

Syllabus Items: 171-173

See Webnote 507 for reading schedule

Items: HL only: 80

4.4 Big Ideas

Syllabus Items: 147-156

See Webnote 507 for reading schedule

Items: HL only: 149, 152-54 + 156

4.4: 2 Big Ideas



4.4 trade + development



SYLLABUS 3.5 TERMS OF TRADE

3.5 Syllabus Items

336 - IBQ's 3.5

Syllabus 3.5

Terms of Trade

351 - What is Terms of Trade ?

352 - Long Run vs Short Run



Greek Lemons and Terms of Trade:
click below:



Terms of Trade formula:

Index of Average X prices /

You Tube 3.5

Dictionary:

3.5 - Terms of Trade

1. terms of trade

Other Useful Terms:

1. current account
2. elasticity
3. trade weighted index
4. effective exchange rate
5. real exchange rate

The BIG ideas!

Exchange Rates: summary

I.b Syllabus 3.2: Macroeconomic Objectives: Exchange Rates

Syllabus 139 - 146

- 320: Powerpoint summary
- 321: Demand for a currency
- 322: Supply for a currency
- 323: Floating, Fixed and Managed
- 324: PPP
- 325: Exam Questions

Big Idea

1

Big Idea

2

Know these terms...

- **4.4 - International Trade**
 - **4.4 - Role of International Trade**
 - barriers to development
 - bilateral trade agreement
 - **diversification**
 - **export promotion**
 - **import substitution**
 - over specialization
 - price volatility of primary products
 - primary products
 - protectionism
 - terms of trade
 - **regional preferential trade agreement**
 - **trade liberalization/free trade**
 - **WTO – World Trade Organisation**
 - **Terms of trade: is country able to pay for it's imports with revenues gained from exports. See 'Greek lemons'.**



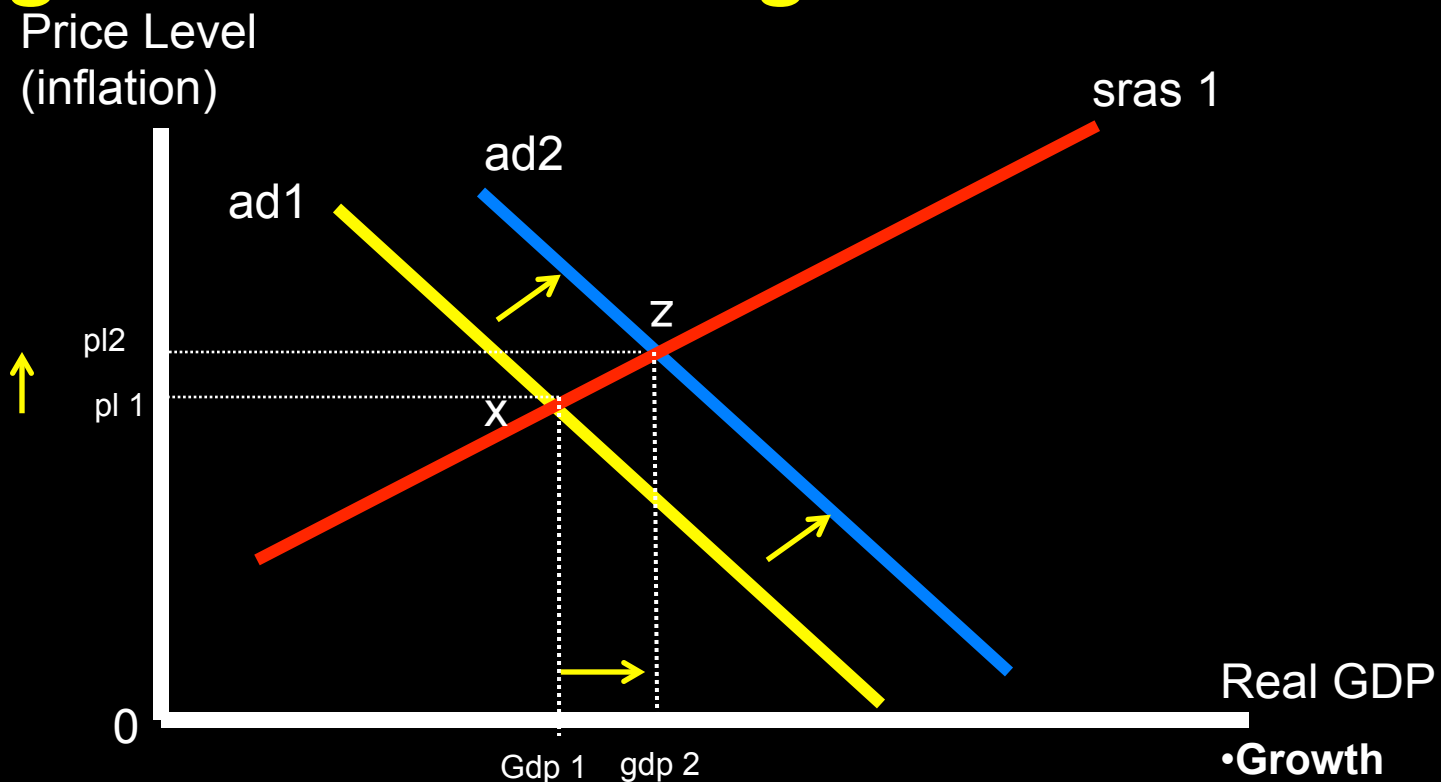
The 4 big reasons why countries trade

1. Growth: macro growth through higher gdp
2. Growth: firm increase in size and profitability
3. Cost reduction (economies of scale)
4. Specialisation

e.g. shows growth from eXports based on ($x > m$):

$$AD = C + I + G + X - M$$

Focus on argument that trade brings growth – but the right kind of trade



- Growth
- Employment
- National Income

LDC's need the right kind of trade

1. Trade must be 'fair'. MNC's have promoted such programmes for less developed countries
2. Over reliance on agriculture and low levels of specialisation are necessary for development. Education is key here.
3. Terms of trade problems worsen development and poverty increases e.g. 'Greek lemons'. See PAJ clip on 3.5 webpage
4. Ldc's need to export manufactured goods and reduce reliance on agricultural goods.