IB Economics International Economics: Terms of Trade

Exam Practice Questions: 3.9 – Terms of Trade

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3.9 TERMS OF TRADE: EXAM PRACTICE QUESTIONS

Answer the questions that follow.

1. IB ECONOMICS HL PAPER 3 EXAMINATION QUESTIONS

Question One **[25 marks]**

Table 1: Terms of trade: 1990 = 100

	Developed countries	Non-oil exporting developing countries	Oil-exporting countries
1973	110	126	21
1975	108	122	29
1977	97	119	70
1979	96	112	87
1981	87	109	119

The table above presents the terms of trade indexes for three groups of countries during a period of global oil shocks that causes world oil prices to surge.

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a. State the equation used to calculate the terms of trade indexes above. **[2 marks]**

b. Outline the meaning of the heading above: '1990 = 100'. **[2 marks]**

c. Calculate the 1973-1981 terms of trade percentage change for each of:

i. Developed countries
ii. Non-oil exporting developing countries
iii. Oil-exporting countries **[3 marks]**

d. Identify those groups of countries experiencing an improvement in their terms of trade and those experiencing a deterioration in the table above. **[3 marks]**

e. Some countries specialise in the export of oil. Suggest a factor that could account for the different changes in the terms of trade observed in the table above. **[4 marks]**

f. With reference to information in the table above, explain how changes in the terms of trade in the long term may result in a global redistribution of income. **[4 marks]**

g. Use a diagram to show how supply in the world oil market affected the equilibrium price and quantity of oil. **[2 marks]**

h. For oil exporting nations, the large improvement in their terms of trade during the oil shock period led to large current account surpluses. Use the concept of exports price elasticity of demand and your answer to (g) above, to explain how this occurred. **[5 marks]**