


# CHAPTER 21

# The Global Economy

## Why It's Important

*Why do foreigners invest in the United States? Should we be worried about foreigners investing in our country? This chapter will explain how global integration is now a fact of life.*

 To learn more about the challenges and opportunities of a global economy, view the **Economics & You Chapter 27** video lesson: **Global Economic Challenges**

**ECONOMICS**  
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## SECTION 1

# Reasons for and Results of Global Integration

## COVER STORY

THE ECONOMIST, MAY 3, 2003

Those who believe that globalization throttles democracy, gouges the poor and fouls the environment are bound to regard today's mostly open markets for international capital as evil.

... No serious economist questions the case for international integration through flows of goods and services, though there is a lively argument over how integration through trade can best be brought about. Trade is good. But even the most enthusiastic advocate of economic integration may be starting to wonder whether unimpeded flows of capital are quite such a blessing.



In the United States, it is not unusual to ride on a bus that was made in Germany or drive a Japanese-made car. A Canadian may own a local restaurant. Some of the restaurant's food perhaps has been imported from Mexico, France, and Spain. Interest rates may fall because political upheavals in other countries have caused businesses there to invest their money capital in politically stable America. In this section, you'll learn that we now live not just as Americans, but as part of the global economy.

### READER'S GUIDE

#### Terms to Know

- global integration
- telecommunications

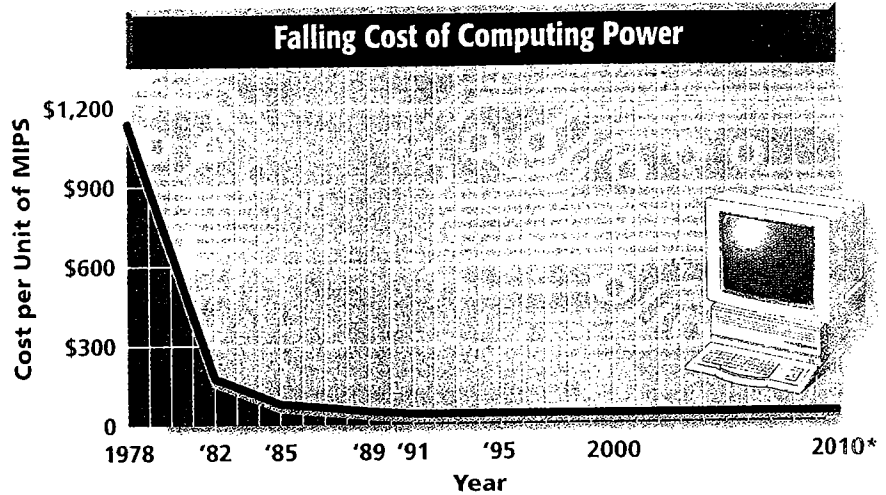
#### Reading Objectives

1. How has improved telecommunications affected global integration?
2. What kinds of financial investments are traded in global markets?

**FIGURE 21.1**

**Decreasing Costs**

The price per million units of computing power (expressed in millions of instructions per second) fell dramatically from 1978 to 2000.



Source: *Economics Today*, 1999

\* Author's Estimate

**global integration:** interdependency among the countries of the world, especially within financial markets and telecommunications

**telecommunications:** long-distance communication, usually electronic, using communications satellites and fiber-optic cables

## Improved Telecommunications

**Global integration**—the interdependency among countries—has increased dramatically over the past several decades. Many reasons explain this increase. One reason is improved **telecommunications**, or long-distance electronic communication.

The first transatlantic telegraph cable was completed in 1866. Before then it took two weeks to find out the price of the dollar in London. The telegraph cable reduced that time to two minutes. With the invention of the semiconductor—the computer chip—telecommunications grew rapidly. Look at **Figure 21.1**, which shows how much the price of computing power has fallen in just the last few years.

Several other inventions and factors have influenced the rapid improvement in worldwide telecommunications. Communications satellites circle the earth day and night. Radio and television waves, beamed up to them, are reflected down to other parts of the earth. On the earth's surface, fiber-optic cables are being placed throughout much of North America and already exist in parts of Europe. The rapid expansion of the Internet has also been an important aspect of the worldwide communications system.

Consider some of the ways cheap and readily available satellite television has transformed the information received in the Eastern Hemisphere. Before the 1990s virtually all of the television (and radio) available in the Eastern Hemisphere was both state-run and state-controlled. Viewers saw few programs and advertisements from other parts of the world. Today, people in Asia receive sports,

music, soap operas, news, and advertisements via satellite that are free of government control. See **Figure 21.2**.

How does this increase in communications affect the rest of the world, particularly Asia? Viewers in other nations are changing their cultural tastes and buying habits. In India, viewers buy copies of outfits worn by popular music television personalities. Viewers demand foreign products they see advertised on television, which increases exports from the originating nations. In addition, because many popular television programs are transmitted in English, more of the world's people want to learn English as a second language.

## The Globalization of Financial Markets


Because of the speed and power of computers and the affordability of telecommunications, the world has become one financial market. This globalization started in the 1970s and 1980s, when United States banks developed worldwide branch networks for loans and foreign exchange trading. Today money and financial capital markets are truly global, and many stocks and bonds are traded on them.

United States government securities (bonds that the United States government sells), foreign exchange, and shares of stocks are now traded continuously in vast quantities around the world. Trading in United States government securities is the world's fastest growing 24-hour market. Foreign exchange—the buying and selling of foreign currencies—became a 24-hour worldwide market in the 1970s. Markets also exist worldwide in commodities such as grains, gold and silver, and stocks. The worldwide stock market, started in the mid-1970s, however, has some problems.

### FIGURE 21.2

**Satellite Communications** More people in controlled societies, such as Cuba, are seeing how the rest of the world looks, thinks, and operates.





## CAREERS

### Computer Programmer

Job Description	Qualifications
<ul style="list-style-type: none"> <li>■ Write, test, and maintain programs—or instructions for the computer to follow—and code the instructions in a programming language</li> <li>■ Update, repair, modify, and expand existing programs</li> </ul>	<ul style="list-style-type: none"> <li>■ 4-year degree in computer science commonly required</li> <li>■ 2-year degree or substantial specialized experience needed</li> </ul>

**Median Salary:** \$57,590

**Job Outlook:** Average

—Occupational Outlook Handbook, 2002–03

## Problems With the Worldwide Stock Market

The United States economy represents a major part of the world economy. So, when the U.S. stock market falters, so do the stock markets worldwide. For example, on October 19, 1987, the United States stock market suffered one of its worst days ever. The Dow Jones Industrial Average dropped over 500 points. It took two years for the United States stock market to recover, but many foreign stock markets took even longer.

On September 11, 2001, one of the most devastating acts of terrorism in history occurred. The World Trade Towers in New York City were destroyed, and thousands lost their lives. When the stock market reopened on September 17, the Dow fell by almost 700 points. In the meantime, stock markets worldwide had already fallen in response. Fortunately, both in the United States and elsewhere, stock markets started to recover within a few months.



Practice and assess key skills with **Skillbuilder Interactive Workbook, Level 2.**

## SECTION 1 Assessment

### Understanding Key Terms

1. **Define** global integration, telecommunications.

### Reviewing Objectives

2. **Graphic Organizer** Create a diagram like the one below to explain how improved telecommunications has affected global integration.



3. What kinds of financial investments are traded in global markets?

### Applying Economic Concepts

4. **Global Financial Markets** Why should an individual be cautious about investing heavily in the global financial market?

### Critical Thinking Activity

5. **Summarizing Information** List five telecommunications inventions and/or events that helped create a global financial market.

## SPOTLIGHT ON THE ECONOMY

### Does Globalization Get a Bad Rap?

**Check It Out!** In this chapter you learned about the globalization of financial markets and how the United States stock market crash in 1987 caused foreign markets to crash as well. Read to learn how globalization affects other parts of the world.

**T**he poor shall always be with us, cautions the Bible. Maybe not, argues Indian economist and former World Bank staffer Surjit S. Bhalla in a provocative new book, *Imagine There's No Country: Poverty, Inequality and Growth in the Era of Globalization*. . . . [T]he book is a must-read for anyone seriously interested in the debate about whether globalization is good for the poor. . . .

Antiglobalization advocates claim that the free-market, pro-globalization policies of the past two decades have made the world worse for the poor. Even the World Bank has joined in the fray, professing concern that the number of people in poverty has fallen only slowly.

. . . Look again, urges Bhalla. He contends that the past 20 years have been a time of "fantastic" opportunity for the world's poorest people. Poverty has fallen at the fastest rate in history. Average annual growth in developing countries has been almost double that of the industrialized world—3.1% vs. 1.6%. For each 10% rise in consumption by the nonpoor, consumption by poor people rose 18%. . . .



The most important implication, if Bhalla is right, is that the pro-market policies of the last 20 years are working just fine. It's an illusion to look for policies that will be more pro-poor, because no formula in history has ever been more pro-poor. In essence, he's saying the search for an elusive Third Way of global development that lifts all the fortunes of the poor can be abandoned because it has already been found.

—Reprinted from February 28, 2003 issue of *Business Week*, by special permission, copyright © 2003 by The McGraw-Hill Companies, Inc.

#### Think About It

1. According to antiglobalization advocates, what is an adverse effect of globalization?
2. According to the article, what is the best way of lifting the fortunes of the poor?

## SECTION

## 2

# Direct Foreign Investment—Should We Be Worried?

### READER'S GUIDE

#### Terms to Know

- direct foreign investment (DFI)

#### Reading Objectives

1. What concerns do some people have about direct foreign investment?
2. Why do some people argue in favor of more direct foreign investment?

## COVER STORY

THE NEWS TRIBUNE, JUNE 23, 2003

The Frank Russell Co. could emerge as one of the winners in a new tax battle . . . but it would likely come at the expense of two other Washington state corporations—Boeing and Microsoft. Russell . . . has tried to persuade Congress to eliminate a tax that discourages foreign investment in U.S. mutual funds.

The tax bill, however, also could result in a financial blow to Boeing and Microsoft. The bill would end a tax break that has provided them and 4,000 other companies with billions of dollars in tax relief designed to boost U.S. exports.



Who owns whom? Nothing seems more American than Burger King or the Pillsbury Dough Boy, right? Not quite, for those companies are now owned by the British. In addition, the Japanese own about 20 percent of the office space in downtown Los Angeles. A Thailand-based firm owns Chicken of the Sea Tuna, and a German company owns A&P Supermarkets. Throughout the world, American companies have likewise purchased foreign firms. As you read this section, you'll learn that foreign investment has grown considerably in the past decade.

## Foreign Investment, Then and Now

There is a long history of foreign investment in the United States. For example, Great Britain was the biggest foreign investor in American railroads in the late 1800s and early 1900s. At the beginning of World War I, the United States owed more money to foreign lenders than any other country in the world.

In the United States today, however, **direct foreign investment (DFI)**—the purchase of real estate and businesses by foreigners—has increased to the point where some Americans want to restrict it. In any single year, foreigners purchase billions of dollars of American real estate and businesses. Anytime political upheaval strikes in another part of the world, foreign investment in the United States increases because we remain a politically stable country.

**Foreign Control of American Companies** Many people argue against foreign ownership of American companies because they worry about foreign control. Is foreign control important? Presumably, foreign investors purchase American assets in order to maximize profits. Foreigners' interests in running a corporation would seem to be identical to the interest of any domestic investor who owned the same corporation. The profit-making behavior of a corporation does not depend on the nationality of that corporation. If the British took over a hotel on Miami Beach, would the service necessarily be any different in the long run? Economists do not think so.

What about the foreign investors' influence over the United States government? Foreigners own over 30 percent of all United States government securities that now exist. Can they use this to control United States foreign policy? Probably not. Foreigners purchase United States government securities when they think the rate of return is higher than they can get elsewhere. Remember that whenever foreigners buy United States government securities or private corporate securities, they free up United States financial capital for other productive uses.



## Global Economy

### Leading Foreign Investors

Who are the leading foreign investors in the United States? The table below shows the top 10 countries, ranked according to revenues from American holdings in 1999.

Germany	\$221 billion
United Kingdom	\$219 billion
Japan	\$111 billion
Netherlands	\$98 billion
Switzerland	\$70 billion
France	\$59 billion
Canada	\$58 billion
China	\$50 billion
Sweden	\$29 billion
Belgium	\$18 billion ■

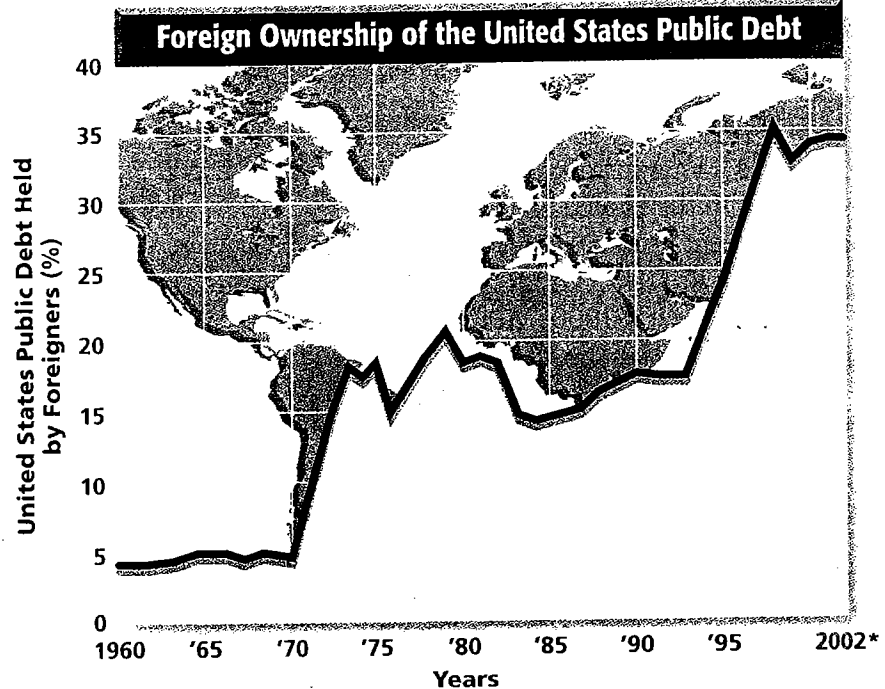
**direct foreign investment (DFI):** the purchase by foreigners of real estate and businesses in another country



**FIGURE 21.3**

**Foreign Ownership of Debt** Examine this graph carefully to see how foreign ownership of the United States public debt has changed. *What has been the most recent trend? How do you explain this?*

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Source: Department of the Treasury

\* June 30, 2002



For an online update of this graph, visit [ett.glencoe.com](http://ett.glencoe.com) and click on **Textbook Updates—Chapter 21**.

In reality, the United States government has more control over foreigners. Because they own about 35 percent of the United States public debt, as you can see in **Figure 21.3**, foreign investors are subject to United States government policy. For example, the federal government, through its Federal Reserve System, could create tremendous inflation. In doing so, it would wipe out the real value of the United States government debt that foreigners own.

In a larger sense, foreign corporations may *indirectly* influence our government. Our government cannot make the business climate in America too difficult for these corporations or they will take their investments elsewhere. The positive side of this situation is that domestic corporations benefit from the hands-off approach of government toward foreign-owned businesses.

## Investment Here and Abroad

Despite the concern some have about foreigners “owning” the United States, the total share of foreign ownership of American industries is about 6 percent. Although foreign investment here is readily visible as shown in **Figure 21.4**, foreign investment is

relatively low when compared to that of other nations. In Great Britain, for example, more than 20 percent of total sales comes from companies owned by foreigners.

How much investing do American companies carry out abroad? The United States's share of worldwide direct investment is more than 40 percent. Indeed, throughout the world many people fear that United States culture has taken over everyone else's culture. Some people have called this *economic imperialism*.

Most consumers in the world, however, have little knowledge about who ultimately owns the company that provides the goods or services they purchase—and they do not really care. Some even argue that we should *encourage* direct investment and debt purchases by foreigners. Why? Foreigners then would have an increased incentive for the American economy to remain strong, for real estate prices *not* to collapse, for the legal structure to stay on a stable course, and for United States businesses to compete effectively by providing goods and services that consumers want.



**FIGURE 21.4** .....

**Visible Foreign Investment** Unlike Burger King or other companies that are not obviously owned by foreigners, there are some companies that are clearly visible as being foreign-owned. Toyota is one of these.

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## SECTION 2 Assessment

### Understanding Key Terms

- 1. Define** direct foreign investment (DFI).

### Reviewing Objectives

- 2. Graphic Organizer** Create a diagram like the one below to explain the concerns that some Americans have about direct foreign investment.



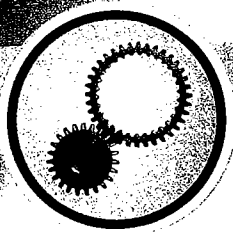
- 3. Why** do some people argue in favor of more direct foreign investment?

### Applying Economic Concepts

- 4. Direct Foreign Investment** Would you buy a more expensive American-made product to prevent a trade deficit that could eventually lead to more foreign ownership of American business? Why or why not?

### Critical Thinking Activity

- 5. Making Comparisons** Use a recent *Statistical Abstract of the United States*, under the table "Foreign Commerce and Aid," to find the amount of direct investment of two European countries in the United States during the past 5 years. How much did the United States invest in those two countries during the same period?



## CRITICAL THINKING SKILLS

# Recognizing Bias

*Most people have a point of view, or bias. This bias influences the way they interpret and write about events. Recognizing bias helps you judge the accuracy of what you hear or read.*

- Examine the author's identity, especially his or her views and particular interests.
- Identify statements of fact.
- Identify any expressions of opinion or emotion.
- Determine the author's point of view.
- Determine how the author's point of view is reflected in the work.

### LEARNING THE SKILL

To learn how to recognize bias, follow the steps listed on the left.

### PRACTICING THE SKILL

Read the passage below, then answer the questions that follow.

#### *The Global Corporation Becomes the Leaderless Corporation*

*"In the 20th century, the Soviet Union collapsed because its command-and-control economy couldn't keep up with the West's free market. In the 21st century, the same fate will befall companies whose CEOs [chief executive officers] attempt to control everything. In a world that is becoming ever more chaotic and dependent on brain-power, teams at the top will make more sense than a single outrageously paid CEO who sits behind a 'buck stops here' plaque."*

*—Business Week, August 30, 1999*

1. What statements of fact are presented in this passage?
2. What opinions are stated?
3. What is the purpose of this passage?
4. What evidence of bias do you find?

### APPLICATION ACTIVITY

Find an editorial in the newspaper that deals with a topic of specific interest to you. Apply the steps for recognizing bias to the editorial. Write a paragraph summarizing your findings.

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## SECTION 3

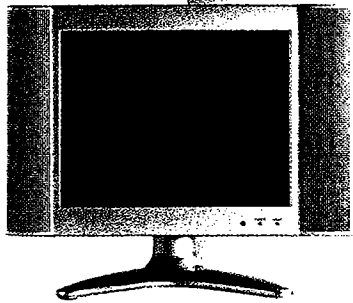
# Multinationals and Economic Competition

## COVER STORY

BUSINESS WEEK, JULY 30, 2003

For most industries, the rivalry between China and India hasn't been much of a contest. China is tops in manufacturing, with multinationals pouring billions of dollars of direct investment into the country. . . .

With far less foreign direct investment and a vastly inferior infrastructure, India is an also-ran to China in manufacturing achievements. But the service industry? That's a different story. India boasts world-class software service companies, . . . and multinationals have made India the top choice for outsourced software development, call centers, and other business operations.



Much international or cross-border investing is undertaken by **multinationals**, firms that do business or have offices or factories in many countries. In the past, critics argued that because these firms are so large, they may come to dominate the world economy. Such firms were seen as ruthless companies that would exploit the poor and manipulate governments. Few people hold such opinions today. In this section you'll learn that multinationals usually set up operations on a regional basis, often forming alliances in the process.

### READER'S GUIDE

#### Terms to Know

- multinationals
- foreign affiliates

#### Reading Objectives

1. About how many multinationals exist in the world today?
2. What is a cross-border investment?
3. What are the advantages of corporate alliances?
4. How have recent patterns of immigration to the United States increased the need for tolerance?

**multinationals:** firms that do business and have offices or factories in many countries

## The Size and Number of Multinationals

**foreign affiliates:** *branches of multinational firms*

In the 1970s, many people predicted that a few hundred multinationals would control 80 percent of the world's production by the mid-1980s. By 2003, there were about 60,000 multinational corporations, with about 620,000 **foreign affiliates**, or branches of their firms. The foreign affiliates of the world's top nonfinancial companies accounted for about \$2.3 trillion in assets. **Figure 21.5** lists the top 25 American-owned multinationals.

**Worldwide Ownership** The top 100 multinationals are very important, accounting for almost 50 percent of all cross-border assets. This means nothing, however, without comparing these assets to the worldwide total. In 2003, the 500 companies with the highest revenues in the world had combined sales of \$9 trillion. What this means is that the top 100 multinationals account for less than 20 percent of the world's productive assets—hardly an overwhelmingly dominant share.

It is also true today that the United States and Great Britain no longer dominate multinationals. Of the 7,000 multinationals identified by the United Nations in 1970, the Americans and the British owned more than 50 percent. Today Americans, Japanese, Germans, and the Swiss own a little more than half of all multinationals. Numerous multinationals are based in the industrializing nations of Asia, such as Taiwan, South Korea, and Malaysia.

## Economic Connection to... History

### Ancient Multinationals

**E**conomic historians suggest that multinationals may have existed nearly 4,000 years ago in the ancient kingdom of Assyria. Information on writing tablets found in central Turkey indicates that a thriving trade existed between this region and Assur, the Assyrian capital. Private companies in

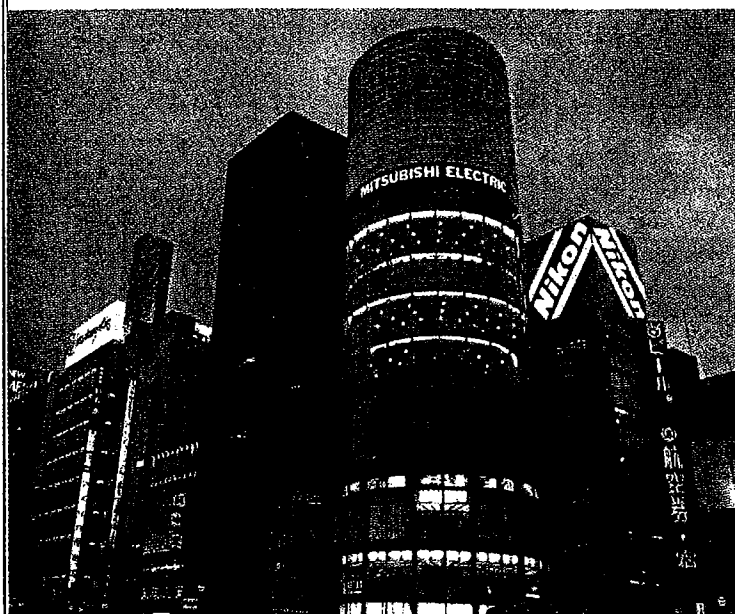
Assur shipped tin and textiles to the town of Kanesh in central Turkey. Assyrian merchants there traded the textiles for other goods to be sent back to Assur. Furthermore, Assyrian-owned businesses in Turkey used the tin to make finished bronze goods to be sold in Assyria. ■

**FIGURE 21.5**

## The Largest American Multinationals

Rank/Company	Revenue (\$Mil)	Net Income (\$Mil)	Assets (\$Mil)	Market Value (\$Mil)
1. Citigroup	93,101	14,536	1,136,973	211,173
2. General Electric	130,483	14,829	583,634	286,838
3. American Intl. Group	70,272	5,493	591,809	150,974
4. ExxonMobil	195,465	15,860	162,495	243,130
5. Bank of America	46,690	9,494	679,765	111,155
6. Fannie Mae	53,128	5,351	913,264	72,507
7. Verizon Communications	67,529	6,338	172,053	104,088
8. Wal-Mart Stores	246,282	8,248	96,473	230,731
9. Berkshire Hathaway	44,255	5,100	169,616	108,980
10. Intl. Business Machines	83,221	3,771	95,720	152,133
11. Altria Group	60,706	10,923	89,900	83,626
12. General Motors	189,100	2,991	382,922	33,320
13. Freddie Mac	36,773	5,764	721,739	41,112
14. JP Morgan Chase & Co.	43,869	2,081	755,156	66,747
15. Wells Fargo	28,879	5,823	369,669	80,908
16. SBC Communications	41,078	8,301	100,798	84,588
17. Morgan Stanley	31,844	3,132	559,436	49,744
18. ChevronTexaco	101,490	2,523	81,302	75,788
19. Microsoft	31,375	9,597	74,482	264,219
20. Merck	53,009	7,235	48,954	124,629
21. Wachovia	23,455	3,693	348,064	54,049
22. Pfizer	33,151	11,858	52,928	244,886
23. Merrill Lynch	26,877	2,741	455,587	40,137
24. Bank One	21,844	3,326	287,864	42,679
25. Johnson & Johnson	37,376	6,833	41,994	161,355

Source: *Forbes*, July 21, 2003



**FIGURE 21.6** .....

**Japan's Major Investment** Like most countries, Japan invests most heavily in itself. Downtown Tokyo shows evidence of how strongly Japanese companies dominate that nation's capital.

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## Regional Cross-Border Investments

Although many of the biggest multinationals invest all over the world, most do not. Most invest in regions that are closest to home. The European Union plus Switzerland conduct more direct foreign investment in western Europe than anywhere else, for example.

In a world in which borders matter less, the line separating sales at home and those abroad becomes less important. The most appropriate way to look at patterns of direct investment is to include direct domestic sales as a part of regional sales. European firms principally invest in western Europe. American firms principally invest in the United States, Canada, Mexico, and South America. Japanese firms principally invest in Japan, South Korea, China, and Southeast Asia. **Figure 21.6**, for example, shows Japanese investment in Tokyo.

## Beyond Multinationals—Alliances

In addition to multinational direct investments in other countries, firms in different countries are forming *alliances*. These may be joint ventures or licensing deals. Indeed, many foreign governments have insisted that multinationals enter their markets through joint ventures with local firms in the hope that locals will capture some of the profits.

Most alliances have been between firms from industrialized countries. Alliances are even popular within nations like the United States. International Business Machines (IBM), for example, developed its personal computer in alliance with Microsoft (for the software), Intel (for the central processing unit), and Lotus. In the late 1980s, IBM entered into an alliance with Siemens of Germany to work on memory chips. In the 1990s, IBM entered into an alliance with Apple Computers, once its archrival.

**ECONOMICS**  
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**Student Web Activity** Visit the *Economics Today and Tomorrow* Web site at [ett.glencoe.com](http://ett.glencoe.com) and click on **Chapter 21—Student Web Activities** to see how one multinational corporation operates.

Alliances can be seen as each firm's acceptance of its own limitations, whether they are financial, technological, or geographical. Alliances can be used to help a firm leapfrog its competitors or catch up to them. Such a strategy is particularly effective in industries that have seen rapid changes, such as software.

## The Global Village and Tolerance

One of the social results of the globalization of our world is increased immigration. America has become a truly multicultural society because of such immigration. In many cities the combined number of African Americans, Hispanics, Asians, and other minorities now constitutes a majority of the population.

In the 1980s, the Asian population in America increased more than 100 percent. In 2003, Hispanics became the largest minority group in the United States. With so many immigrants, public schools are more diverse. This diversity means that the need for tolerance and open-mindedness is more important today than it ever has been. For Americans, this includes learning one or more foreign languages and maintaining friendships with those of different ethnic, cultural, national, and/or religious backgrounds.



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## SECTION 3 Assessment

### Understanding Key Terms

1. **Define** multinationals, foreign affiliates.

### Reviewing Objectives

2. How many multinationals exist in the world today?
3. What is an example of a cross-border investment?
4. **Graphic Organizer** Create a diagram like the one below to list and explain the advantages of corporate alliances.



5. How have recent patterns of immigration to the United States increased the need for tolerance?

### Applying Economic Concepts

6. **Corporate Alliances** If you owned an American business and wanted to enter a foreign market, what should you consider before agreeing to a joint venture with a small firm in that market?

### Critical Thinking Activity

7. **Synthesizing Information** Use the information in **Figure 21.5** on page 555 to build a database. Input the top 10 corporations listed as well as information from the following columns: Foreign Revenue, Total Revenue, Foreign Assets. Then sort the database by each column and print out the new tables.



# People & Perspectives



## Alice Rivlin

ECONOMIST (1931–)

- Vice chair of the Federal Reserve Board, 1996–99
- Director of the White House Office of Management and Budget, 1994–96
- First director of the Congressional Budget Office, 1975–1983
- Staff member at the Brookings Institution, a public policy research group

Alice Rivlin has been involved in government as an economist for many years. One task she has tried to fulfill throughout her career is to help the general public develop a better understanding of economics:

*“Without a basic understanding of how the economy works, what the essential terms and concepts are, the average citizen is likely to feel completely left out of any conversation . . . about what is happening in the economy and what to do about it.*

*Feeling left out is frustrating and alienating. If talk is unintelligible—if the listener is without keys or clues or a basic framework into which to fit what is being said—then it is natural for the listener to tune out and to feel powerless. . . .*

*In order to feel included and empowered, a citizen needs to have a basic understanding of how the world works—in this case how the economic world works—that will provide a basis for asking pertinent questions, obtaining more information and eventually figuring out*

*what the issues are all about and what ought to be done.*

*Economic literacy is [like] having a working knowledge of a foreign language. If you are with a group of foreigners and don't speak their language at all, . . . you tune out. You feel excluded, perhaps uneasy. If you have a rudimentary working knowledge of the language, you can at least follow the drift of the conversation, ask a few questions and feel that, even if you are not getting the fine points, you are not totally left out and you have a basis for acquiring more knowledge. That, it seems to me, is what economic literacy means—a rudimentary working knowledge of the concepts and language of economic activity and economic policy.”*

### ***Checking for Understanding***

1. What, according to Rivlin, is the impact of not having a basic understanding of how the economy works?
2. To what does Rivlin compare economic literacy?
3. How does Rivlin define economic literacy?

# CHAPTER

# 21

# Summary

## ECONOMICS Online



**Chapter Overview** Visit the *Economics Today and Tomorrow* Web site at [ett.glencoe.com](http://ett.glencoe.com) and click on **Chapter 21—Chapter Overviews** to review chapter information.

### SECTION 1 Reasons for and Results of Global Integration

- **Global integration** has increased dramatically over the past several decades, mainly because of improved **telecommunications**.
- Because of the increase in communications, people in other nations are changing their cultural tastes and buying habits, which also affects exports and language.
- The world has become one financial market, with government securities, foreign exchange, and shares of stock traded 24 hours a day.
- A globalized financial market now causes everyone everywhere to feel the effects of a financial panic.

### SECTION 2 Direct Foreign Investment—Should We Be Worried?

- There is a long history of foreign investment in the United States.
- **Direct foreign investment** in the United States has increased to the point where some Americans want to restrict it.

- Many people argue against foreign ownership of American companies because they worry about foreign control.
- Economists believe that foreigners purchase American assets in order to maximize profits.
- The total share of foreign ownership of American industries is about 6 percent.
- The United States's share of worldwide direct investment is more than 40 percent.

### SECTION 3 Multinationals and Economic Competition

- Much international or cross-border investing is undertaken by **multinationals**.
- By the late 1990s, there were an estimated 63,000 multinationals with about 690,000 **foreign affiliates**.
- The top 100 multinationals account for about 15 percent of the world's productive assets.
- Most multinationals invest in regions that are closest to home.
- Multinationals often form alliances in the form of joint ventures or licensing deals.
- One of the results of the globalization of our world is increased immigration and diversity, which means that the need for tolerance and open-mindedness is more important today than it ever has been.

## CHAPTER 21

# Assessment and Activities

### ECONOMICS Online



**Self-Check Quiz** Visit the *Economics Today and Tomorrow* Web site at [ett.glencoe.com](http://ett.glencoe.com) and click on **Chapter 21—Self-Check Quizzes** to prepare for the Chapter Test.

### Identifying Key Terms

Write a short paragraph about the global economy using all of the following terms.

- global integration
- telecommunications
- direct foreign investment
- foreign affiliates
- multinationals

### Recalling Facts and Ideas

#### Section 1

1. Why has improved telecommunications led to increased global integration?
2. What happened elsewhere in the world when the United States stock market crashed in 1987?
3. What language is the leading second language in the world? Why is this so?

#### Section 2

4. What foreign nation's investors own much of the office space in downtown Los Angeles?

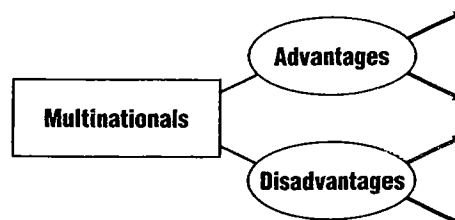
5. Why do foreigners purchase United States government securities?
6. What is the United States's share of world-wide direct investment?

#### Section 3

7. How can multinationals help developing countries?
8. What four countries own about half of the 63,000 multinationals that exist today?
9. Why do firms in different countries form alliances with one another?

### Thinking Critically

1. **Understanding Cause and Effect** Although cheap telecommunications is widespread in industrialized nations, it is not so widespread in developing nations. What will happen to global integration as developing nations catch up to the developed nations?
2. **Drawing Conclusions** A foreign company buys an American company. Explain why that company might not necessarily be run any differently from other American companies.
3. **Making Generalizations** Create a diagram like the one below to list possible advantages and disadvantages of multinationals.



## Applying Economic Concepts

**Investment Incentives** Make a list of the reasons that people give for why they are afraid of direct foreign investment in the United States. For each reason, present a counter-argument.

## Cooperative Learning Project

Working in groups of four, research the following innovations:

- the fax machine
- overnight delivery service (for example, Federal Express and Airborne Express)
- plain-paper copy machines
- high-speed computer modems
- satellite television
- portable cellular phones
- the Internet

Each team member will be responsible for one or more of the following:

- a. Explaining what the innovation involves
- b. Information on when it was first used and how much it cost then
- c. How the innovation changed the way business is done
- d. The future of the innovation

## Reviewing Skills

**Recognizing Bias** Read the passage below, then answer the questions that follow.

*"Does anybody remember tiddlywinks? Kids these days seem to crave electronic games, from Nintendo's handheld Gameboy to Sony's dazzling PlayStation to the shoot-'em-up antics of video arcades. They're not just for kids, of*

*course—much of Sony's new software is geared toward adults. But the software, hardware, and portables still appeal most to youthful buyers, who could push U.S. retail sales in this industry as high as \$7 billion this year. Experts say kids can actually get something worthwhile out of this—reflex skills sure get a workout."*

—Business Week: 100 Years of Innovation, Summer 1999

1. What statements of fact are presented?
2. What opinions are stated?
3. What is the purpose of this passage?
4. What evidence of bias do you find?

## Technology Activity



**Developing Multimedia Presentations** Identify a foreign-owned business in the United States. Use library resources or the Internet or visit the business and ask for information about the history of the business, its size, its organization, and its plans for the future. Then use this information to prepare a multimedia presentation about the business. Share your presentation with the rest of the class.

## Analyzing the Global Economy

Choose a country other than the United States and investigate how much direct foreign investment occurs there each year. (United Nations and World Bank publications are useful sources.) Try to establish the dollar volume of such direct foreign investment, what percentage of total investment this represents, and the major foreign countries that do the investing. Write a summary of your results.

# Economics Lab

## *Buying a New Car*

From the classroom of Rick Johnson, New Harmony High School, New Harmony, Indiana

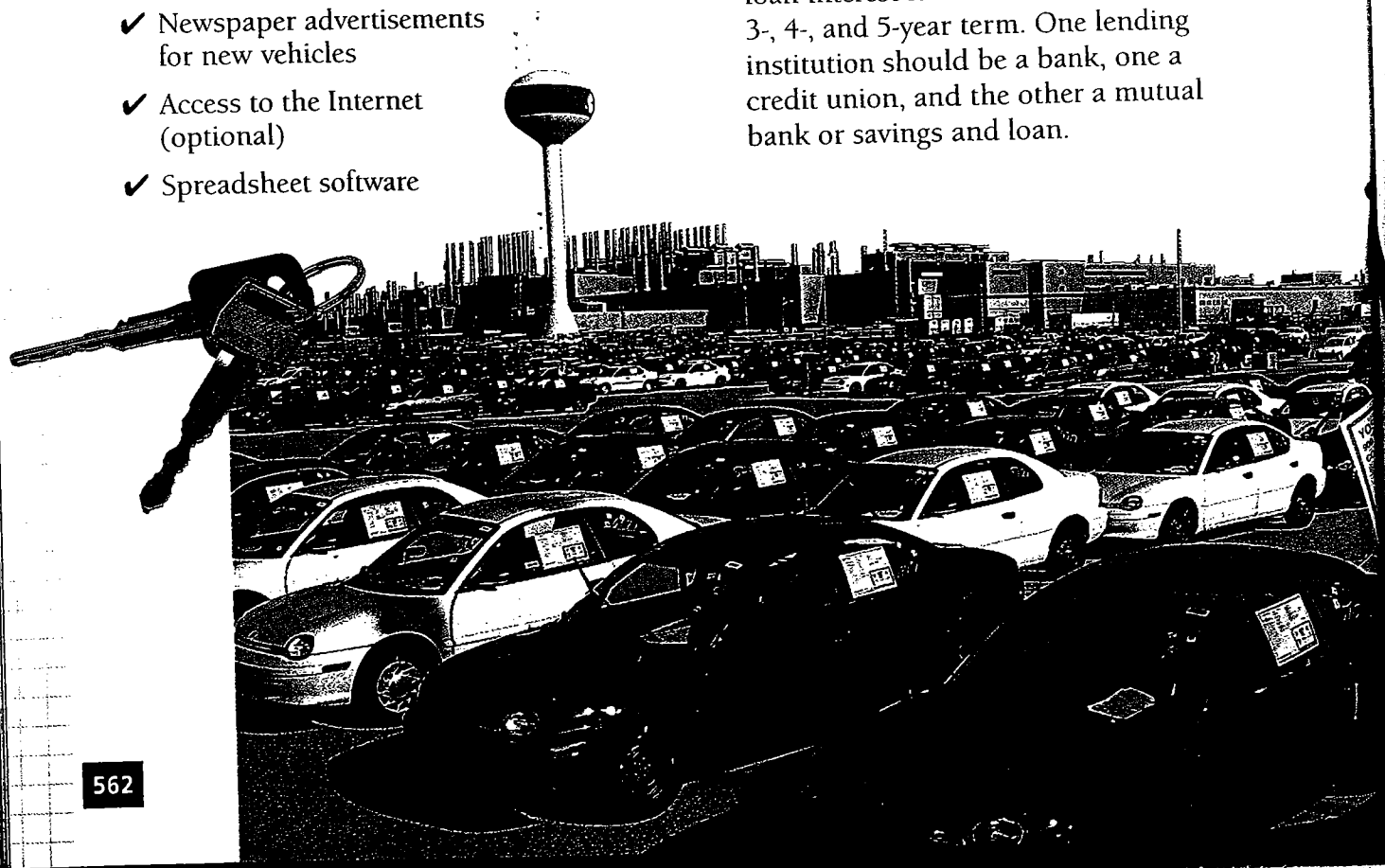
**I**n this unit you have learned about global integration. In Chapter 21 you learned that automobile corporations are among the largest of the multinational firms. In this lab, you will research the financing needed to purchase an automobile. You'll find the best interest rates for a new car, compare interest rates over different terms, and compare leasing a vehicle versus buying.

### **STEP A Tools Needed**

- ✓ Newspaper advertisements for new vehicles
- ✓ Access to the Internet (optional)
- ✓ Spreadsheet software

### **STEP B Procedures to Follow**

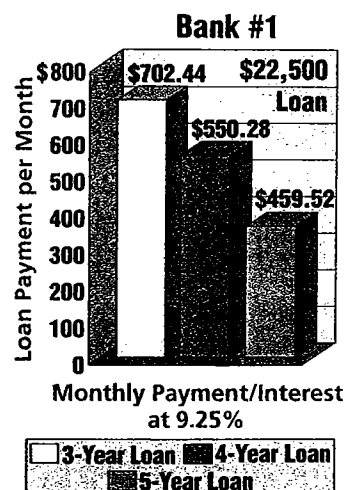
1. Organize into groups of four.
2. As a group, decide what type of new vehicle you wish to purchase.
3. Obtain the price of the vehicle either by newspaper, the Internet, or a phone call to a dealer.
4. Three people in your group should each contact a lending institution to obtain loan interest rates for new cars over a 3-, 4-, and 5-year term. One lending institution should be a bank, one a credit union, and the other a mutual bank or savings and loan.



5. The fourth group member will obtain information about a 3-year lease agreement, which should include monthly payments, down payment, maximum miles, and residual value.
6. Next, find the monthly payments and total payment of the loan for each term (3, 4, or 5 years) for each lending institution. This is done by using an amortization schedule. Many banking institutions have online loan calculators. Insert the loan amount (principal), the term either in months or years, and the interest rate, then click *compute*.

## STEP C Creating an Economic Model

After you accumulate all the information from the lending institutions, enter it on a spreadsheet and convert it to a creative graph like the one below. The graphs from all group members should be put on poster board for a class presentation.



## STEP D Lab Report Analysis

Analyze the graphs that you created in step C, then answer the questions below.

1. How much did the monthly payment vary among the three terms and among the lending institutions?
2. How different was the lease payment compared to the purchase payment?
3. Were you surprised by the information you received? Explain.

