Past-paper walk-through

The reasons for international trade ▪ 6.1

eXercise

Questions in this set

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Question 28

9708/11 N25 ▪ Q28 ▪ 1 mark

28 What is **not** a limitation of the theory of comparative advantage?

A the movement of factors of production between countries

B governments' imposition of trade restrictions

C one country being more efficient in the production of all goods

D transport costs outweighing any comparative advantage

Solution 28

Answer: **C**

Why

- The theory assumes factors cannot move between countries, so factor mobility is one of its limitations.
- Trade restrictions and transport costs also limit it in practice.
- So the option that is *not* a limitation is the one the theory already allows for.

Question 26

9708/12 N25 ▪ Q26 ▪ 1 mark

26 A country with a floating exchange rate has a large deficit on the current account of the balance of payments.

What is most likely to decrease as a consequence of this deficit?

A competitiveness of the country's products

B level of employment in the country

C prices of exports from the country

D rate of inflation in the country

Solution 26

Answer: **C**

Why

- A large current account deficit means more of the currency is being sold to buy imports than bought to pay for exports.
- With a floating rate, that excess supply pushes the exchange rate down.
- So the currency's value is what falls as a consequence.

Question 27

9708/12 N25 ▪ Q27 ▪ 1 mark

27 What will definitely lead to an improvement in the terms of trade?

A Export prices fall whilst import prices rise.

B Export prices rise by the same amount as import prices.

C Export prices rise slower than import prices.

D Export prices rise whilst import prices stay the same.

Solution 27

Answer: **D**

Why

- Terms of trade improve when export prices rise *relative* to import prices.
- Export prices rising while import prices fall guarantees that.
- Both rising by the same amount leaves the ratio unchanged, so that would be no improvement at all.

Question 28

9708/13 N25 ▪ Q28 ▪ 1 mark

28 What is meant by comparative advantage?

A One country can produce a product at a lower opportunity cost than another country.

B One country can produce more of a product than another country, using a given level of resources.

C One country has lower barriers to trade than another country.

D One country is making more efficient use of factors of production than another country.

Solution 28

Answer: **A**

Why

- Comparative advantage is about *opportunity cost*, not absolute quantity.
- A country has it where it gives up least of other goods to produce one more unit.
- Producing more in absolute terms is *absolute* advantage, which is a different idea.

Question 27

9708/14 N25 ▪ Q27 ▪ 1 mark

27 The table shows the terms of trade for an economy expressed as an index number for the period 2019 to 2021.

year	terms of trade index (2018 = 100)
2019	101
2020	104
2021	109

What can be concluded from the table?

A The quantity of imports rose relative to the quantity of exports.

Question 27

B The price of exports rose relative to the price of imports.

C The price of imports rose relative to the price of exports.

D The value of exports rose relative to the value of imports.

Solution 27

Answer: **B**

Why

- The index rises from 101 to 104 to 109, all above the 2018 base of 100.
- A rising terms of trade means export prices are rising relative to import prices.
- So each unit of exports buys more imports each year – the terms of trade improved throughout.

Question 28

9708/14 N25 ▪ Q28 ▪ 1 mark

28 Which explanation for a country choosing to engage in international trade is **not** valid?

A Engaging in international trade enables the country to achieve a higher average standard of living.

B Other countries are more efficient at producing some goods.

C There are some products that the country cannot produce.

D The country has a comparative advantage in the production of all of its goods compared to other countries.

Solution 28

Answer: **D**

Why

- Valid reasons for trade include specialisation, economies of scale, greater choice and access to resources.
- Trade also raises the average standard of living through comparative advantage.
- What is *not* valid is a claim that trade guarantees every country or group gains equally.

Question 28

9708/12 J25 ▪ Q28 ▪ 1 mark

28 Which formula is used to calculate the terms of trade?

A the average price of exports divided by the average price of imports

B the average price of imports divided by the average price of exports

C the value of exports divided by the value of imports

D the value of imports divided by the value of exports

Solution 28

Answer: **A**

Why

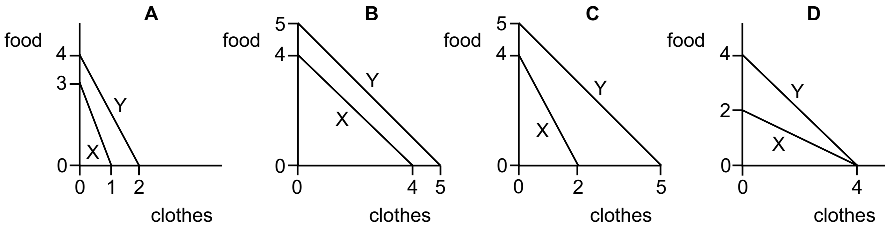
- The terms of trade compares what a country earns per unit exported with what it pays per unit imported.
- So it is the average price of exports divided by the average price of imports.
- A rise means each unit of exports now buys more imports – an improvement.

Question 27

9708/1 23 ▪ Q27 ▪ 1 mark

27 Each diagram shows the production possibility curves (PPCs) of two economies, X and Y, which produce food and clothes.

In which diagram would both economies benefit by specialising in the good in which they have comparative advantage and trading at an exchange rate of 1 unit of clothes to 1.5 units of food?



Solution 27

Answer: **C**