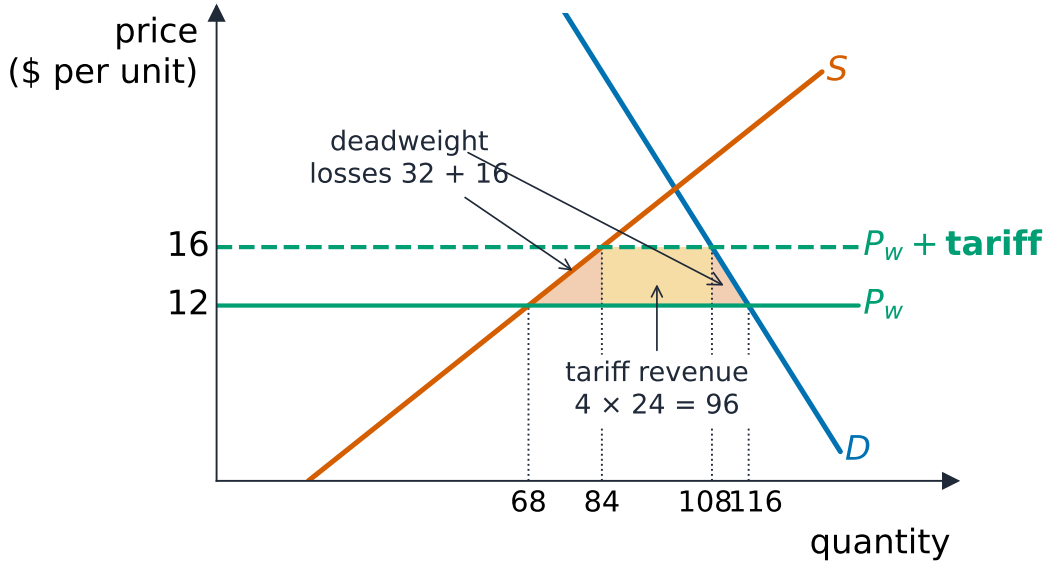
Exercise walk-through

6.1
Global economy and policy synthesis: supported rehearsal

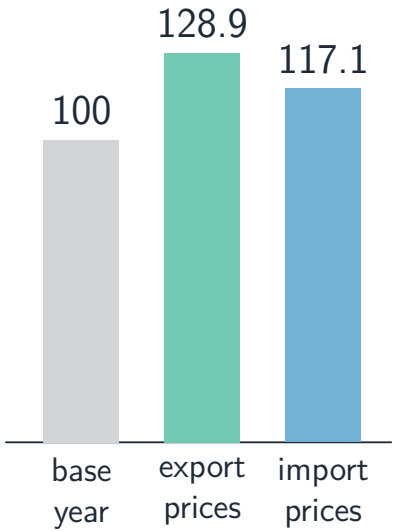
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Figure: Trade protection



- A **tariff** of 4 halves imports, raises 96 for the government and wastes 48
- Match each part of the diagram to the text.

Figure: The balance of payments · ·



$$\frac{128.9}{117.1} \times 100 \approx 110.1$$

each unit of exports buys about 10% more imports

but dearer exports from domestic inflation may sell less

- **Terms of trade** from two indices
- Match each part of the diagram to the text.

Economic development

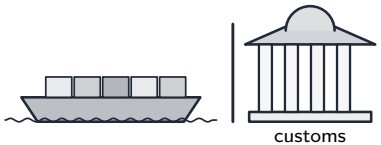
- The **poverty trap** : people with low incomes cannot save, so there is little money for investment, so productivity and incomes stay low.
- **Economic barriers**: high inequality; poor infrastructure (roads, power, internet); little access to credit and markets; a large informal economy that pays no taxes; **capital flight** (rich people moving money abroad); and unsustainable foreign debt.
- **Dependence on primary products**: for example, copper makes up most of Zambia's exports, so a fall in the world copper price cuts national income sharply.

Exercises 2.1·2.2

2.1 Define comparative advantage and distinguish it from absolute advantage using A (4 wheat or 2 cloth/hour) and B (1 or 1). [3]

A: 4 wheat or 2 cloth
B: 1 wheat or 1 cloth

2.2 Name any three types of trade protection. [2]



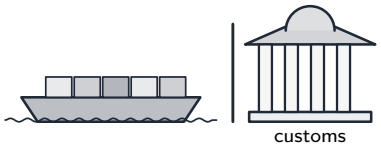
Exercises 2.1·2.2

2.1 Define comparative advantage and distinguish it from absolute advantage using A (4 wheat or 2 cloth/hour) and B (1 or 1). [3]

A: 4 wheat or 2 cloth
B: 1 wheat or 1 cloth

2.1 Comparative advantage is the ability to produce at the LOWEST OPPORTUNITY COST (1). A is absolutely better at both goods ($4 > 1$ and $2 > 1$) (1); but one cloth costs A two wheat and B only one, so B has the comparative advantage in cloth and A in wheat (1).

2.2 Name any three types of trade protection. [2]



2.2 Any three of: tariffs; quotas; subsidies to domestic producers; administrative/technical barriers.

Exercises 2.3·2.5

2.3 Name the four stages of economic integration in increasing depth. [2]



2.4 State the Marshall–Lerner condition. [2]

PED exports PED imports

2.5 Export prices rise from 100 to 128.9 while import prices rise to 117.1. Calculate the terms of trade index. [3]

export prices: 100 → 128.9

import prices: 100 → 117.1

Exercises 2.3·2.5

2.3 Name the four stages of economic integration in increasing depth. [2]



2.3 Free-trade area; customs union; common market; economic and monetary union.

2.4 State the Marshall–Lerner condition. [2]

PED exports PED imports

2.4 A depreciation improves the current account only if the sum of the price elasticities of demand for exports and imports exceeds one.

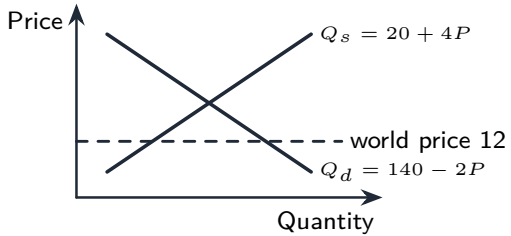
2.5 Export prices rise from 100 to 128.9 while import prices rise to 117.1. Calculate the terms of trade index. [3]

export prices: 100 → 128.9
import prices: 100 → 117.1

2.5 $ToT = \frac{128.9}{117.1} \times 100 = 110.1$ – a 10.1% improvement on the base 100.

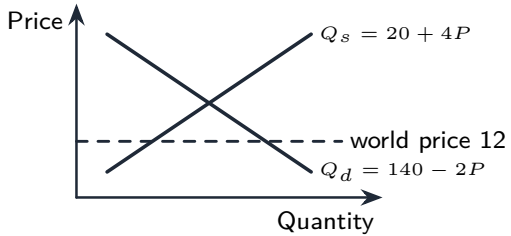
Exercise 3.1

3.1 *(Original.)* With $Q_d = 140 - 2P$ and $Q_s = 20 + 4P$ and a world price of 12, the government imposes a tariff of 4. Calculate the imports before and after, the government revenue, and the total deadweight loss. [5]



Exercise 3.1

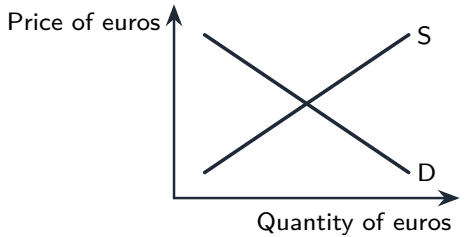
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3.1 Before: $Q_d(12) = 116$, $Q_s(12) = 68$, imports 48. After: price 16, $Q_d = 108$, $Q_s = 84$, imports 24. Revenue $= 4 \times 24 = 96$. Deadweight loss $= \frac{1}{2} \times 16 \times 4 + \frac{1}{2} \times 8 \times 4 = 32 + 16 = 48$.

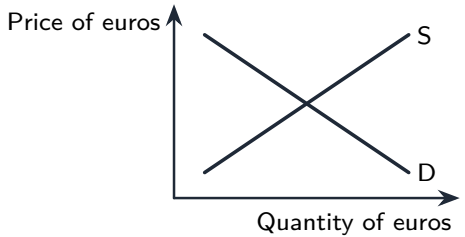
Exercise 3.2

3.2 *(Original.)* In the exchange model demand meets supply at 5 domestic per foreign currency. Import demand grows. Explain, with the diagram, the effect on the exchange rate and on the current account. [4]



Exercise 3.2

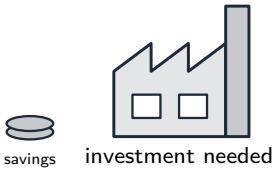
3.2 *(Original.)* In the exchange model demand meets supply at 5 domestic per foreign currency. Import demand grows. Explain, with the diagram, the effect on the exchange rate and on the current account. [4]



3.2 Import demand shifts the demand curve for foreign currency RIGHT, so the domestic price of it rises from 5 to 6.5: a depreciation. Import prices rise in domestic currency and export prices fall abroad, so import demand falls and export demand rises – the current account improves IF Marshall–Lerner holds; the J-curve records the short-run worsening while contract values adjust before volumes do.

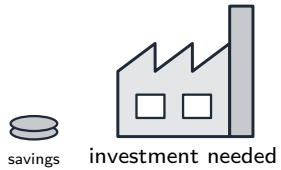
Exercise 3.3

3.3 *(Original, development.)* A low-income country's savings are too small to fund the investment its growth needs. Name the barrier, and evaluate one strategy that addresses it. [3]



Exercise 3.3

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3.3 The savings gap (Harrod–Domar): savings too small to fund the investment the growth rate needs. Strategy (any one, evaluated): aid or FDI fills the gap directly but may create dependency; microfinance raises household investment from tiny loans with high repayment but reaches only small-scale activity; raising domestic savings through income growth or financial deepening is sustainable but slow.

Local review guidance: both equilibria before revenue or DWL; the answer runs through OPPORTUNITY COST, not output; (R1 3.3) the strategy named with the barrier it targets AND one limit. This is authored classroom guidance.