

Exercise walk-through

6.2

Globalisation and trade restrictions

IGCSE Economics

Exchange rates

Appreciation (a stronger currency) makes exports **dearer** & imports **cheaper**.
Depreciation does the reverse.

Appreciation

(currency rises in value)

exports dearer,
imports cheaper →
exports fall, imports rise

Depreciation

(currency falls in value)

exports cheaper,
imports dearer →
exports rise, imports fall

Exam: appreciation hurts export competitiveness; depreciation can boost net exports (SPICED)

Balance of payments

The **balance of payments** records money in & out.

- exports $>$ imports – a **surplus**
- imports $>$ exports – a **deficit**

exports (money in) $>$ imports (money out)
= a surplus

imports $>$ exports = a deficit

The four parts of the current account, and free trade's cost

trade in goods

visible exports minus visible imports

trade in services

exports and imports of services – tourism, banking, shipping

primary income

wages, interest and profit **earned from abroad**

secondary income

money sent **with nothing given in return** – aid, and remittances

a surplus

the total is positive; a deficit means the country buys more from abroad than it sells

free trade's cost

new, small industries may never grow if they face strong foreign rivals from the start – the infant-industry argument

A deficit is not automatically bad. It matters how it is financed and whether the imports build future capacity – which is what an evaluation question wants.

Correcting a deficit

A country with a large deficit must borrow money or sell assets to pay for it.

- cut total demand, so people buy fewer imports.
- let the currency depreciate, to make exports cheaper and imports dearer.
- use trade protection (tariffs and quotas) to cut imports.
- use supply-side policy to improve the **competitiveness** of its firms, so exports rise.

Exam tips

- To convert currency: pounds $\rightarrow$ dollars, *multiply* by the rate; dollars $\rightarrow$ pounds, *divide* by the rate.
- When a currency **appreciates**, its exports become dearer and its imports cheaper (so exports fall, imports rise); a **depreciation** does the opposite.
- **Trade protection** (tariffs, quotas, subsidies, embargoes) can protect jobs and infant industries, but it raises prices, cuts choice, and can start a trade war.
- A **current account deficit** means more money flows out than in. It can be reduced by cutting demand, letting the currency depreciate, or improving competitiveness.

Exercises 2.1-2.3

2.1 Define the term *tariff*.

[2]

2.2 State the difference between a *tariff* and a *quota*.

[2]

2.3 Define the term *multinational company (MNC)*.

[2]

Exercises 2.1-2.3

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2.1

- a **tariff** is a **tax on imports**, which makes them dearer (K)
-

2.2 State the difference between a *tariff* and a *quota*. [2]

2.2

- a **tariff** is a tax that raises the price of imports; a **quota** is a **limit on the amount** of a good that can be imported (K)
-

2.3 Define the term *multinational company (MNC)*. [2]

2.3

- a **multinational company (MNC)** is a firm that produces in **more than one country** (K)

Exercises 3.1-3.2

3.1 A **quota** is best described as:

[1]

☐

A a tax on imports

B a limit on the amount of a good that can be imported

C a payment to domestic firms

D a total ban on trade

3.2 Explain two reasons why a government might use trade protection.

[4]

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3.1 B

- a **quota** is a **limit on the amount** of a good that can be imported (K)
- A is a tariff; C is a subsidy; D is an embargo

3.2 Explain two reasons why a government might use trade protection.

[4]

3.2

- for **each** of two reasons: K + An
- e.g. **protect jobs / an infant industry**: barriers keep out cheaper imports → home firms survive while a new industry grows
- e.g. **stop dumping**: a tariff raises the price of goods sold below cost → it protects local firms from being destroyed

Exercise 3.3

3.3 Discuss whether a country should protect its industries from foreign competition. [8]

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3.3

- **for:** it protects jobs and infant industries, prevents dumping, and raises tariff revenue ($K + A_n$)
- **against:** prices rise and choice falls; protected firms stay weak; other countries may **retaliate** (A_n)
- **judgement (Ev):** limited, temporary protection of a genuine infant industry can be justified, but **broad long-term** protection usually lowers living standards