5.1 The global economy

Name: _____ Class: _____ Date: _____ **Total: 25 marks**

KEY WORDS free trade • sustainable development

The global economy

Objective

Explain the gains from free trade and the protection debate, read the tariff and exchange-rate diagrams, outline the balance of payments, and evaluate development measures, barriers and strategies (syllabus 4.1–4.10, SL).

1 Key knowledge and worked examples

Global toolkit. Free trade gains: competition, lower prices, choice, scale, resource access, growth. Tariff on the shared diagram: world price 12 → imports 48; tariff 4 → price 16, imports 24, domestic output up, a revenue rectangle and two welfare-loss triangles. Exchange model: demand meets supply at 5 domestic per foreign currency; import-demand growth → 6.5 = a depreciation. Integration: FTA → customs union → common market → economic and monetary union. Development: HDI's three components; savings gap and poverty trap among the barriers; liberalisation, FDI, aid, microfinance, human capital among the strategies.

2 Practice

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]

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]

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

3 Exam-style questions

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]

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]

3.3 *(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]