**KEY CONCEPTS AND SKILLS: Unit 3.4 – Economic Integration**

**Definitions:**

* **Economic Integration**: economic interdependence among countries, usually achieved by agreement to reduce or eliminate trade barriers and/or coordination of economic activities
* **Preferential Trade Agreement**: an agreement between two or more countries to lower trade barriers between them on particular products
  + **Bilateral Trade Agreement**: a preferential trade agreement between two countries
  + **Multilateral Trade Agreement**: a preferential trade agreement among more than two countries
  + **Regional Trade Agreement**: a preferential trade agreement among countries within a geographic region
* **Trading Bloc**: a group of countries that have agreed to reduce barriers among themselves for the purpose of creating freer trade and economic cooperation
  + **Free Trade Area**: a trading bloc in which member countries agree to eliminate trade barriers among themselves (e.g., NAFTA)
  + **Customs Union:** a trading bloc in which members of a free trade area (eliminating intra-group trade barriers) also adopt a common trade policy toward non-members
  + **Common Market:** a trading bloc in which members of a customs union (no intra-group trade barriers / common external trade policy) also eliminate intra-group restrictions on the movement of factors of production (esp. labor & capital) among them (e.g., the European Union)
  + **Monetary Union**: the adoption by a group of countries of a single currency, which implies a very high degree of economic coordination including a common central bank
* **(HL) Trade Creation**: the replacement of higher cost products (domestic or imported) by lower cost imports after a trading bloc is formed
* **(HL) Trade Diversion**: the replacement of lower cost imported products by higher cost imports after a trading bloc is formed

**Concepts and Applications:**

***A. Preferential Trade Agreements and Trading Blocs***

1. Explain the intent and mechanisms of preferential trade agreements.
2. Distinguish between bilateral and multilateral trade agreements.
3. Distinguish between a free trade area, a customs union and a common market.
   * How do these represent an increasing degree of economic integration?
4. Explain the problem of *trade deflection* faced by FTAs, and how an FTA can avoid it.

* Why do customs unions and common markets not have this issue?

1. Explain how economic integration increases competition among producers within the trading bloc.
2. Outline the purposes of the ASEAN and NAFTA agreements.
3. (HL) Explain how different forms of economic integration allow member countries to gain from economies of scale.
4. (HL) Explain the concepts of trade creation and trade diversion in trading bloc.

***B. Monetary Union***

1. Explain how a monetary union differs from a common market.
2. Discuss the possible advantages and disadvantages of a monetary union for its members.
3. State the name of the monetary union formed in Europe and the year it began.

* What rights did the member nations give up? What economic guidelines must they meet?