**INTERNATIONAL ECONOMICS Why do Countries Trade?**

**What are the benefits of trade?**



**Free Trade and Protectionism**

**Define protectionism:**

**Why do countries engage in protectionism?**



**What is a tariff?**

**In the space below, draw a diagram of how a tariff works and explain it:**

On your diagram, make sure you illustrate and explain the following:

- economic rent

- deadweight loss

- revenue to taxpayer

- extra revenue gained by domestic producers

**What is a subsidy?**

**In the space below, illustrate and explain the imposition of a subsidy on a product.**

On your diagram, make sure you illustrate and explain the following:

- deadweight loss

- cost of subsidy for government

- extra revenue for domestic producers

- how revenue for foreign companies has fallen

**What is a quota/’voluntary export restraint’?**

**In the space below, illustrate and explain the imposition of a quota on a product.**

On your diagram, make sure you illustrate and explain the following:

- deadweight loss

- economic rent

- revenue for foreign companies allowed to export as part of agreement

- extra revenue for domestic producers

**What is the World Trade Organization?**

**What are its aims?**

**What does the phrase ‘dumping’ mean?**

**In the table below, consider some of the arguments regarding the**

**WTO’s achievements?**

**‘The WTO is a great success’: ‘The WTO is a dismal failure’:**



**Economic Integration:**

What is ‘globalization’?

What are multinational corporations (MNC’s)? Suggest some examples.

Define a trading bloc:

Trading blocs can vary depending on the level of integration involved. Complete the table below with a short summary of each type of trading bloc and examples:

|  |  |  |
| --- | --- | --- |
| **Type of trading bloc:** | **Explanation:** | **Examples:** |
| Preferential trading area |  |  |
| Free trade area |  |  |
| Customs union |  |  |
| Common market |  |  |
| Economic and monetary union |  |  |

**Exchange Rates**

Explain the concept of a **fixed exchange rate:**

Explain the concept of a **floating exchange rate:** Explain the concept of a **managed exchange rate:** What factors could affect the **demand** for a currency?: What factors could affect the **supply** of a currency?: **Complete the table below with relevant points:**

|  |  |
| --- | --- |
| Advantages of a high exchange rate: | Disadvantages of a high exchange rate: |
| Advantages of a low exchange rate: | Disadvantages of a low exchange rate: |

**How can the government intervene in currency markets?**

**Balance of Payments**

The **current account** is made up of:

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-

-

The **capital account** includes:

What are the consequences of a current account deficit?



What are the consequences of a surplus on the current or capital account?



**Governments can correct a persistent current account deficit by:**

1. Expenditure-switching policies:

2. Expenditure-reducing policies: