

				3.5 Terms of trade (HL only) Big Questions: 1. How does terms of trade affect the economy of a country? (make sure you connect terms of trade with the exchange rate).		<u>Example</u>	<u>U-tube</u>		
The meaning of the terms of trade									
161 HL Only			Measurement	<ul style="list-style-type: none"> • Explain the meaning of the terms of trade. • Explain how the terms of trade are measured. • Distinguish between an improvement and a deterioration in the terms of trade. • Calculate the terms of trade using the equation: $\text{Index of average export prices} / \text{index of average import prices} \times 100.$ 		<u>Example</u>	<u>U-tube</u>	3	
Item	hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	<u>Example</u>	<u>U-tube</u>	W E I G H T	W E B N O T E
162 HL Only			Causes of changes in the terms of trade	<ul style="list-style-type: none"> • Explain that the terms of trade may change in the short term due to changes in demand conditions for exports and imports, changes in global supply of key inputs (such as oil), changes in relative inflation rates and changes in relative exchange rates. • Explain that the terms of trade may change in the long term due to changes in 		<u>Example</u>	<u>U-tube</u>	3	

				world income levels, changes in productivity within the country and technological developments.					
163 HL Only			Consequences of changes in the terms of trade	<ul style="list-style-type: none"> • Explain how changes in the terms of trade in the long term may result in a global redistribution of income. • Examine the effects of changes in the terms of trade on a country's current account, using the concepts of price elasticity of demand for exports and imports. • Explain the impacts of short-term fluctuations and long-term deterioration in the terms of trade of economically less developed countries that specialize in primary commodities, using the concepts of price elasticity of demand and supply for primary products and income elasticity of demand. 	Reading	Example	U-tube	3	