

Trade and the Global Economy — Worksheet

Specialisation and comparative advantage · patterns and volume of world trade · the terms of trade · trade liberalisation and trading blocs · restrictions on free trade

Name: _____

Class: _____

Date: _____

DEFINE trade creation · **CALCULATE** opportunity cost and the terms of trade · **CLASSIFY** a restriction on free trade as a tariff, a quota, a non-tariff barrier or a subsidy to domestic producers · **ANALYSE** why a trade deal between two countries may conflict with the WTO · **EXAMINE** how the balance of trade responds when the terms of trade change · **DISCUSS** whether a government should put a tariff on imports · **EVALUATE** the costs and benefits of joining a customs union

Sitting 1 — Topic practice

30 marks

MULTIPLE CHOICE

Task 1 — Six questions on trade and the global economy

6 marks

Choose one answer for each question.

1. A country can produce more of every good than its trading partner, using the same resources. Which of the following is correct?

- A It has an absolute advantage in every good, so trade gains it nothing
- B It has a comparative advantage in every good, so it should make everything
- C It gains from trade wherever the two countries' opportunity costs differ
- D It gains from trade only where the partner subsidises its own exports

Answer:

2. Over ten years a country's exports rise from \$10bn to \$20bn, and the share of them sold to China rises from 10% to 30%. What has changed?

- A Only the volume of its trade
- B Only the pattern of its trade
- C Both the volume and the pattern of its trade
- D Neither, because it still sells the same goods

Answer:

3. A country's export price index and import price index are both 100. Its currency then appreciates, so imports cost 10% less in the home currency. Its exporters keep their prices the same. Which shows the new indices and terms of trade?

- A Export index 110, import index 90, terms of trade 122.2
- B Export index 100, import index 90, terms of trade 90.0
- C Export index 100, import index 110, terms of trade 90.9
- D Export index 100, import index 90, terms of trade 111.1

Answer:

4. A country removes its tariff on imported medicines, then makes imported medicines wait six months for approval while local ones wait one month. Which WTO rule does this break?
- A The bound rate
 - B Dispute settlement
 - C Most-favoured nation
 - D National treatment

Answer:

5. Which policy does a country lose when it joins a customs union, but keep in a free-trade area?
- A Its own external trade policy
 - B Its own national currency and exchange rate
 - C Its own interest rate and monetary policy
 - D Its own rates of income tax and corporation tax

Answer:

6. A foreign paper mill sells paper in your country at \$540 a tonne. The paper costs the mill \$500 a tonne to make. In its home market, the mill charges \$650 a tonne. Local mills charge \$600 a tonne. Is this dumping?
- A No, because the price still covers the mill's cost of production
 - B Yes, because it sells abroad for less than it charges at home
 - C Yes, because its price is \$60 a tonne below the price of local mills
 - D No, because a mill with lower costs is simply more efficient

Answer:

DEFINE Task 2 — The meaning of trade creation

2 marks

Define the term trade creation.

trade creation

How is trade creation different from trade diversion? (practice, not marked)

EXPLAIN Task 3 — A country that relies on coffee

4 marks

Coffee earns 70% of the export revenue of Pomaro, a small country. Pomaro imports most of its food and fuel.

Explain one likely cost to Pomaro of specialising in coffee.

Name the cost first, then show its effect on Pomaro.

CLASSIFY**Task 4 — Ways the government of Lumeo limits imports****8 marks**

The government of Lumeo uses several policies to help its own producers against foreign firms.

Classify each policy as one type of restriction from the key.

Key: Tariff · Quota · Non-tariff barrier · Subsidy to domestic producers

#	The policy	Type
1	Every imported car pays a tax of 15% of its price when it enters Lumeo	
2	No more than 20,000 tonnes of rice may be brought into Lumeo each year	
3	Imported cheese must pass a safety test that takes six months, while local cheese is tested in one week	
4	The government pays local shoemakers \$3 for every pair of shoes they make	
5	Firms that import steel pay \$50 to the government for every tonne they bring in	
6	Foreign firms may sell no more than \$10 million of phones in Lumeo each year	
7	The government buys all computers for its schools from local firms, even when imported computers are cheaper	
8	Local fishing firms receive money from the government for each tonne of fish they catch	

CALCULATE**Task 5 — Opportunity cost in Delan and Ostra****4 marks**

Delan and Ostra both grow maize and tea. If Delan uses all its resources, it can grow 120 tonnes of maize or 48 tonnes of tea. If Ostra uses all its resources, it can grow 45 tonnes of maize or 30 tonnes of tea.

Calculate the opportunity cost of one tonne of tea in Delan and in Ostra, to one decimal place.

Delan: the opportunity cost of one tonne of tea

Workings

Answer:

Ostra: the opportunity cost of one tonne of tea

Workings

Answer:

Write the formula first, then use the numbers for each country.

ANALYSE

Task 6 — A trade deal between two WTO members

6 marks

Rendo and Sabal are both members of the WTO. They agree a deal that ends the tariffs on cars and rice traded between them, but on no other goods. Tavia, another WTO member, still pays a 10% tariff on the cars and rice it sells to Rendo and Sabal.

Analyse why this trade deal may conflict with the rules of the WTO.

Knowledge — explain the WTO rules that apply to this deal (2)

Application — use the facts about the goods and the tariffs in the deal (2)

Analysis — your chain of reasoning (2)

Sitting 2 — Mock section

54 marks

Source: Velta

- 1 Velta is a small country. Copper earns 60% of its export revenue. Velta imports most of its fuel and machinery, and much of its clothing.
- 2 Figure 1 shows Velta's trade from 2023 to 2025. In these years, world demand for copper fell, and the world price of copper fell with it. Over the same years, the world price of fuel rose.
- 3 In 2024, Velta signed a bilateral trade agreement with its neighbour, Orvia. The agreement removed the tariffs on trade between the two countries. The share of Velta's exports sold to Orvia rose from 10% in 2023 to 25% in 2025.
- 4 Velta's clothing factories employ 30,000 workers, and many of them earn low wages. Each year Velta buys more of its clothing from emerging economies, where wages are lower than in Velta. Some

factories in Velta have closed because the imported clothing is cheaper. The government plans a 20% tariff on clothing from emerging economies. It says that the tariff will protect jobs, raise revenue and reduce the trade deficit. Poorer families in Velta spend a large share of their income on food and clothing.

Figure 1: Velta, exports and imports, 2023 to 2025

Year	Export price index (2023 = 100)	Import price index (2023 = 100)	Exports (\$bn)	Imports (\$bn)
2023	100	100	24.0	22.0
2024	96	104	22.5	23.5
2025	90	112	21.0	25.0

CALCULATE

Task 7 — The terms of trade in 2025

2 marks

Using Figure 1, calculate Velta's terms of trade in 2025, to one decimal place.

Workings

Answer:

EXPLAIN

Task 8 — Prices of exports and imports in Velta

4 marks

With reference to the source, explain one reason why Velta's terms of trade deteriorated between 2023 and 2025.

EXAMINE

Task 9 — The terms of trade and the balance of trade

8 marks

With reference to the source, examine the likely effects on Velta's balance of trade of the change in its terms of trade.

Knowledge — two economic ideas that link the terms of trade to the balance of trade (2)

Application — use two numbers from Figure 1 (2)

Analysis — one chain from the change in prices to the balance of trade (2)

Evaluation — say what the effect depends on (2)

ANALYSE Task 10 — The changing pattern of trade

6 marks

With reference to the source, analyse why the pattern of Velta's trade has changed since 2023.

Knowledge — define the pattern of trade, and explain what can change it (2)

Application — use two facts or numbers from the source (2)

Analysis — your chain of reasoning (2)

DISCUSS Task 11 — A tariff on imported clothing

14 marks

With reference to the source, discuss whether Velta's government should put a 20% tariff on clothing from emerging economies.

Knowledge — one economic idea for the tariff and one against (2)

Application — use one fact from the source for the tariff and one against (2)

Analysis — two chains, one for the tariff and one against (4)

Evaluation — weigh the two chains, say what your answer depends on, and judge whether Velta should use the tariff (6)

EVALUATE Task 12 — Joining a customs union

20 marks

More countries are joining trading blocs. A small country is deciding whether to join a customs union with its larger neighbours.

Evaluate the likely costs and benefits for a small country of joining a customs union.

Knowledge — define a customs union, and name one benefit and one cost of joining (3)

Application — from your own knowledge, give one product for the benefit and one for the cost, and say how each affects the country (3)

Analysis — one chain for the benefit and one for the cost (6)

Evaluation — weigh the benefit against the cost, explain what the result depends on, and judge (8)

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are approximately 20 lines visible. The paper has a slight shadow on the right side, suggesting it's resting on a surface.

EVALUATE **Task 13 – Your judgement in one sentence** *Not marked. One sentence: your judgement on Task 12.*

Write the one sentence that answers Task 12's question.



This sheet and its answers online: revvylearn.com/w/e4-trade-global-economy

Answers and mark scheme: [revvylearn.com/w/e4-trade-global-economy/answers](https://www.revvylearn.com/w/e4-trade-global-economy/answers)

Marks and levels follow the IAL Economics paper; mark your work against the answers page - this is not Edexcel's marking.

Revision f059fe2e