

3.2 International economics and trade policy

Name: _____ Class: _____ Date: _____

Total: 12 marks

KEY WORDS exchange rate 汇率 • tariff 关税 • quota 配额 • free trade 自由贸易

Objective

Explain how trade policy and currency changes can affect a business's prices, costs, and customers.

You must be able to:

- define exchange rate, tariff, and quota
- identify winners and losers from a trade change
- recommend a business response using cause and effect

1 Worked examples

■ Follow the currency effect

A Chinese firm buys parts in US dollars and exports finished goods. If the yuan becomes stronger, the dollar parts may cost less. However, its exports may become more expensive for foreign customers.

A **tariff** 关税 on imported parts would raise the firm's costs. It could negotiate with suppliers, find another source, redesign the product, or review its selling price.

2 Practice

2.1 Define an exchange rate. [1]

2.2 State what a tariff is. [1]

2.3 Explain one way a tariff on imported materials can affect a local manufacturer. [2]

3 Exam-style questions

3.1 A furniture maker imports wood and exports tables. Its home currency becomes stronger. Explain one possible benefit and one possible drawback for the firm. [4]

3.2 The government introduces a quota on imported wood. Recommend one response by the furniture maker and justify it. [4]

Solutions

2.1

- The price of one currency in terms of another currency.

2.2

- A tax on imported goods.

2.3

- Imported materials become more expensive.
- This raises production costs or may force the firm to raise its price.

3.1

- Imported wood may cost less in the stronger home currency.
- Tables may cost more for foreign customers.
- This could reduce overseas demand or export sales.

3.2

- Find a reliable domestic or alternative overseas wood supplier.
- The quota may limit imported wood and create shortages or higher prices.
- A different source protects production from the restricted supply.
- The firm should compare quality and cost before changing suppliers.