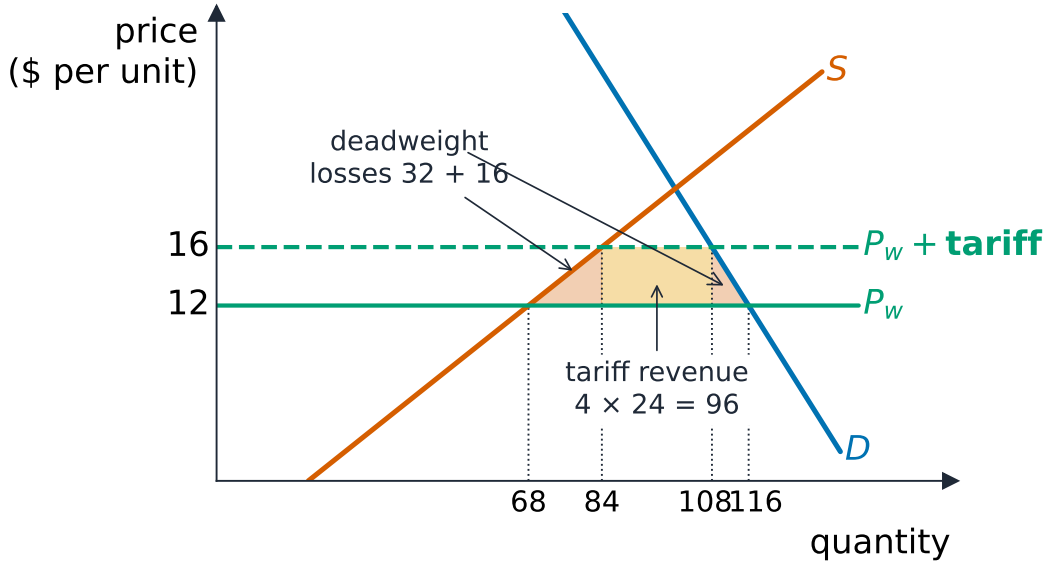
Exercise walk-through

5.3
Economic integration

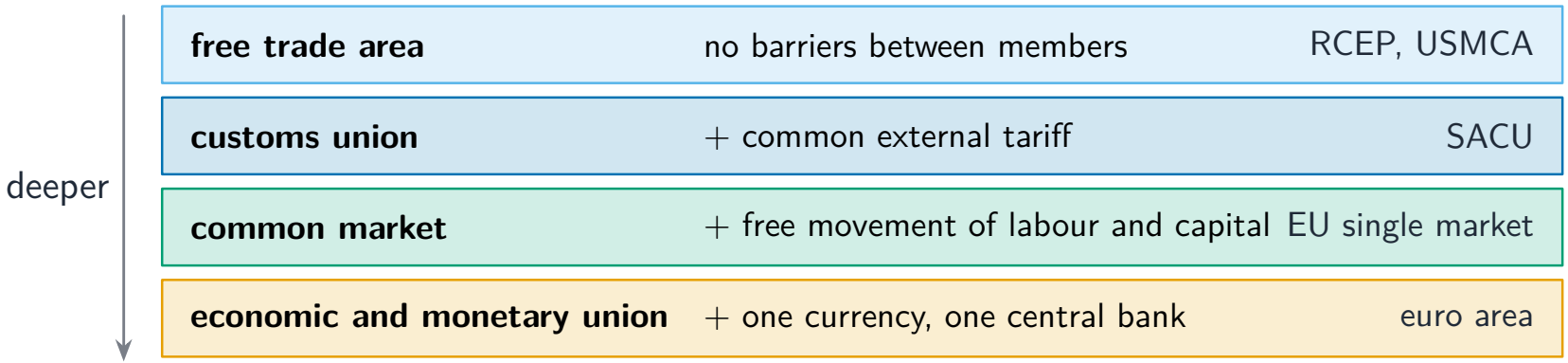
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Figure: Trade protection



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

Figure: Economic integration



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

Economic development

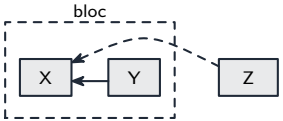
- The **poverty trap** : people with low incomes cannot save, so there is little money for investment, so productivity and incomes stay low.
- **Economic barriers**: high inequality; poor infrastructure (roads, power, internet); little access to credit and markets; a large informal economy that pays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

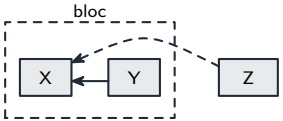
2.1 Distinguish between a free trade area and a customs union. [2]



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]



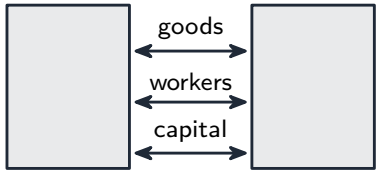
2.2

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

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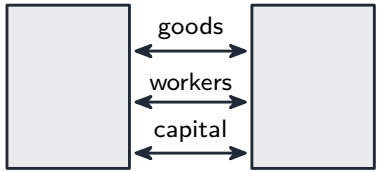
Exercise 2.3

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



Exercise 2.3

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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

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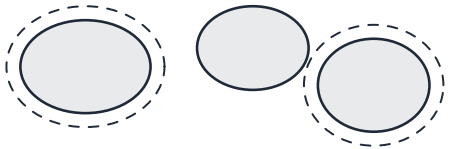
2.4

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 3.1

3.1 Many countries belong to regional trading blocs.

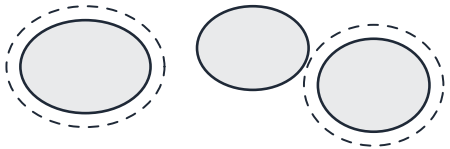
Explain why a country may benefit from joining a trading bloc, and why non-members may lose. [10]



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