

Economic Integration

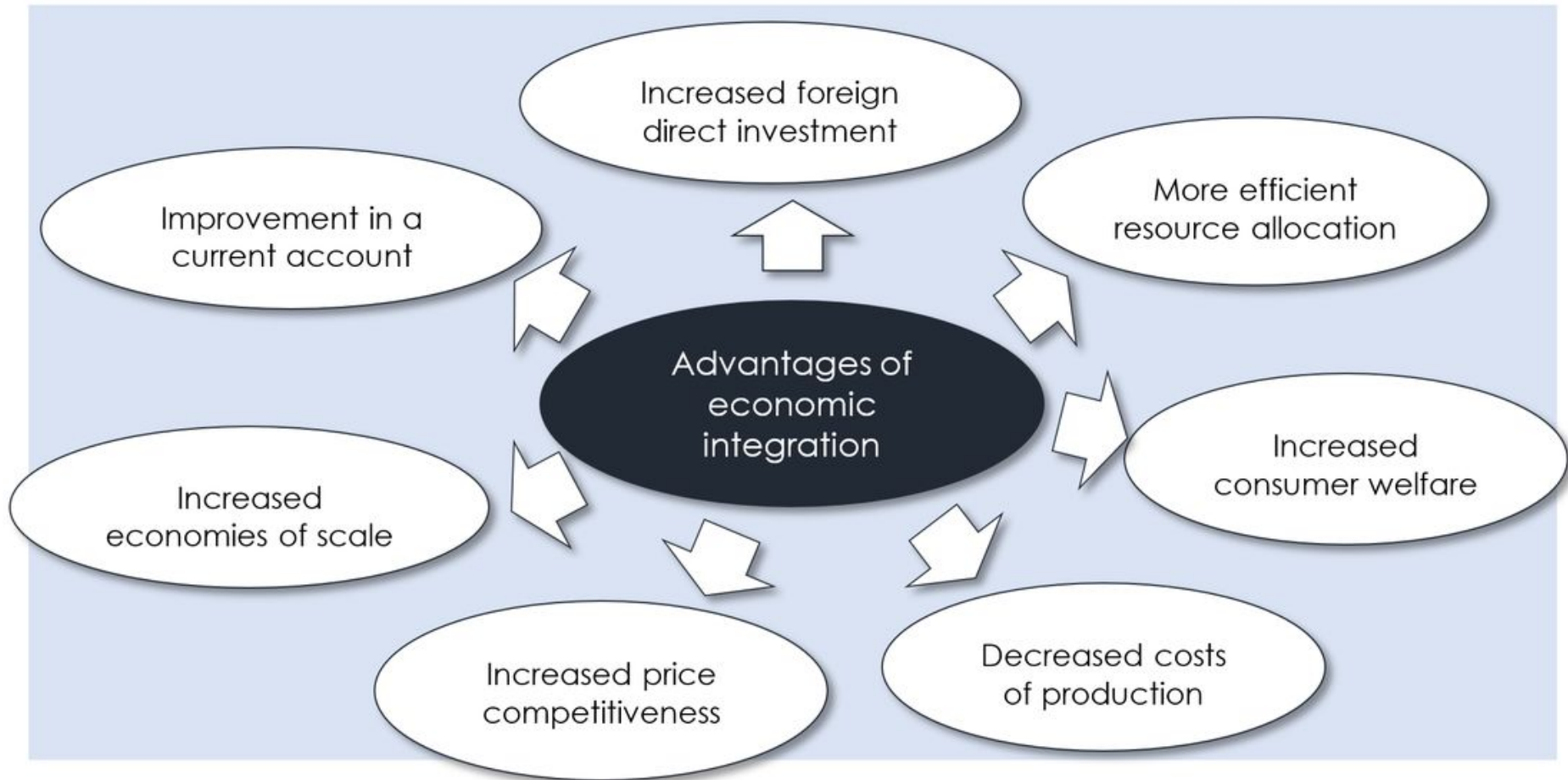
What is Economic Integration?

Economic integration is the process whereby countries coordinate to reduce trade barriers and to (maybe) harmonize fiscal and monetary policy..

Trading Blocs - a group of countries that join together and agree to increase trade between themselves

Bilateral/Multilateral Trade Agreement - Agreements to reduce tariffs and quotes between 2/multiple countries





Other non-tariff
barriers may be
introduced

Inefficient
domestic firms will
shut down

Disadvantages of
economic
integration

Increased
current account
deficits

Reduced tariff
revenues for
government

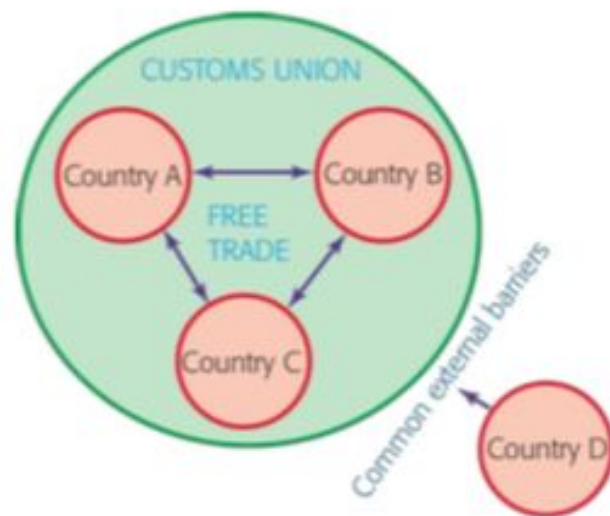
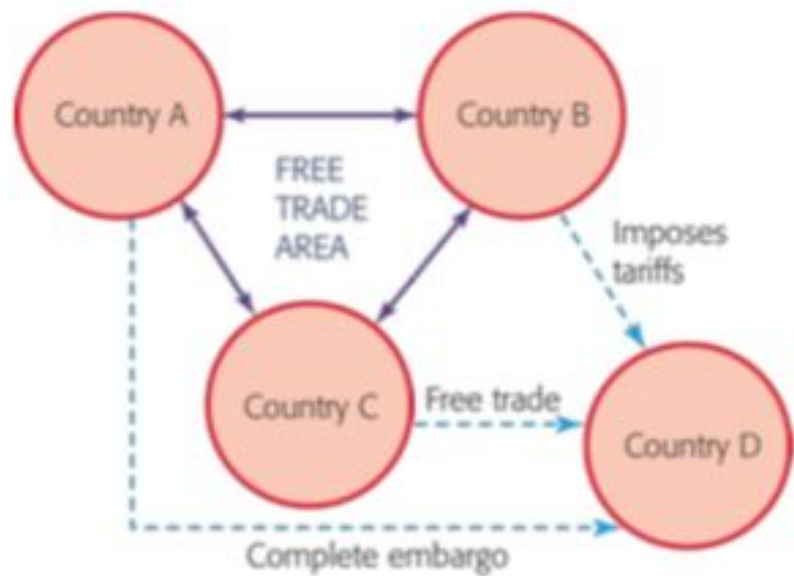


Stages of Economic Integration

The degree of economic integration can be categorised into six stages:

1. Preferential trade agreements
2. Free trade area
3. Customs union
4. Single market
5. Economic and monetary union
6. Complete integration (political union)

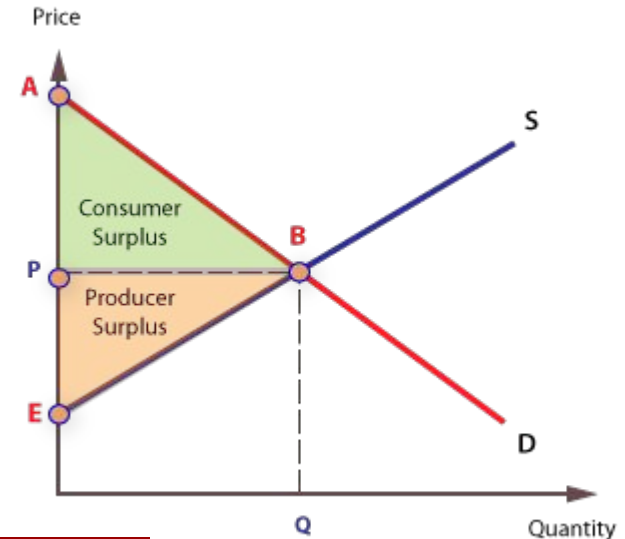




Stage of economic integration	Diminishing trade barriers	Setting up common external tariffs	Freedom of movement of the factors of production	Common currency. Common economic policy.	Integration in non-economic areas (like common foreign affairs policy or internal affairs)
A free trade area	<input checked="" type="checkbox"/>				
A customs union	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			
A common market	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
An economic and monetary union	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Complete economic integration	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

So.... what's the point?

An increase of welfare has been recognised as a main objective of economic integration. The increase of trade between member states of economic unions is meant to lead to the increase of the GDP of its members, and hence, to better welfare.

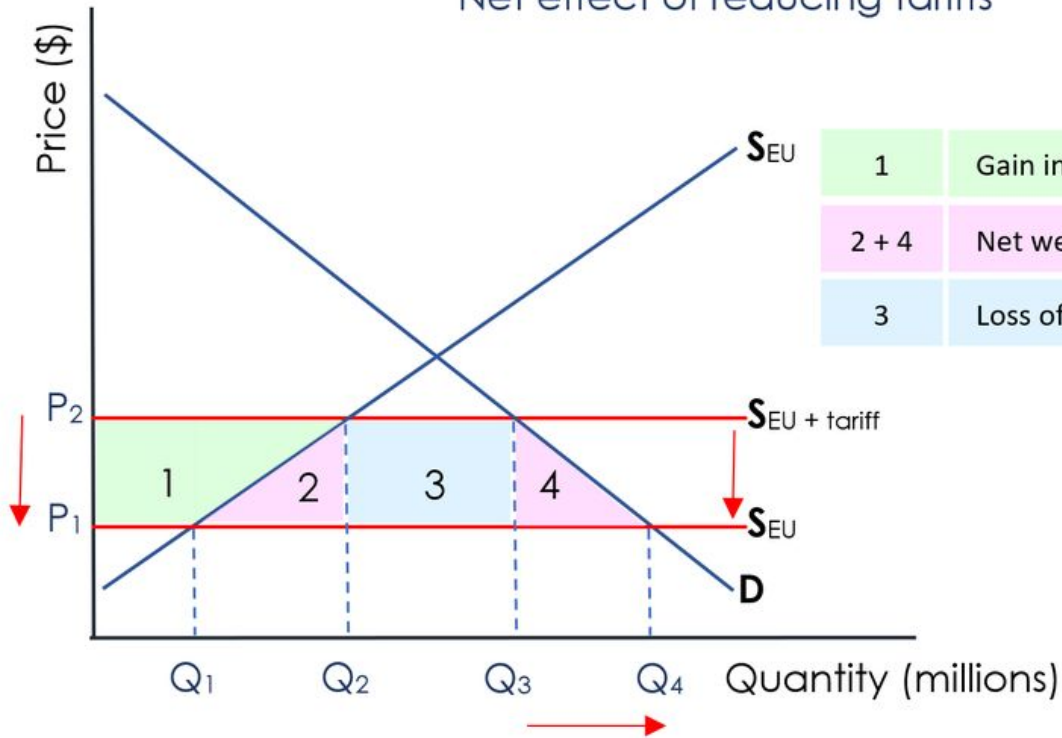


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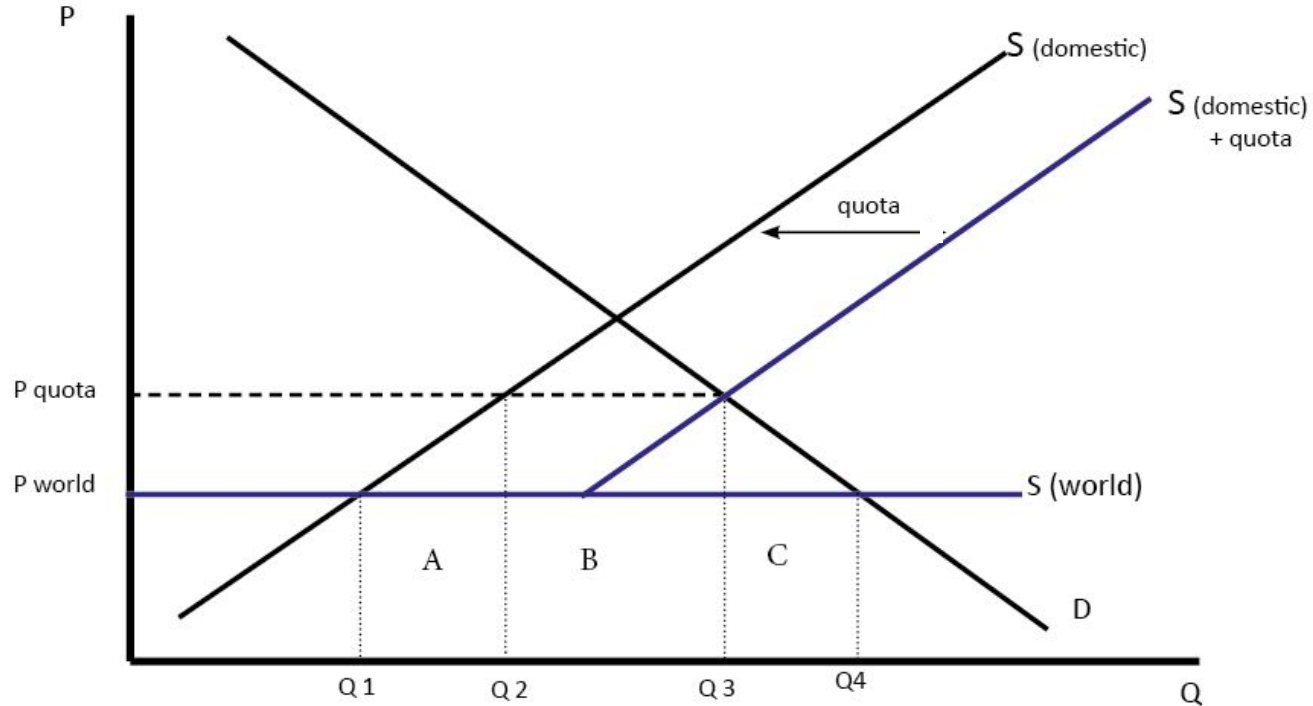
THINK: HOW CAN BOTH PRODUCERS AND CONSUMERS BENEFIT FROM INCREASED FREE TRADE?

Diagrams to show economic integration

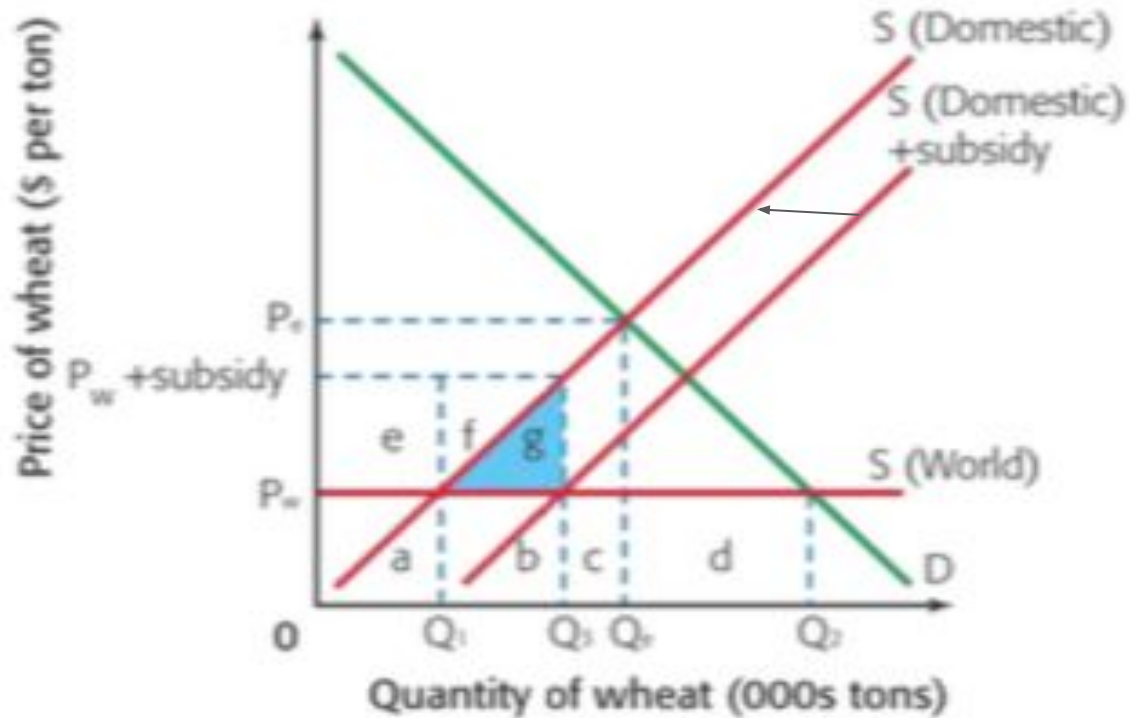
Net effect of reducing tariffs



Diagrams to show economic integration



Diagrams to show economic integration



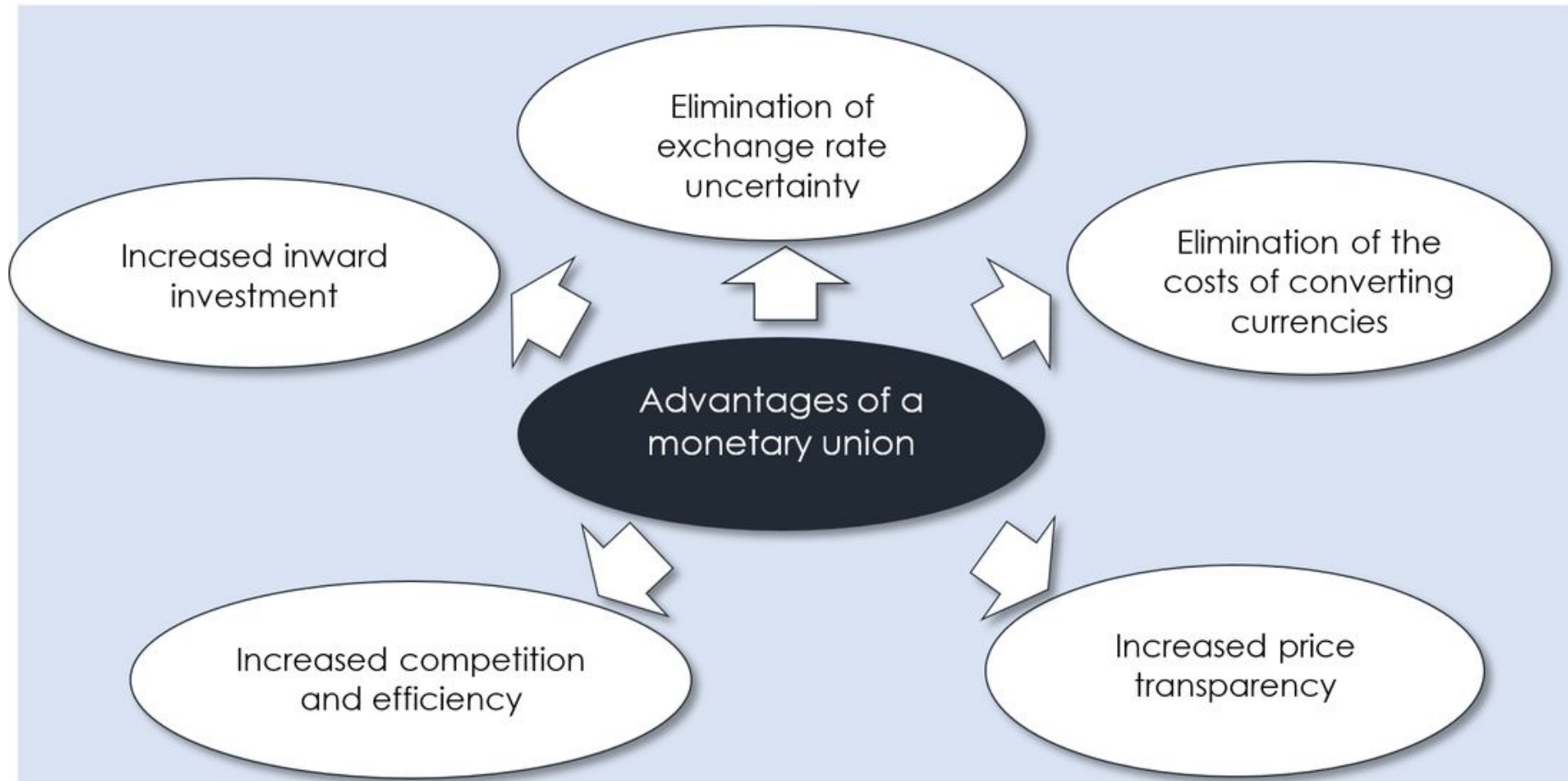
Economic and Monetary Union

The distinct features of a monetary union vs a common market are that the countries in a monetary union - e.g. the Eurozone agree to

- The same currency
- The same central bank
- The same monetary policy

The UK is part of the EU common market but not the monetary union.





Transition costs

"One size fits all
policy"

Disadvantages of
a monetary union

Shocks

Differing policy
effects

