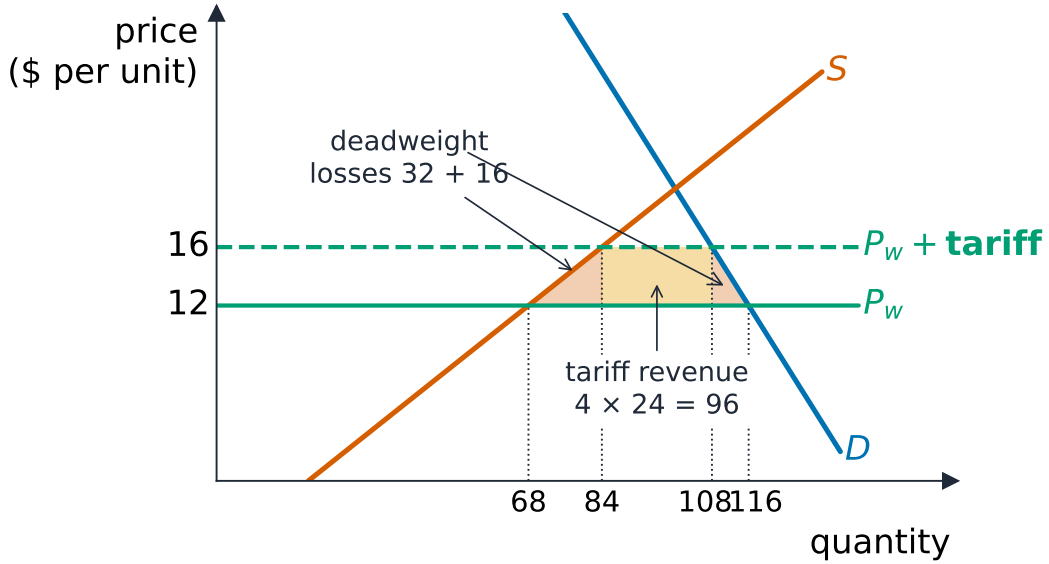
Exercise walk-through

5.1
Global economy and policy synthesis: supported rehearsal

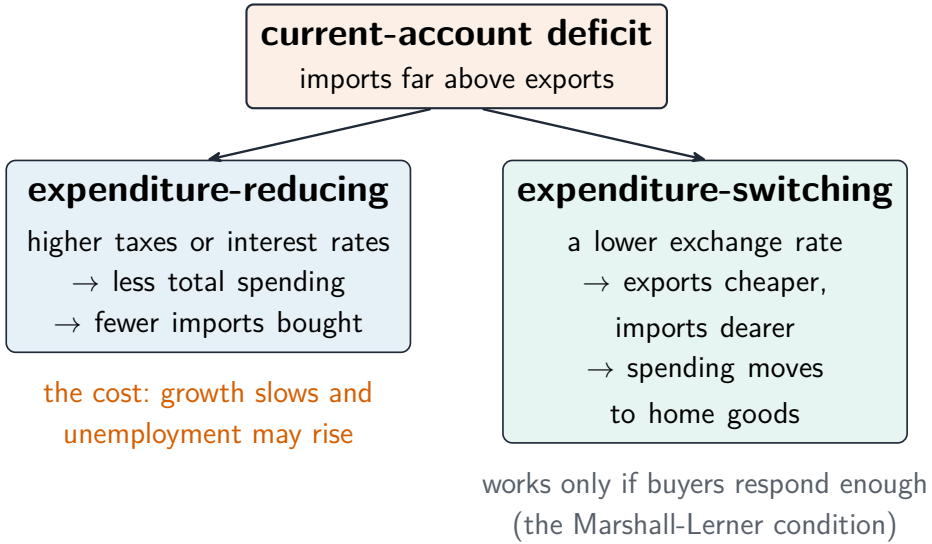
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Figure: Trade protection



- 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



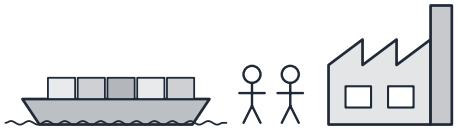
- Two routes out of a deficit: spend less overall, or switch spending to home goods
- Match each part of the diagram to the text.

Economic development

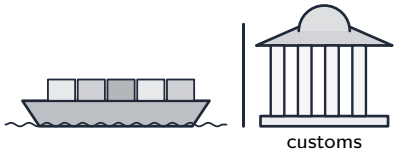
- The **poverty trap** : people with low incomes cannot save, so there is little money for investment, so productivity and incomes stay low.
- **Economic barriers**: high inequality; poor infrastructure (roads, power, internet); little access to credit and markets; a large informal economy that pays 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 Explain any two gains from free trade, one for consumers and one for firms. [4]

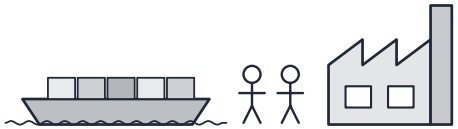


2.2 Name any three types of trade protection. [2]



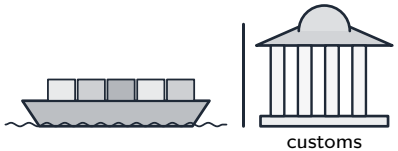
Exercises 2.1·2.2

2.1 Explain any two gains from free trade, one for consumers and one for firms. [4]



2.1 Consumers: lower prices and greater choice, because specialisation and competition cheapen imports and widen variety (2). Firms: larger markets give economies of scale and access to cheaper inputs – or more competition forces efficiency and innovation (2).

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



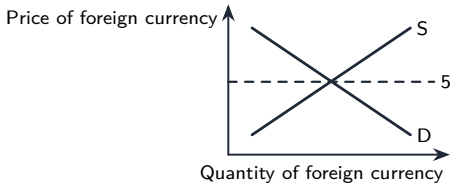
2.2 Any three of: tariffs (taxes on imports); quotas (quantity limits); subsidies to domestic producers; administrative/technical barriers (safety standards, licensing delays).

Exercises 2.3·2.4

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



2.4 Define the exchange rate. In the model the rate moves from 5 to 6.5 domestic per foreign currency: name the change and state one effect on import prices. [2]



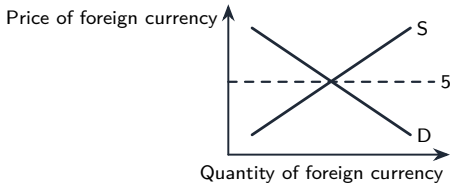
Exercises 2.3·2.4

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



2.3 Free-trade area → customs union (common external tariff) → common market (free movement of factors) → economic and monetary union (single currency).

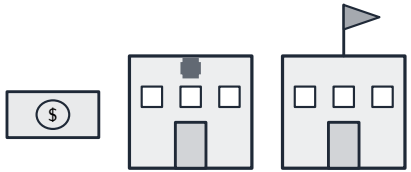
2.4 Define the exchange rate. In the model the rate moves from 5 to 6.5 domestic per foreign currency: name the change and state one effect on import prices. [2]



2.4 The price of one currency expressed in another (1). The rise from 5 to 6.5 is a DEPRECIATION of the domestic currency, so imports become more expensive in domestic currency (1).

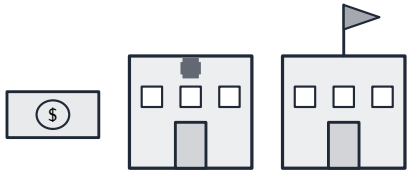
Exercise 2.5

2.5 Name the three components of the Human Development Index and one measure that complements it. [3]



Exercise 2.5

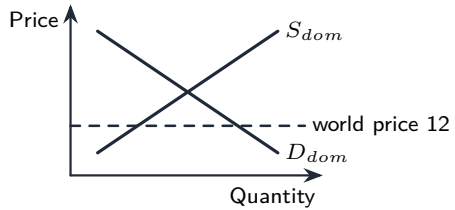
2.5 Name the three components of the Human Development Index and one measure that complements it. [3]



2.5 A long and healthy life (life expectancy), education (schooling years), and a decent standard of living (income per head) (3 – or 2 with the complement: any one of health, education or gender measures, e.g. literacy rates or gender-development index) (1).

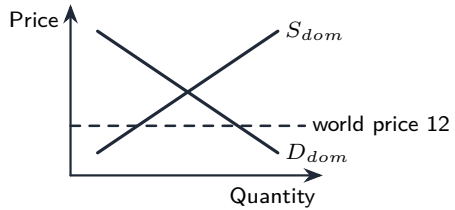
Exercise 3.1

3.1 *(Original, Paper 2 style.)* On the diagram the world price is 12, at which imports are 48; a tariff of 4 raises the domestic price to 16 and imports fall to 24. Using a labelled diagram, explain the effects of the tariff on consumers, domestic producers, the government and overall welfare. [5]



Exercise 3.1

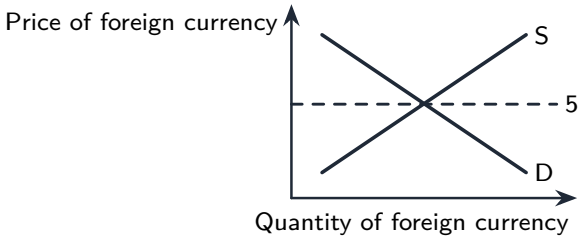
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3.1 Diagram: domestic price rises from the world price 12 to 16; quantity demanded falls, domestic supply rises, imports shrink from 48 to 24 (1). Consumers lose: higher price and lower consumption, lost consumer surplus (1). Domestic producers gain: higher price and output, gained producer surplus (1). Government gains the revenue rectangle: the tariff (4) times the imports that remain (24) (1). Overall welfare falls: the two welfare-loss triangles – inefficient domestic production and forgone consumption – exceed no one's gain (1).

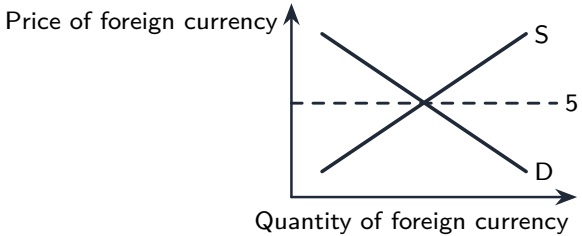
Exercise 3.2

3.2 *(Original.)* Growing import demand shifts the demand for foreign currency right, moving the exchange rate from 5 to 6.5. Explain the effect of the depreciation on exports and imports, and evaluate one drawback for the economy. [4]



Exercise 3.2

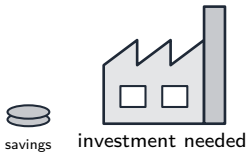
3.2 *(Original.)* Growing import demand shifts the demand for foreign currency right, moving the exchange rate from 5 to 6.5. Explain the effect of the depreciation on exports and imports, and evaluate one drawback for the economy. [4]



3.2 The depreciation makes imports dearer and exports cheaper abroad, so import quantity falls and export quantity rises – net exports improve and AD rises (2). Drawback: imported inputs and fuel cost more, so cost-push inflation erodes the gain (1); if exports and imports are demand-inelastic in the short run, the current account worsens before it improves (1).

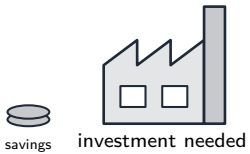
Exercise 3.3

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 barrier is the SAVINGS GAP – domestic saving too small to fund the investment needed for growth (1). Strategy: foreign aid or FDI fills the gap directly – evaluated: aid brings funds without repayment (concessional) but risks dependency and governance distortions; FDI adds capital and technology but repatriates profit and may dictate policy (1); the durable route is growing domestic saving through financial development, which the strategy should build toward (1).

Local review guidance: the tariff diagram labelled with all four areas – at SL the diagram carries the marks; (R1 3.2/3.3) each evaluation reaches a named drawback or judgement, not a list; name the direction of the rate change before its effects. This is authored classroom guidance.