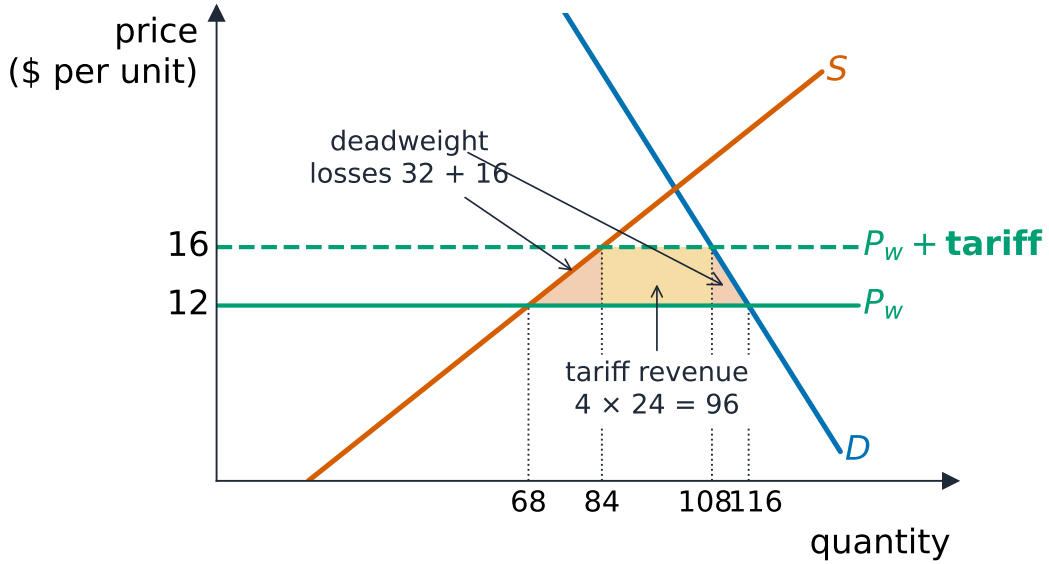
Exercise walk-through

6.3
Economic integration

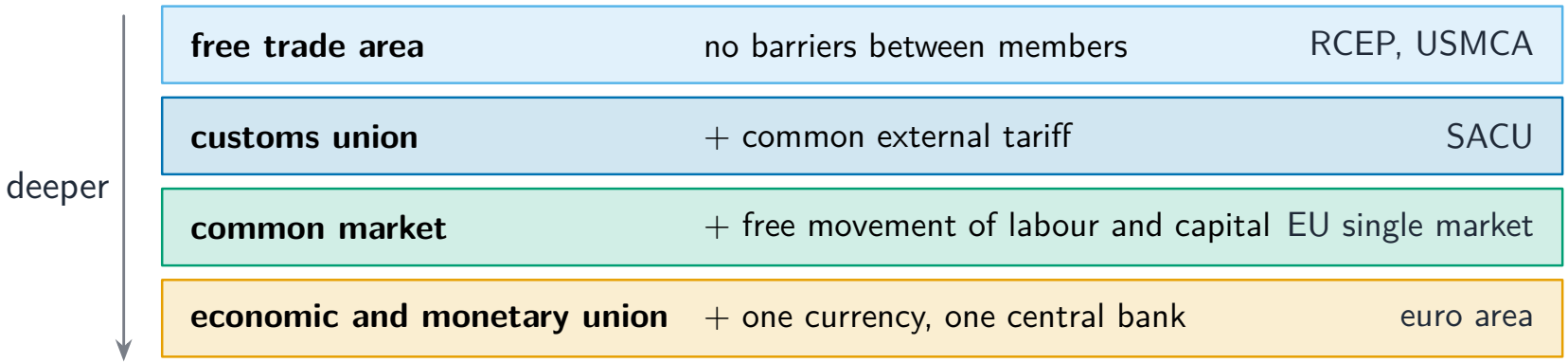
International Baccalaureate · IB Diploma · Economics · HL

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: Economic integration



- Each stage adds to the last
- Match each part of the diagram to the text.

Economic development

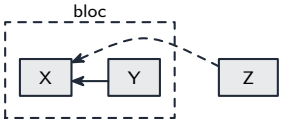
- The **poverty trap** : people with low incomes cannot save, so there is little money for investment, so productivity and incomes stay low.
- **Economic barriers**: high inequality; poor infrastructure (roads, power, internet); little access to credit and markets; a large informal economy that pays 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 Distinguish between a free trade area and a customs union. [2]



2.2 Define **trade diversion**. [2]



Exercises 2.1·2.2

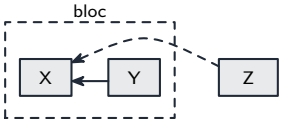
2.1 Distinguish between a free trade area and a customs union. [2]



2.1

free trade area: members remove tariffs between themselves but each sets its own tariffs on non-members; customs union: members also set a common external tariff on non-members

2.2 Define **trade diversion**. [2]



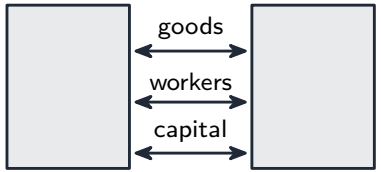
2.2

when joining a trading bloc causes imports to switch from a lower-cost producer outside the bloc; to a higher-cost producer inside the bloc, because of the common external tariff

exercises.lol exercises.com.cn

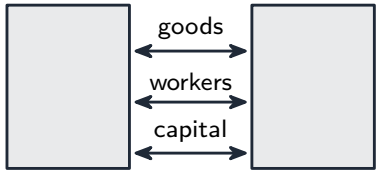
Exercise 2.3

2.3 Explain **two** benefits for firms of joining a common market. [4]



Exercise 2.3

2.3 Explain **two** benefits for firms of joining a common market. [4]



2.3

any two, explained: access to a much larger market without tariffs, so sales and economies of scale rise; free movement of labour lets firms hire skilled workers from other members; free movement of capital makes it easier to invest and raise funds across borders; common rules lower the cost of selling in many countries

Exercise 2.4

2.4 Before joining a customs union, country X imported TVs from country Z (outside) at \$200 plus a 10% tariff. After joining, X faces a 30% common external tariff on Z, and buys from member Y at \$240 with no tariff. Explain whether this is trade creation or trade diversion. [3]

	before	after
from Z	\$220	\$260
from Y	—	\$240

Exercise 2.4

2.4 Before joining a customs union, country X imported TVs from country Z (outside) at \$200 plus a 10% tariff. After joining, X faces a 30% common external tariff on Z, and buys from member Y at \$240 with no tariff. Explain whether this is trade creation or trade diversion. [3]

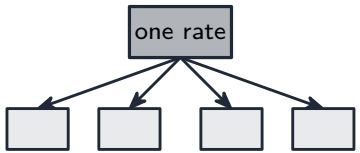
	before	after
from Z	\$220	\$260
from Y	—	\$240

2.4

before: Z's TV cost \$220 in X; after: \$260 from Z vs \$240 from Y; X switches to Y, a higher-cost producer (\$240 > \$200 before tariffs); so it is trade diversion: less efficient, and consumers pay more than before

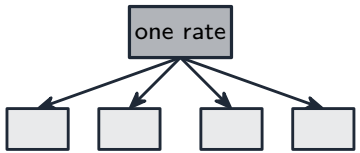
Exercise 2.5

2.5 Explain how a country that joins a monetary union loses **two** tools for dealing with a recession. [3]



Exercise 2.5

2.5 Explain how a country that joins a monetary union loses **two** tools for dealing with a recession. [3]



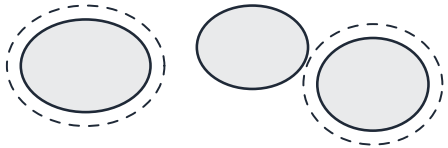
2.5

it can no longer set its own interest rate: the common central bank sets one rate for all members; it cannot let its currency depreciate to make exports cheaper; so it must rely on fiscal policy, which may be limited by debt rules

Exercise 3.1

3.1 Many countries belong to regional trading blocs.

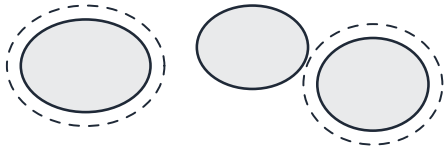
Explain why a country may benefit from joining a trading bloc, and why non-members may lose. [10]



Exercise 3.1

3.1 Many countries belong to regional trading blocs.

Explain why a country may benefit from joining a trading bloc, and why non-members may lose. [10]



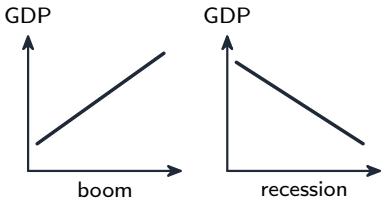
3.1

award up to [10]: larger market without tariffs: more exports and economies of scale; trade creation: buying from lower-cost partners instead of high-cost domestic firms, so prices fall and efficiency rises; more competition and foreign investment; stronger bargaining power in world trade talks; non-members: their exports to the bloc face the external tariff, so they lose sales; trade diversion moves purchases away from efficient non-member producers; developing countries outside blocs may find it harder to diversify; clear explanation with examples

Exercise 3.2

3.2 Some economists argue that the eurozone's single interest rate caused problems when member economies were in different situations.

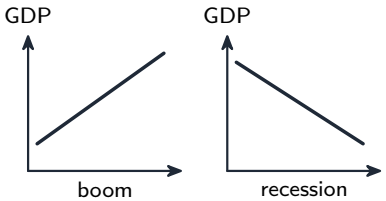
Evaluate monetary union for its members. [6]



Exercise 3.2

3.2 Some economists argue that the eurozone's single interest rate caused problems when member economies were in different situations.

Evaluate monetary union for its members. [6]



3.2

benefits: no exchange-rate costs or risks within the union, encouraging trade and investment; price transparency increases competition; costs: one interest rate cannot suit a boom and a recession at the same time; members lose the exchange rate to regain competitiveness, so adjustment comes through slow wage cuts and unemployment; fiscal rules may restrict spending in a recession; judgement: works best when economies are similar, labour is mobile, and there is shared fiscal support