

FACTFILE: GCSE ECONOMICS

UNIT 3.3

THE GLOBAL ECONOMY: EU



European Union (EU)

Learning Outcomes

Students should be able to:

- describe the EU's aims and role;
- examine the effects of EU enlargement;
- analyse the EU's effects on the UK economy and other economies, including its social, cultural and legislative implications;
- evaluate how the euro affects the UK economy and eurozone economies; and
- evaluate the costs and benefits of EU membership for the UK economy.

European Union (EU):

Definition:

The EU is an example of a 'customs union' or 'trade bloc' – facilitates free trade between member states. It has some characteristics of a 'political' union.

Aim:

To promote free trade and forge closer political, social, legal and other links between member states.

Role:

Facilitates:

- Freedom of movement of labour;
- Freedom of movement of capital;
- Greater competition in business;
- Greater levels of economic growth;
- Higher living standards for citizens;
- Opportunities for economies of scale in business.



Effects of EU Enlargement:

These could include:

- Reduction in labour costs for business;
- Greater access to capital funds;
- Increased consumer choice (for goods/services);
- Increased competition (between businesses in the customs union);
- Increased population (due to admission of new EU member states);
- Greater levels of political uncertainty (e.g. Greece's inability to control debt/spending and likely increases in ECB interest rates to manage Euro currency).

Effects of EU on UK economy:

- Financial – EU grants have facilitated completion of key infrastructure projects in NI (e.g. upgrade of A8 road from Larne Harbour; upgrade of A1 from Belfast to Newry and on to Dublin M1);
- Economic – EU facilitates tariff-free access to goods/services from European suppliers (e.g. the emergence of LIDL discount store stocking European foodstuffs from France, Republic of Ireland other EU member states);
- Social – EU provides benefits through regeneration grants, education grants for students and other social enterprise projects (e.g. Erasmus funding/scholarships for higher education students);
- Cultural – EU encourages greater co-operation between citizens of member states (e.g. increasing numbers of Polish citizens live in N. Ireland sharing their cultural identity, language and foodstuffs with the local communities);
- Legislative – EU has attempted to harmonise many aspects of UK law and rights for citizens and workers (e.g. Minimum Working Time Directive, Human Rights available to citizens of the EU);
- Euro – the currency of the EU member states. This has reduced foreign exchange risk and allows businesses to trade more profitably, since costs are reduced to fees to translate sterling to euro.
- The Euro is currently used in 19 out of 28 EU member states.

Benefits of the Euro:

- Reduces risk of changes in exchange rates between member states, providing increased certainty for businesses/citizens;
- Facilitates comparisons – of prices of goods/ services by EU citizens across member states;
- Reduces transaction costs of foreign exchange which in turn reduces costs, making EU businesses more profitable;
- Increased Trade Levels – businesses in EU member states are more likely to trade with each other to avoid exchange rate transactions and for convenience.

Drawbacks of Euro:

- Significant costs of joining the Euro exist – new member states are required to destroy existing notes/coins of the national currency and make available new notes/coins of the Euro currency; staff training is also required for staff in businesses and government organisations to adapt to the changes;
- Interest Rates – Eurozone interest rates are controlled by the ECB – therefore national governments and businesses in member states have no control over changes in interest rates (e.g. interest rate increases will increase borrowing costs for business/citizens);
- Speculation – a single currency reduces opportunities for speculation/profitteering by businesses/individuals on the currency markets.



EU Membership:

Potential Benefits for UK economy:

- Specialisation of Labour across member states – facilitates comparative advantage;
- Opportunities for Economies of Scale for businesses – reduce costs;
- Greater freedom of movement of labour – fills skill gaps nationally;
- Greater freedom of movement of capital funds – adds to economic growth;
- Greater levels of economic growth – secures employment;
- Possibility of higher standards of living – increases consumer spending;
- Greater levels of consumer choice – increases consumer spending.

Potential Drawbacks for UK economy:

- Higher levels of unemployment possible in the regions – due to relocation of businesses across member states;
- Reduced labour costs – cheaper rates of pay may not yield higher levels of quality in the goods/ services provided by business, thus business reputations may suffer;
- Multinational Enterprises (MNE's) may enter/ dominate the market driving out locally-based business enterprises – causes job losses;
- Increased regulations – EU standards apply nationally, which might increase business costs – e.g. Minimum Wage Costs, Environmental Protection costs;
- EU policies – regional economies may suffer due to EU policies, e.g. EU fisheries policy prohibits fishing in the Irish Sea by locally-based fishermen, causing job losses.

Exchange Rates:

An exchange rate is the price of one currency in terms of another. The rate of exchange (or 'price') between two currencies, is determined by a range of factors including the demand and supply of specific currencies, government policy and other global events – therefore any change in the exchange rate will have knock-on effects for various stakeholder groups.

Summary:

The EU is a 'customs union' permitting free trade between member states, however it imposes a common external tariff barrier with non-member states.

This single market aims to:

- promote freedom of movement of labour;
- promote freedom of movement of capital;
- encourage competition;
- promote higher living standards.

The Euro is the currency of the EU, i.e. a single currency used in member states as conditions permit.

There are benefits and drawbacks of EU membership to the UK economy.

Review Questions:

1. Define the term 'customs union' supporting your answer with an example.
2. Define the term 'single currency' using an example to support your answer.
3. Explain the effects of EU enlargement and any potential impact on the UK economy. Support your answer with research and 3 key facts/ figures.
4. Discuss the impact of the Euro on businesses located in the UK trading with businesses located in the EU.
5. Discuss the costs/benefits of EU membership for the UK economy. Support your answer with research and 3 key facts/figures.
6. Jenny has £500 in her bank account – money she has saved for a holiday to Disneyland Paris in France. The bank has advised her that she can exchange this money today at an exchange rate of £1: €1.1369. How many Euros does Jenny have to spend on holiday?
7. Andrew is going on a ski trip to northern Italy with friends from school, next month. Andrew can exchange £1,000 today at a rate of £1: €1.1369 or wait until the first day of the school trip, when the exchange rate is estimated to be £1: €1.1250. Calculate how many Euros Andrew could receive at each date and advise him when he should exchange his spending money.

