

Lecture 2: Exchange

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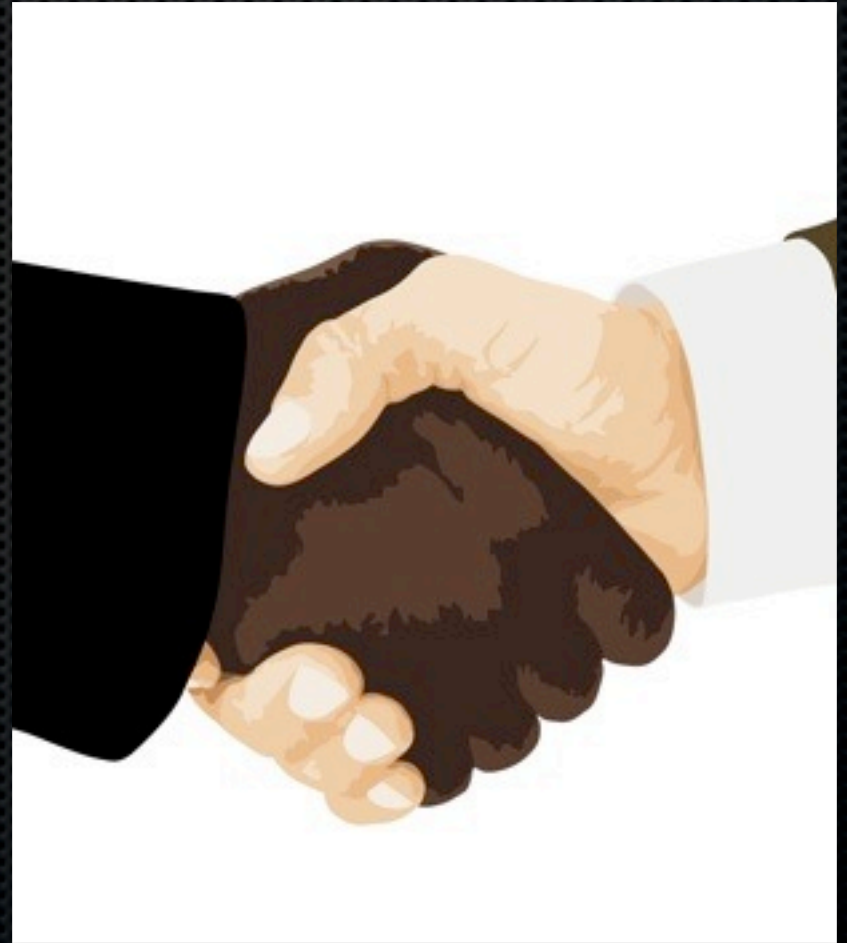
Exchange

- ✦ the *sine qua non* of the international economic system
- ✦ how one engages in economic transactions in the first place
- ✦ affects one's fortunes, quite literally



Three questions

1. what is exchange?
2. how is exchange organized in the present global economy?
3. will exchange function the same way in the future?



What is exchange?

- ✦ giving something and getting something else in return
 - ✦ norm of reciprocity
 - ✦ barter system: each party gets something they want
- ✦ everyone is better off, in principle



Utility

- ✦ how much satisfaction one derives from something
- ✦ need not be tied to possession of a material object
- ✦ a fair exchange increases everyone's utility



Currency

- ✦ measure and store of value
- ✦ requires authoritative designation and enforcement of the medium
- ✦ more convenient than barter...
- ✦ ...but price \neq utility



Wealth

- ✦ raw, fungible capacity to acquire
- ✦ depends on exchange relations to have any meaning
- ✦ can be built through advantageous deals



Crossing borders

- ✦ state borders
complicate exchange
 - ✦ taxes and tariffs
 - ✦ different currencies
 - ✦ lack of legal
guarantees
- ✦ institutional
infrastructure makes
international exchange
possible



How is exchange organized?

- ✦ domestically, central banks and government departments
- ✦ internationally, used to have the “gold standard”
- ✦ after the Great Depression, a change



Economic institutions

- ✦ International Monetary Fund (IMF)
- ✦ International Bank for Reconstruction and Development (World Bank)
- ✦ ITO -> GATT -> WTO



Capital mobility

- ✦ Foreign Direct Investment (FDI)
- ✦ currency markets
- ✦ government securities and debt
- ✦ strains the ability of governments and institutions to manage the economy



Transnational corporations

- ✦ usually not “multinational”:
 - ✦ headquartered in one place
 - ✦ homogenous leadership
- ✦ adapt to local conditions
- ✦ global actors:
 - ✦ wealthier than many countries
 - ✦ some maintain security forces



Structural inequality

- ✦ not everyone has the same value of stuff to exchange
 - ✦ colonialism
 - ✦ subordinate development
 - ✦ lack of demand by those who can pay
- ✦ rich stay rich; poor stay poor



Will exchange stay the same?

- ✦ depends on what one thinks holds economic arrangements together
 - ✦ power of the US?
 - ✦ interest of all participants?
 - ✦ efficient functioning?
- ✦ crisis seems to be required for major changes



Challenges

- ✦ poverty
- ✦ rampant market speculation
- ✦ bursting bubbles
- ✦ copyright violations
- ✦ no one really knows how much exchange goes on



Options

- ✦ let the market find its own equilibrium
- ✦ “corporate sovereignty”
 - ✦ let those who market to us, rule us
- ✦ neo-mercantilism
- ✦ global embedded liberalism

