

The global economy

IB DP Economics SL Unit 4 sections 4.1-4.10 full package

1. Unit 4 at a glance

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IB Economics SL Unit 4.1-4.10: why nations trade and how they protect, economic integration, exchange rates, the balance of payments, and economic development - its measures, barriers and strategies. The models are read as diagrams; the tariff arithmetic, comparative advantage, Marshall-Lerner and the terms of trade are HL.

Must-know: free trade gains - competition, lower prices, choice, scale, resource access, growth; the tariff diagram with imports 48 falling to 24; the exchange rate 5 to 6.5 as a depreciation; $HDI = \text{health} + \text{education} + \text{income}$.

2. Trade, protection and integration

Trade, protection and integration

Free trade lets each country specialise in what it produces most cheaply: competition, lower prices, variety, scale, resource access, growth (the comparative-advantage theory is HL).

Protection: a tariff lifting the world price 12 to 16 cuts imports 48 to 24, raises domestic output, and shows a revenue rectangle plus two welfare-loss triangles - the labelled diagram is the SL requirement. Quotas ration quantity; subsidies cost the taxpayer. Arguments: infant industry, jobs, anti-dumping - each with its free-trade counter.

Integration deepens stepwise: free trade area, customs union (common external tariff), common market (factor mobility), economic and monetary union. Trade creation versus diversion is the evaluative edge; the WTO is the multilateral route.

3. Exchange rates and the balance of payments

Exchange rates and the balance of payments

A floating rate is the price of foreign currency: rising import demand shifts the demand curve right, so 5 becomes 6.5 - a depreciation. Imports dearer, exports cheaper abroad, so net exports tend to improve while import-cost inflation rises; the elasticity conditions are HL. Fixed regimes hold the rate with reserves and interest rates (revaluation, devaluation).

The balance of payments: current account (goods, services, income, transfers) plus capital and financial accounts, summing to zero. A persistent deficit is financed by borrowing or asset sales and corrected by expenditure-switching (depreciation, protection) or expenditure-reducing (deflation) policies - supply-side competitiveness is the long-run answer.

4. Development: measures, barriers, strategies

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Sustainable development meets present needs without compromising future ones; growth is necessary but not sufficient. Measures: GDP per head at PPP, the HDI (health, schooling, income), health, education and gender complements - each hides distribution.

Barriers: the savings gap, the poverty trap, weak infrastructure and institutions, capital flight, primary-product dependence, debt. Strategies: market-based (liberalisation, FDI), interventionist (redistribution, public services, infrastructure), export promotion versus import substitution, aid and debt relief, microfinance. Evaluate each against the barrier it targets.

Check yourself

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Free trade and the SL gains list; the tariff diagram with imports 48 to 24 and its labelled areas; the protection arguments both ways.

Four stages of integration with creation versus diversion; the exchange-rate diagram 5 to 6.5 as a depreciation; fixed versus floating.

The balance-of-payments accounts summing to zero; financing and the two correction routes for a persistent deficit.

HDI and the complements; the savings gap and poverty trap among the barriers; one strategy per barrier, evaluated.