the people of Frontier to be more or less happy as the yardstick was moved higher from the floor? (*Less happy*) Why? (*They have fewer kronas.*)
 - Would you expect the people of Outback to be more or less happy as the distance of the yardstick from the floor increased? (*Less happy*) Why? (*They have fewer tubbles.*)
 25. Explain that the height of the yardstick represents high mountains, “high” seas, or high temperatures. As demonstrated in the activity, these all make trading more difficult or expensive so that less trading occurs. These factors, along with distance, are called trade barriers. A trade barrier is anything that makes trading less desirable or more difficult to do.
 26. Explain that distance, mountains, rough terrain, high temperatures, or rough seas are natural barriers to trade—that is, barriers imposed by nature.
 27. Explain that sometimes the government of a country may impose trade barriers. This means that the government of the country does something that makes trading more difficult. For example, a government may charge a tariff. A tariff is a tax that must be paid before a good may be brought into a country.
 28. Ask a student to demonstrate jumping over the raised yardstick and point out that the height of the yardstick now represents the amount of the tariff. As the yardstick gets higher, fewer students will be able to jump over, and fewer trades occur. In the same way, as a tariff “gets higher,” the cost of bringing goods into the country rises and fewer trades are desirable.

Session 15

29. Explain that the students will engage in another round of trading. (Quietly, tell the helpers to allow the first 5 students from each country to jump over the yardstick as it lies on the floor. Then, they should raise the yardstick as high as they can so that no one could possibly jump over it.)
30. Explain that this activity demonstrates what happens when a government imposes a quota. A quota is a limit placed on the amount of a good or service that may come into a country. In the example, 5 kronas could come into Frontier and 5 tubbles could come into Outback. Once that limit was reached, no more of the goods were allowed in.
31. Have the students return to their original countries. Have the helpers hold the yardstick as high as they can. Discuss the following:
 - Why can no trading occur? (*No one can jump over the yardstick.*)
32. Explain that this situation represents an embargo. An embargo occurs when no foreign goods are allowed into a country. An embargo is a quota of zero!
33. Explain that students will participate in one more activity. Ask the students if they have ever played limbo. (*Answers will vary.*)
34. Write "Limbo" under "Hurdles" on the table. Explain that this time the yardstick will be a limbo bar. Have the helpers hold the limbo stick about chest high. The students must pass under the limbo bar, without knocking it over or falling to the ground, to move into the other country. Each time a krone and a tubble pass under the bar, one trade is completed.
35. Have students from each country alternate moving under the limbo bar. When all students have participated, record the number of completed trades under "Round 1."
36. Have students return to their home countries. Walk up to the yardstick, push it down approximately one foot, and have students from each country alternate moving under the limbo bar. When all of the students have had a turn, record the completed number of trades under "Round 2." Repeat until no trades can be completed.
37. Discuss the following:
 - What must a tubble or a krone do in order to move to the other country? (*It must pass under the limbo bar without knocking it over or falling to the ground.*)
 - As the bar was pushed lower, what happened to the number of completed trades? (*Trades decreased*) Why? (*It became harder and harder for students to go low enough to get under the bar.*)
38. Explain that, in this demonstration, the yardstick represented a standard or a requirement that a good must meet in order to enter the country. Tubbles and kronas had to

meet the requirement of passing under the limbo bar. In real-world trading, there are health, safety, environmental, and other standards or requirements that must be met. For example, medicines from other countries must meet safety and health standards before they are allowed in the United States. Milk produced in the United States must be free of certain chemicals before it is allowed in European countries.

39. Have students return to their seats and complete the closure activities.

Closure

40. Display *Visual 1: Trade Barriers* and distribute a copy of *Handout 1: Trade Barriers Review* to each student. Instruct students to record answers as you discuss the following:
- What is a trade barrier? (*Anything that makes trade less desirable or more difficult to do*)
 - Trade barriers imposed by nature are called natural trade barriers. Why is distance between traders a barrier? (*Traveling a long distance takes more time, is more difficult, requires more fuel, and so on. These barriers make it more costly to travel long distances in terms of time and fuel than to travel short distances.*)
 - What are some other geographic barriers to trade? (*Mountains, rough terrain, climate*)
 - What is a tariff? (*A tax placed on goods coming into a country*)
 - What is a quota? (*A limit placed on the amount of a good that may come into a country*)
 - What is an embargo? (*Not allowing any of a good into a country*)
 - What is a standard? (*A health, environmental, safety, or other requirement a good must meet before it is allowed in a country*)
41. Remind students that people agree to trade voluntarily because both traders expect to gain. Discuss the following:
- What do we mean when we say people expect to gain from trade? (*People expect to be happier and have more satisfaction from what they have after a trade than before a trade.*)
 - What is the benefit traders receive? (*Traders get more of something they want.*)
 - What is the cost of trading? (*Giving up something to make the trade—an opportunity cost*)
 - As the costs of trading rise, will more or less trading occur? (*Less*)
 - Do trade barriers raise or lower the cost of trading? (*Trade barriers raise the cost of trading.*)

Assessment

42. Distribute a copy of *Handout 2: Assessment*. Allow time for students to complete and then check answers. (Answers: 1, b; 2, c; 3, d. Both Mexico and Canada border the United States, so they are closer than other countries with which the United States might trade. In addition, there are no major geographical barriers between these countries and the United States, so there are few natural trade barriers. The governments of the three countries have also signed trade agreements, specifically the North American Free Trade Agreement, which reduces tariffs and other trade barriers among them.)

Lesson 15.2, Visual 1: Trade Barriers**Natural Barriers**

- **Distance**—How far goods must be shipped between countries.
- **Geography**—Mountains, waterways, climate, or other physical factors that make the transportation of goods between countries difficult.

Government-Imposed Barriers

- **Tariff**—A tax placed on a good coming into a country.
- **Quota**—A limit placed on the amount of a good that may come into a country.
- **Embargo**—Not allowing any of a good to come into a country.
- **Standard**—A health, environmental, safety, or other requirement a good must meet before it is allowed into a country.

Lesson 15.2, Handout 1: Trade Barriers Review

Name _____

1. What is a trade barrier?

Natural Barriers

2. Why is distance between traders a barrier?
3. What are some other geographic barriers to trade?

Government-Imposed Barriers

4. What is a tariff?
5. What is a quota?
6. What is an embargo?
7. What is a standard?

Lesson 15.2, Handout 2: Assessment

Name _____

Directions: Circle the correct answer for each.

1. Trade barriers
 - a. increase the amount of goods that are traded.
 - b. increase the cost of trading goods.
 - c. make people better off.
 - d. make trading easier.

2. Which of the following is an example of a natural trade barrier?
 - a. A tariff
 - b. A quota
 - c. A long distance between traders
 - d. Very low shipping costs

3. Generally, in which circumstance will more trade occur between two countries?
 - a. The farther they are from each other
 - b. The more standards that traded goods must meet
 - c. The lower their quotas
 - d. The lower their tariffs

Trading Partners

Canada and Mexico are two of the United States' largest trading partners. How might trade barriers explain why the United States trades a great deal with these countries?

