6.1 The global economy

Name: _____ Class: _____ Date: _____ **Total: 24 marks**

KEY WORDS comparative advantage • terms of trade

The global economy

Objective

Apply comparative advantage, the protection arithmetic, exchange-rate determination with Marshall–Lerner, the terms of trade, and the development barriers and strategies (syllabus 4.1–4.10).

1 Key knowledge and worked examples

Global toolkit. Comparative advantage = lowest opportunity cost (A: 4 wheat or 2 cloth; B: 1 or 1; trade between 1 and 2 wheat per cloth). Tariff on the shared model: world price 12 → imports 48; tariff 4 → price 16, imports 24, revenue 96, DWL 48. Exchange model: D meets S at 5; import-demand growth → 6.5 = depreciation (Marshall–Lerner for the current account). ToT = export ÷ import index × 100: 128.9/117.1 = 110.1. Development: HDI's three components; savings gap, poverty trap; liberalisation, FDI, aid, microfinance, human capital.

2 Practice

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]

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

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

2.4 State the Marshall–Lerner condition. [2]

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

3 Exam-style questions

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]

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]

3.3 *(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]