Cambridge OL

Econ

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Chapter 06

International trade and globalization

Chapter 36

International specialization

36.1 Specialisation of countries at a national level

Countries focus on producing high-demand products based on their resources. Countries with abundant resources, such as fertile land, good irrigation, and skilled labor, may produce rice at low costs. Conversely, countries with limited resources, like Hong Kong, may focus on tourism or financial services.

36.2 Advantages and disadvantages of specialisation at a national level

The advantages and disadvantages for consumers

Specialisation in producing goods and services leads to higher output, higher living standards, and improved quality. It also reduces production costs, benefiting consumers. However, there is a risk of one country controlling the global market, potentially restricting supply and increasing prices. Foreign specialists may not follow the same health and safety standards as home countries, and potential natural disasters may cause product availability.

The advantages and disadvantages for firms

Specialisation allows firms to produce products on a large scale, benefiting from economies of scale and purchasing raw materials from specialist firms. International trade facilitates the exchange of management ideas, products, and technology. However, firms may be adversely affected by events in other countries, such as import taxes or raw material restrictions, and may experience a fall in demand or a substitute product.

The advantages and disadvantages for the economy

Specialisation, when combined with international trade, allows an economy to consume beyond its production possibility curve. For instance, a country could produce 500 cars and 200 tractors, but initially not specialize. By exporting tractors and importing cars at a ratio of one tractor for four cars, the economy's consumption of tractors and cars increases by 30 to 130.

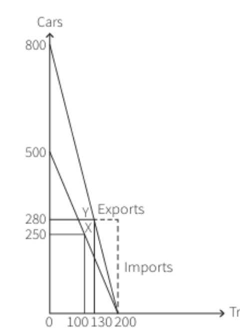


Fig. 36.2: Trading possibility curve for tractors and cars

Specialisation in an economy can raise living standards and reduce poverty by focusing on quality and quantity of resources. This ensures resources are not idle, reducing labor unemployment and keeping inflation low. Specialisation also allows economies to build a reputation in producing a particular product, attracting more sales and ancillary industries. However, determining the best production methods and future demand can be challenging. Concentrating on a few products can lead to difficulties, structural unemployment, and increased transport costs. Importing economies may be more efficient in producing heavy goods due to high transport costs.

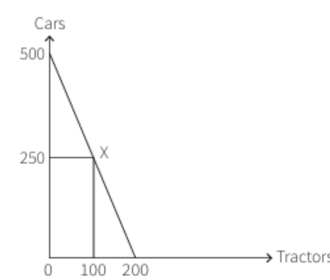


Fig. 36.1: Production possibility curve for tractors and cars before international trade

Absolute advantage

International trade is not solely based on absolute advantage, as countries can produce products using fewer resources. Kenya and Hungary have absolute advantages in horticultural and machinery production, respectively.

	Horticultural products (number of plants)	Machines
Kenya	200	1
Hungary	100	5

Table 36.1: Output per worker per day

Kenya and Hungary can increase their total output by focusing on horticultural products and machinery, thereby improving international resource allocation by allowing for increased production and exports.

Comparative advantage

International trade is primarily based on comparative advantage, where a country can produce a product at a lower opportunity cost, allowing mutual benefit even if one country excels in all products.

	Cars	Chemicals (units)
Germany	4	400
Italy	1	200

Table 36.2: Output per worker per day

Germany has a comparative advantage in cars, as the opportunity cost of producing one car is lower in Germany than in Italy. Italy, on the other hand, has a comparative advantage in chemicals, so Germany should specialize in cars and Italy should concentrate on chemicals.

Changes in comparative advantage

Comparative advantage shifts over time, with countries like Brazil, China, and Malaysia gaining an advantage due to new resources, land fertility, technology adoption, or worker productivity improvements. For example, India has a comparative advantage in call center operations, while China is improving computer production.

The link between countries specialising and international trade

Producing a relatively narrow range of products will mean that countries will have to export some of their output. This is necessary for them to gain revenue for spending on imports of products that their citizens want to buy, but their countries are not producing.

KEY TERM

Tariff: a tax on imports.

The difference between international and internal trade

Trade involves the exchange of goods and services between countries, while internal trade is within a country. International trade allows firms to reach a wider market, take advantage of economies of scale, source products from a wider area, and earn higher profits. However, it may also present additional challenges, such as dealing with buyers and sellers speaking different languages, cultural differences, and trade restrictions. **Tariffs** on imports can raise prices and prevent consumers from buying, while foreign markets expose firms to more competition. Firms also have to deal with foreign currencies, such as the Indian textiles sold to a US store in dollars.

Chapter 37 - Free trade and protection

37.1 Globalisation

KEY TERM

Globalisation: the process by which the world is becoming increasingly interconnected through trade and other links.

Globalisation is the process by which the world is becoming one market. Among the reasons for the greater interconnection between countries are:

- Reduced transport costs. Containerisation and larger and more eff icient ships, airplanes and trains have lowered the cost of moving goods.

- Advances in communications. Consumers can now purchase products online from anywhere in the world and are more in touch with trends in other countries. Executives of multinational companies (MNCs) can also keep in close contact with managers of foreign branches.

- Removal of some trade restrictions. The general trend has been for tariff s and quotas to be reduced.

The consequences of globalisation

Globalisation increases competition and encourages firms to locate production in efficient locations, but also makes economies more susceptible to external shocks. Government policies may be constrained by globalisation, as multinational corporations may relocate, leading to structural unemployment and job loss. This highlights the importance of occupational mobility and the potential impact of globalisation on economies.

37.2 Role of multinational companies (MNCs)

A multinational company (MNC) is a business organization that produces in multiple countries, such as McDonalds, Lloyds Bank, Toyota, and Tata Group. Most MNCs are public limited companies, but an increasing number of state-owned enterprises (SOEs) are producing internationally. MNCs aim to reduce transport costs, maintain market contact, access cheaper labor and raw materials, and receive grants from host countries. They can increase employment, output, tax revenue, and infrastructure development, but may also be more prone to pollution and close down plants in foreign countries. MNCs can pressure governments to provide tax concessions and avoid penalties for poor safety standards. They may also drive domestic firms out of business, as profits may be paid to shareholders in their home countries instead of reinvested in the host country.

37.3 The benefits of free trade

Free international trade eliminates restrictions on products bought and sold by firms and consumers and does not impose special taxes. This allows countries to focus on their best production, promoting efficient resource allocation. This leads to higher world output, employment, and living standards. Free trade also allows firms to take advantage of economies of scale, raise competitive forces, and lower prices.

37.4 Methods of protection

There are a number of methods that a government of a country or the governments of a group of countries may employ, to protect their industries. These include:

A **tariff**. A tax can be imposed on imported products. Such a tax is also referred to as a customs duty or import duty. Sometimes tariff s are used to raise government revenue but most commonly, they are used to discourage the purchase of imports.

A **quota**. A limit may be placed on the quantity of a good that can be imported. For instance, a country may limit the number of cars that can be imported into the country at 40 000.

Embargo. The import of a product or trade with another country may be banned. A government may want to ban the import of demerit goods. A ban on a trade with a particular country is usually introduced for political reasons.

Exchange control. A government may try to stop households and firms from buying imports, by restricting the availability of foreign currency. Those wanting to buy foreign products, travel or invest abroad will have to apply to buy foreign currency

Quality standards. A country may require imports to reach artificially high standards. This measure will either dissuade other countries from selling to the country or push up their costs and prices if they do try to sell to the country.

Expensive paperwork. Requiring foreign firms who wish to sell to the country to fill out a considerable amount of time-consuming paperwork may persuade them to switch over to other markets.

International travellers may have to pay customs duty on certain goods

Voluntary export restraints (VERs). A government may persuade the government of the exporting country to agree to restrict the number of units of a product sold by it. It may do this by agreeing to do the same or by threatening to impose tariff s or quotas, if they do not agree

Subsidies. A government may protect its domestic industries from cheaper imports by giving them subsidies. Such help may enable domestic firms to sell at lower prices, which may undercut the price of imports.

37.5 The reasons for and consequences of protection

Several reasons are presented for protecting domestic industries. Some favour protection of domestic industries while some advocate protection of all domestic.

Protection of infant industries. These industries are also called sunrise industries. The argument is that such new industries, which have the potential to grow, may be eliminated by foreign competition before they have really started. Giving them some protection may enable them to grow, take advantage of economies of scale and become internationally competitive.

Protection of declining industries. These industries are also known as sunset industries. In a dynamic economy, some industries are likely to be declining. If other industries are expanding and labour is mobile, this may not be a problem. However, if labour is immobile and there is a shortage of job vacancies, the decline of a major industry may lead to a significant rise in unemployment.

Protection of strategic industries. These are industries essential for the survival or development of the country. Most governments provide some protection to their agricultural and defence related industries, to ensure consistency of supplies. A country that is dependent on imports of food and weapons, runs the risk of its supplies being cut off due to wars or natural disasters.

Raising employment and improving the trade position. Reducing imports can enable domestic firms to expand and take on more workers. This would raise employment and income. There is a high risk, however, of retaliation. If other countries do respond by imposing trade restrictions, the country will buy fewer imports but will also sell fewer exports. So employment, income and the trade position may not improve.

Protection of industries from low wage competition. This is not a strong argument in favour of protection. Low wages do not necessarily mean low costs of production. A foreign industry may pay low wages but if the productivity of its workers is low, its average cost of production may be high.

Protection of industries from dumping. Trade restrictions can prevent dumping, which is unfair competition where foreign firms sell products at lower prices than production costs. Sporadic dumping involves selling excess supplies to maintain high prices in domestic markets. Predatory dumping, driven by foreign firms, can lead to less efficient resource allocation and reduced choice, making it difficult for domestic firms to compete.

Protecting industries from other forms of unfair foreign competition. Foreign firms may gain an unfair competitive advantage due to government subsidies, creating a level playing field. Protecting domestic industries, such as infant and strategic industries, is crucial, while opposing it can lead to lower choice, higher prices, inefficiency, and retaliation.

Chapter 38
Foreign exchange rates

KEY TERM

Foreign exchange rate: the price of one currency in terms of another currency or currencies.

38.1 A foreign exchange rate

A foreign exchange rate is the price of one currency in terms of another, determining its value in terms of another currency. The US dollar, Chinese renminbi, Korean won, and Thai baht are major currencies used in international transactions, with the Japanese effective exchange rate measuring the value of the Japanese yen against these currencies.

KEY TERMS

Fixed exchange rate: an exchange rate whose value is set at a particular level in terms of another currency or currencies.

Devaluation: a fall in the value of a fixed exchange rate.

Revaluation: a rise in the value of a fixed exchange rate.

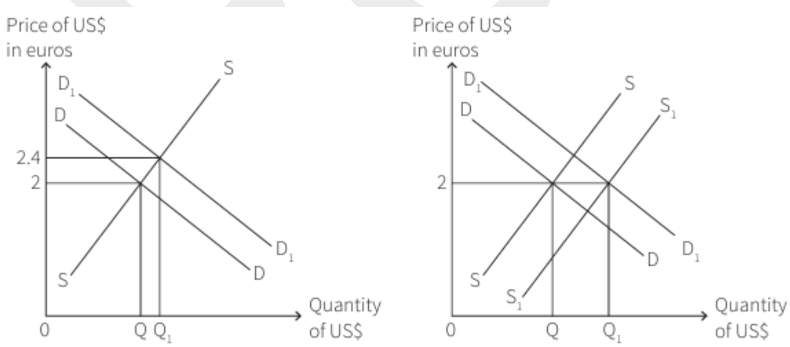
Floating exchange rate: an exchange rate which can change frequently as it is determined by market forces.

Appreciation: a rise in the value of a floating exchange rate.

Depreciation: a fall in the value of a floating exchange rate.

A fixed exchange rate

The US maintains a fixed exchange rate against other currencies, set at a precise price or margin. If market forces push down the value, the central bank may increase it by buying or raising interest rates. For example, the US dollar's initial price is two euros, but the central bank may sell dollars to maintain the price.



(a) The effect on the price of the $ without government intervention

(b) The effect on the price of the $ with government intervention

Fig. 38.1: Maintaining a fixed exchange rate

A change in the value of the currency from one exchange rate to a lower one is referred to as **devaluation**. A rise in a fixed exchange rate is called **a revaluation**.

A floating exchange rate

A **floating exchange rate** is one which is determined by market forces. If demand for the currency rises or the supply decreases, the price of the currency will rise. Such a rise is referred to as an **appreciation**. In contrast, a **depreciation** is a fall in the value of a floating exchange rate. It can be caused by a fall in demand for the currency or a rise in its supply. Figure 38.2 shows a decrease in demand for Bangladeshi taka, causing the price of the taka to fall.

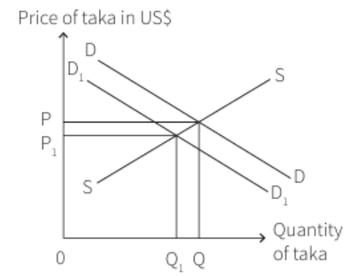


Fig. 38.2: A depreciation in the value of the taka

38.2 The determination of a foreign exchange rate in a foreign exchange market

The key reasons why currencies are bought and sold are linked to speculation, demand for exports and imports, the purchase and sale of financial assets and **foreign direct investment (FDI**) often carried out by multinational companies. These and other reasons are examined in more depth below.

Foreign exchange traders

The reasons for the demand and supply of currency in a foreign exchange market

As mentioned above, there are a number of reasons for individuals, banks, firms and governments to buy and sell a currency. These reasons can be examined in more depth by considering the specific example of demand and supply of Indian rupees, as shown in Table 38.1.

Demand for rupees will come from:	The supply of rupees will come from:
• Foreigners wishing to buy Indian goods and services. • Foreign-based branches of Indian multinational companies sending back profits to India. • Foreign banks buying currencies on behalf of their customers and paying interest on money held by Indian residents. • Foreign firms paying dividends on shares held by Indian residents. • Indians working abroad, wishing to send money back home to relatives. • Foreign firms wishing to buy Indian firms and setting up units in India. • Foreign firms and individuals wanting to buy shares in Indian companies, to save in Indian banks and lend to Indian firms or individuals. • Foreign governments wanting to hold rupees as reserves. • Speculators buying rupees in the expectation that the rupee will rise in value in the future. Significant sums of currency can be traded by speculators.	• Indians wishing to buy foreign goods and services. • Foreign multinational companies based in India, sending profits home. • Indian banks selling currencies on behalf of their customers and paying interest on money held by foreign people living abroad. • Indian firms paying dividends on shares held by foreigners. • Foreigners working in India, sending money home to their relatives. • Indian firms wishing to buy foreign firms and setting up production units in other countries. • Indian firms and individuals wanting to buy shares in foreign companies, save in foreign banks and lend to foreign firms and individuals. • The Indian government wishing to hold foreign currencies in its reserves. • Speculators selling rupees because they expect the price of the rupee to fall.

Table 38.1: Demand and supply of Indian rupees

KEY TERM

Foreign direct investment (FDI): setting up production units or buying existing production units in another country.

Figure 38.3 shows the effect of a rise in the Indian rate of interest on the market for Indian rupees. This will encourage foreigners to place money in Indian banks and hence, increase the demand for Indian rupees and raise its price.

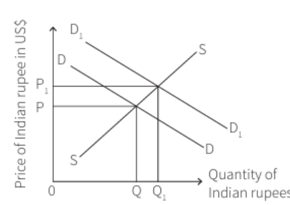


Fig. 38.3: The effect of a rise in the Indian rate of interest

38.3 The causes of exchange rate fluctuations

Exchange rates can change due to factors like export revenue, import expenditure, foreign investment, financial asset sales, speculation, and central bank actions. An increase in a current account surplus can cause currency value to rise, while foreign multinational companies' production can increase demand. Speculators can buy currency to push up prices. Governments and central banks can influence currency prices through buying and selling, raising the exchange rate, or raising interest rates. However, there is a limit to their ability to do so.

A higher interest rate may attract what are called **hot money flows**. These are funds, which are moved around the financial markets of the world, to take advantage of differences in interest rates and exchange rates.

KEY TERM

Hot money flows: the movement of money around the world to take advantage of differences in interest rates and exchange rates.

38.4 The consequences of a change in the exchange rate

The effect of a change in the exchange rate on export and import prices

A country's exchange rate can affect export prices and import prices. For example, if India's exchange rate rises against the pound sterling, the value of the rupee may rise, causing an increase in export prices. This can lead to fewer exports being sold. The effect on export revenue depends on the price elasticity of demand, with elastic demand causing a fall in revenue and inelastic demand causing a rise.

The effect of a change in the exchange rate on the macroeconomy

The exchange rate can impact economic growth, employment, and inflation. A fall in the rate can increase demand for domestic products, leading to increased output and employment. However, it can also increase inflationary pressure due to higher costs of imported raw materials and finished products. This indirectly increases inflation by reducing pressure on domestic firms to maintain price-rise.

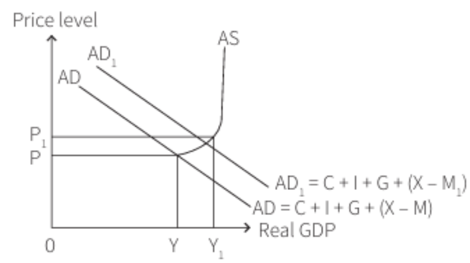


Fig. 38.4: The effect of a rise in net exports

38.5 The advantages and disadvantages of floating and fixed foreign exchange rates

The advantages and disadvantages of floating exchange rates

A floating exchange rate can help balance export revenue and import expenditure by reducing the value of the currency and lowering export prices. However, it may not eliminate a current account deficit, as demand for the currency may rise if economic prospects are good. The main disadvantage is its volatility, making it difficult for firms to plan ahead and potentially leading to significant changes in currency prices. Central banks may intervene despite usually leaving the exchange rate to market forces.

The advantages and disadvantages of fixed exchange rates

A fixed exchange rate provides certainty for firms buying and selling products abroad, but it can lead to central banks using up foreign currency, policy measures conflicting with government objectives, and potential loss of confidence in the economy. Higher interest rates may cause unemployment and slow economic growth, while government changes to the exchange rate may also cause price changes.

International competitiveness

A country's international competitiveness is determined by factors such as economic growth rate, world trade share, research and development expenditure, education and training quality, and infrastructure. A stable economy with high investment and infrastructure is likely to be competitive. Short-term changes in exchange and inflation rates can enhance a country's competitiveness, while long-term productivity can be improved through investment, education, and improved working conditions.

Chapter 39
Current account of balance of payments

39.1 Structure of the current account
The meaning of the balance of payments

The balance of payments records economic transactions between a country and the rest of the world over a period, with credit items coming into the country and debit items leaving, with the current account being the most well-known section.

The components of the current account

The current account shows the income received by the country and the expenditure made by it in its dealings with other countries. It is usually divided into four components.

Trade in goods. This covers exports and imports of goods including cars, food and machinery. Such goods are sometimes referred to as merchandise exports and imports and visible exports and imports. If revenue from the export of goods exceeds the expenditure from import of goods, the country is said to have a **trade in goods deficit**. This can also be referred to as a visible trade deficit. In contrast, a **trade in goods surplus** occurs when export revenue exceeds import expenditure

Trade in services. As its name suggests, this part records payments for services sold abroad and expenditure on services bought from foreign countries. Among the items included are banking, construction services, financial services, travel and transportation of goods and passengers between countries. A **trade in service surplus** would mean that service receipts exceed payments for services.

Together the first two components give the balance on trade in goods and services.

KEY TERMS

Trade in goods: the value of exported goods and the value of imported goods.

Trade in goods deficit: expenditure on imported goods exceeding revenue from exported goods.

Trade in goods surplus: revenue from exported goods exceeding expenditure on imports.

Trade in services: the value of exported services and the value of imported services.

Trade in service surplus: revenue from exported services exceeding expenditure on imported services.

Primary income: income earned by people working in different countries and investment income which comes into and goes out of the country.

Secondary income: transfers between residents and non-residents of money, goods or services, not in return for anything else.

Primary Income is the income generated by individuals and firms, including compensation for employees and investment income. It records foreign direct investment, shares, government bonds, and loans. Investment income includes profit, dividends, and interest received abroad, while foreign direct investment is recorded as a debit item.

Secondary income refers to money, goods, or services sent or received, not in return for anything else, including gifts like charitable donations, workers' remittances, and aid from one government to another.

Calculation of deficits and surpluses on the current account of the balance of payments

The balances of the four components are summed up to give the **current account balance** (also sometimes just called the current balance). A current account surplus arises when the value of credit items exceeds the value of debit items. If the value of debit items is greater than the value of credit items, there is a current account deficit.

KEY TERM

Current account balance: a record of the income received and expenditure made by a country in its dealings with other countries.

Changes in exports and imports

There are several factors that influence the value of a country's exports and imports. These include:

The country's inflation rate. If the country has a relatively high rate of inflation, domestic households and firms are likely to buy a significant number of imports. The country's firms are also likely to experience some difficulty in exporting.

The country's exchange rate. A fall in a country's exchange rate will lower export prices and raise import prices. This will be likely to increase the value of its exports and lower the amount spent on imports.

Productivity. The more productive a country's workers are, the lower the labour costs per unit and the cheaper its products.

Quality. A fall in the quality of a country's products, relative to other countries' products, would have an adverse effect on the country's balance of trade in goods and services.

Marketing. The number of exports sold is influenced not only by their quality and price but also by the effectiveness of domestic firms in marketing their products.

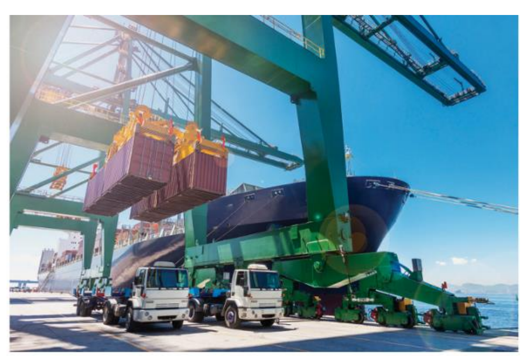
Domestic GDP. If incomes rise at home, more imports may be bought. Firms are likely to buy more raw materials and capital goods, and some of these will come from abroad. Households will buy more products, and some of these will be imported.

Foreign GDP. If incomes abroad rise, foreigners will buy more products. This may enable the country to export more.

Trade restrictions. A relaxation in trade restrictions abroad will make it easier for domestic firms to sell their products to other countries.

39.2 The causes of a current account deficit

Secondary Income can be a significant factor in a current account deficit, as it can be influenced by changes in exports and imports, cyclical deficits, high exchange rates, and structural problems. These deficits can result from deficits on primary income and/or secondary income, affecting the balance of payments.



Bringing in goods from abroad

39.3 The consequences of a current account deficit

A current account deficit is a situation where a country consumes more goods and services than it produces, resulting in a 'country living beyond its means'. This can reduce inflationary pressure and lower output and employment. The significance of a current account deficit depends on its size, duration, and cause. Small deficits are unlikely to cause problems, while larger deficits caused by imports, income changes, or high exchange rates are likely to self-correct over time. A deficit may also result from more primary and secondary income leaving the country than entering it, reflecting a booming economy. A deficit due to lack of international competitiveness is more serious and may require government policies to improve trade performance.

39.4 The causes of a current account surplus

A current account surplus may arise for a number of reasons including:

A low exchange rate. This will make export prices cheap and import prices expensive.

High quality of domestically produced products. This will encourage foreign and domestic citizens to purchase the country's output.

High incomes abroad. This will enable foreigners to buy a high volume of the country's exports.

High investment income earned abroad. The economy's banks, firms and individuals may be earning more profits, interest and dividends in other economies than is earned by foreigners' assets in this economy.

The receipt of high workers' remittances. The economy's workers working abroad may be sending more money home to relatives than foreign migrant workers are sending to their relatives.

39.5 The consequences of a current account surplus

A current account surplus boosts an economy's aggregate demand, leading to higher real GDP and employment. This may cause demand-pull inflation if the economy is near full capacity. If the economy operates a floating exchange rate, it may appreciate the exchange rate.

39.6 Policies to achieve balance of payments stability

A government aims for balance of payments stability and avoids large current account deficits or surpluses. A deficit reduces total demand, while a surplus reduces consumption. To prevent these, various policy measures can be implemented.

Measures to correct a current account deficit

A government may reduce a current account deficit by implementing policies to reduce imports and increase exports. These may include imposing import restrictions, subsidizing exports, and lowering foreign exchange rates. To reduce long-term deficits, the government may use supply-side policies like education and training, which can increase international competitiveness and avoid disadvantages like retaliation, inflation, and higher unemployment. This approach may also help domestic firms export more effectively.

Measures to correct a current account surplus

To reduce a current account surplus, a government can reverse measures to reduce a current account deficit, such as revaluing fixed exchange rates or encouraging floating exchange rates, and using expansionary fiscal and monetary policies to encourage imports.

Revision questions

0455/22/F/M/24

New Zealand is a high-income country with a low unemployment rate and a surplus of imports over exports. Recently, its government has made some important economic decisions. In 2022, it banned everyone born after 2008 from buying cigarettes. A year before, it gave permission for firms to explore for oil in the country.

- Discuss whether or not the discovery of oil in a country will benefit its economy. [8]

0455/22/O/N/23

Botswana uses both capital goods and labour in its diamond mining industry. The country had an average economic growth rate of 3.8% between 2015 and 2019 compared to a global average of 2.8%. Over this period, the country experienced a low inflation rate and a move away from protectionism and towards free international trade.

- Discuss whether or not a country will benefit from diamond mining. [8]

0455/21/O/N/23

Malaysia once specialised in the production and export of natural rubber. The production of natural rubber was very labour-intensive. However, despite still being in the top 5 of natural rubber exporters in the world, Malaysia has moved towards producing manufactured goods that use natural rubber instead of just producing and exporting this primary product.

- Identify, other than natural rubber, two primary-sector products. [2]
- Explain two reasons why a country may change its specialisation. [4]
- Analyse the economic benefits for a country in producing manufactured goods instead of primary-sector products. [6]

0455/21/M/J/21

There is an area of rubbish, three times the size of France, floating in the Pacific Ocean called the Great Pacific Garbage Patch. It is made up of rubbish including old fishing nets but most is plastic waste. It is forecast that, by 2050, there will be more plastic in the Pacific Ocean than fish. A number of islands in the Pacific Ocean specialise in fishing. Greater pollution will increase the social cost of the fishing industry.

- Discuss whether or not countries specialising benefits consumers. [8]

0455/21/O/N/20

South east Asian countries have reduced tariffs between themselves through the ASEAN Free Trade Agreement. ASEAN member countries are also removing non-tariff methods of protection. The intention is to raise economic growth through more international trade. This should enable small and medium-sized firms in ASEAN countries to grow and increase their exports.

- Discuss whether or not increased international trade can promote economic growth. [8]

0455/23/M/J/18

In the 1990s Cambodia became a mixed economy. One of the results of this was specialisation in the clothing industry. In 2005, import quotas for clothing in the key markets of the USA and the EU were removed. Clothing now accounts for 80% of Cambodia's exports. The increased role of the private sector has resulted in a rise in malnutrition in Cambodia.

- Explain two advantages to a country of specialisation. [4]

0455/22/F/M/24

New Zealand is a high-income country with a low unemployment rate and a surplus of imports over exports. Recently, its government has made some important economic decisions. In 2022, it banned everyone born after 2008 from buying cigarettes. A year before, it gave permission for firms to explore for oil in the country.

- Analyse why a country's exports may decrease. [6]

0455/22/F/M/24

In 2021, the Suez Canal was blocked by one of the world's biggest container ships. This affected some firms' profits and caused a shortage in a number of products. The delivery of luxury chocolate and salt, for example, was delayed. These two goods have differences in their price elasticity of demand. The disruption to international trade created particular difficulties for those countries which import most of the food they consume.

- Discuss whether or not a country should import most of the food it consumes. [8]

0455/22/O/N/23

In 2020, Singapore experienced a decrease in both its population size and its labour force. 2020 was a year of great change in a number of Singaporean markets. Some moved from disequilibrium to equilibrium. Despite all these changes, Singapore managed to increase its exports of goods and services.

- Discuss whether or not an increase in exports will benefit an economy. [8]

0455/22/O/N/23

Botswana uses both capital goods and labour in its diamond mining industry. The country had an average economic growth rate of 3.8% between 2015 and 2019 compared to a global average of 2.8%. Over this period, the country experienced a low inflation rate and a move away from protectionism and towards free international trade.

- Analyse how a government could reduce protectionism and move towards free international trade. [6]

0455/22/M/J/23

In 2019, China's economic growth rate was 6.1% and Chinese households increased their spending. More Chinese people attended sports events and the earnings of top sportspeople increased. China exported more despite a rise in tariffs on some of its products. For example, the US imposed higher tariffs on the imports of Chinese tea and coffee.

- Analyse the reasons for imposing tariffs on imports. [6]

0455/22/F/M/23

Vietnam has a high number of female entrepreneurs. Some of their firms have grown and now compete with foreign multinational companies (MNCs) and public sector firms. The Vietnamese government encourages MNCs to locate in Vietnam as a host country. It also intervenes in the economy to encourage the consumption of merit goods.

(b) Explain two benefits that an MNC can bring to its host country. [4]

0455/23/O/N/22

Palau is a small island country in the Pacific Ocean. It has received considerable financial support from the US. Living standards are thought to be lower in Palau than in the US. Palau imposes some of the highest tariffs in the world. These trade tariffs affect Palau's current account of its balance of payments. In 2019, commercial bank lending to firms and households in Palau increased.

- Analyse the reasons why a country may impose tariffs on imports. [6]

0455/23/O/N/22

Romania's indirect tax rate was 19% between 2017 and 2019. There is a high proportion of foreign multinational companies (MNCs), especially US MNCs, in Romania. MNCs have helped to increase productivity in Romania and lower its unemployment rate. There are also benefits of MNCs to their home countries.

- Explain two benefits of MNCs to their home countries. [4]

0455/22/O/N/22

While 15% of US exports go to Mexico, 80% of Mexico's exports go to the US. In 2019, the US government imposed some methods of protection to reduce imports from Mexico. This US action caused a fall in Mexico's foreign exchange rate. Despite a rise in its inflation rate, Mexico's central bank reduced the rate of interest from 7.75% at the end of 2019 to 6.5% in March 2020.

- Identify two methods of protection. [2]
- Explain two reasons why a government may want to reduce imports. [4]

0455/21/O/N/22

Bulgaria is part of the European Union (EU), but it has much lower corporation tax rates than other EU members. However, regulation by the Bulgarian government has discouraged foreign investment into Bulgaria. In addition, Bulgaria's economic growth rate has decreased in recent years, due in part to a steady fall in its quantity of labour.

- Analyse how differences in the rates of corporation tax between countries may affect multinational companies (MNCs). [6]

0455/22/M/J/21

Turkey's birth rate is falling which is likely to reduce its supply of labour. However, improvements in the quality of labour and the increase in foreign multinational companies (MNCs) operating in Turkey (the host country to the MNCs) may help the economy avoid a recession. One reason why economists are worried that a recession may occur is an expected rise in the interest rate.

- Discuss whether or not MNCs improve the economic performance of the host countries in which they operate. [8]

0455/22/O/N/20

Wage rate growth has increased recently in Kazakhstan, but its economic growth rate has slowed. This is, in part, due to a fall in exports. To try to increase the economic growth rate, the government has increased its spending on investment. In August 2015, it adopted a floating foreign exchange rate system in an attempt to improve the country's macroeconomic performance.

- Explain two reasons, other than methods of protection, why a country's exports may fall. [4]

0455/22/O/N/20

Mexico has a history of trade deficits. The government is moving the economy closer to free trade, to try to improve its macroeconomic performance. It was predicted in 2017 that Mexico's economy would experience a small rise in its unemployment rate. In 2017 the economy's inflation rate was 6.6%, the highest rate since 2001. A number of policy measures may be used to reduce inflation, including increasing the rate of income tax.

- Explain two benefits producers may gain from free trade. [4]

0455/21/O/N/20

South east Asian countries have reduced tariffs between themselves through the ASEAN Free Trade Agreement. ASEAN member countries are also removing non-tariff methods of protection. The intention is to raise economic growth through more international trade. This should enable small and medium-sized firms in ASEAN countries to grow and increase their exports.

- Define tariffs. [2]
- Explain two non-tariff methods of protection. [4]

0455/23/M/J/20

Ireland has one of the lowest rates of corporation tax in Europe. This has encouraged many multinational companies (MNCs) to produce in Ireland. Other reasons why firms want to produce in Ireland include access to freer trade with other European countries, higher labour productivity and government grants.

- Discuss whether or not MNCs always benefit their host countries. [8]

0455/23/M/J/20

Ireland has one of the lowest rates of corporation tax in Europe. This has encouraged many multinational companies (MNCs) to produce in Ireland. Other reasons why firms want to produce in Ireland include access to freer trade with other European countries, higher labour productivity and government grants.

- State two benefits of free trade. [2]

0455/22/F/M/23

Vietnam has a high number of female entrepreneurs. Some of their firms have grown and now compete with foreign multinational companies (MNC) and public sector firms. The Vietnamese government encourages MNCs to locate in Vietnam as a host country. It also intervenes in the economy to encourage the consumption of merit goods.

- Explain two benefits that an MNC can bring to its host country. [4]

0455/21/M/J/22

Australia's foreign exchange rate fluctuates. The value of Australia's exports is regularly greater than the value of its imports. Australia is Papua New Guinea's main trading partner. In 2019, the government of Papua New Guinea increased income tax to reduce its inflation rate. It used other policy measures to increase its economic growth rate.

- Explain two reasons why the value of a country's exports may be greater than the value of its imports. [4]

0455/22/F/M/22

South Africa (SA) experienced a recession in the second half of 2019 and an unemployment rate of 29%. Only a small proportion of this unemployment was frictional. South Africa's foreign exchange rate fell from 1 SA rand = US$0.08 in 2018 to 1 SA rand = US$0.06 in 2019. South Africa had reduced import tariffs, but in 2019 some South African economists suggested tariffs should be used to protect its infant industries.

- Explain why an infant industry may need protection. [4]

0455/22/F/M/19

Ireland has attracted a significant number of foreign multinational companies (MNCs) to set up production in the country. These firms employ approximately 10% of the country's labour force and make a high proportion of Ireland's exports. The surplus on the current account of Ireland's balance of payments fell in 2016 while government spending rose.

- Identify two reasons why an MNC may decide to start producing in a foreign country. [2]
- Explain two reasons why someone may want to work for an MNC. [4]

0455/21/O/N/18

In 2016, there was a global surplus in the steel market pushing down steel prices. This situation led to various calls for protectionist measures by other steel producers such as those in the EU and the USA. However, such measures were not supported by car producers as approximately 22% of a car manufacturer's costs depend on steel prices.

- Define protectionism. [2]
- Explain two methods of trade protection. [4]

0455/23/M/J/18

In the 1990s Cambodia became a mixed economy. One of the results of this was specialisation in the clothing industry. In 2005, import quotas for clothing in the key markets of the USA and the EU were removed. Clothing now accounts for 80% of Cambodia's exports. The increased role of the private sector has resulted in a rise in malnutrition in Cambodia.

- Define import quota. [2]
- Analyse the impact on an economy of the removal of import quotas imposed by other countries. [6]

0455/22/M/J/18

World output has grown in recent years, but a number of countries have experienced a recession. The removal of trade restrictions such as import tariffs has slowed down, reducing the growth of world trade.

- Define import tariff. [2]

0455/22/F/M/18

The effects of a depreciation of a currency are influenced by the price elasticity of demand of exports and imports. Worldwide there has been a reduction in trade barriers including tariffs. There has also been an increase in the movement of goods and services between countries and, to a lesser extent, the movement of people. Some countries experience net emigration with more people leaving the country than entering it.

- Analyse how a reduction of its import tariffs could increase a country's output. [6]

0455/22/M/J/23

In 2020, Australia had a high national minimum wage (NMW). The NMW is received by some people who work on Australian dairy farms. Australia produces milk and soft drinks. Milk is purchased by some people as an alternative to soft drinks. Some dairy farms and some small firms went out of business in 2020. The year saw an increase in the value of the country's floating foreign exchange rate.

- Explain two causes of an increase in the value of a country's floating foreign exchange rate. [4]

0455/21/M/J/23

Many people from the Philippines work in another country, often in industries that provide merit goods and public goods. In 2020, the Philippine government raised more tax revenue. Some was spent on policy measures to increase life expectancy and some on policy measures to reduce unemployment. The country's unemployment rate was also affected by a rise in the country's foreign exchange rate.

Discuss whether or not a rise in a country's foreign exchange rate would benefit its economy. [8]

0455/22/O/N/22

While 15% of US exports go to Mexico, 80% of Mexico's exports go to the US. In 2019, the US government imposed some methods of protection to reduce imports from Mexico. This US action caused a fall in Mexico's foreign exchange rate. Despite a rise in its inflation rate, Mexico's central bank reduced the rate of interest from 7.75% at the end of 2019 to 6.5% in March 2020.

- Analyse how a fall in a country's foreign exchange rate could increase its inflation rate. [6]

0455/21/O/N/22

Jordan has a fixed foreign exchange rate with the US dollar. The monetary policy of Jordan, therefore, follows the monetary policy of the US very closely. Due to low confidence in the global economy in 2019, central banks around the world, including Jordan and the US, cut interest rates to stimulate growth. However, this may have conflicted with the macroeconomic aim of low inflation.

- Discuss whether or not a country will benefit from having a fixed foreign exchange rate system. [8]

0455/22/M/J/21

The money supply in Bangladesh increased every year from 2010 to 2018. Changes in the money supply and the foreign exchange rate can affect a government's macroeconomic policy aims, including full employment. There have been few mergers between commercial banks in Bangladesh, although its banks are larger than many of its other firms.

- Analyse how a fall in a country's foreign exchange rate could increase employment. [6]

0455/22/O/N/20

Wage rate growth has increased recently in Kazakhstan, but its economic growth rate has slowed. This is, in part, due to a fall in exports. To try to increase the economic growth rate, the government has increased its spending on investment. In August 2015, it adopted a floating foreign exchange rate system in an attempt to improve the country's macroeconomic performance.

- Discuss whether or not a country should switch from a fixed foreign exchange rate system to a floating foreign exchange rate system. [8]

0455/21/M/J/22

Australia's foreign exchange rate fluctuates. The value of Australia's exports is regularly greater than the value of its imports. Australia is Papua New Guinea's main trading partner. In 2019, the government of Papua New Guinea increased income tax to reduce its inflation rate. It used other policy measures to increase its economic growth rate.

- Define foreign exchange rate. [2]

0455/23/M/J/18

In 2016, there were fears that the Singaporean economy could enter a recession because of falling demand from China, its biggest export market. One of the results of a recession is likely to be a fall in consumer spending. A previous recession in 2008 had led to unemployment increasing from 1.6% to 3.4%. Singapore's central bank therefore decided to intervene in the foreign exchange market to influence the value of the currency.

- Discuss whether or not an exchange rate depreciation will prevent an economy from experiencing a recession. [8]

0455/21/M/J/18

In 2014, the government of Kazakhstan devalued its currency, the tenge. A year later the country still had a current account deficit. Therefore, in 2016 it considered adopting a floating exchange rate which might help to remove the deficit. However, it had concerns that this might affect the country's inflation rate which was already high at 17%.

- Define devaluation. [2]
- Explain two advantages of a floating exchange rate. [4]

0455/22/F/M/18

The effects of a depreciation of a currency are influenced by the price elasticity of demand of exports and imports. Worldwide there has been a reduction in trade barriers including tariffs. There has also been an increase in the movement of goods and services between countries and, to a lesser extent, the movement of people. Some countries experience net emigration with more people leaving the country than entering it.

- Define depreciation of a currency. [2]
- Explain two reasons why demand for a country's exports may be price-inelastic. [4]

0455/22/M/J/23

In 2019, China's economic growth rate was 6.1% and Chinese households increased their spending. More Chinese people attended sports events and the earnings of top sportspeople increased. China exported more despite a rise in tariffs on some of its products. For example, the US imposed higher tariffs on the imports of Chinese tea and coffee.

- Discuss whether or not a country with a high economic growth rate will have a deficit on the current account of its balance of payments. [8]

0455/22/F/M/23

Germany's death rate is higher than some other countries, including Sweden, Cuba and the Maldives. Germany's labour force increased in size between 2011 and 2021 and has become even more productive. The country has also experienced low inflation and a growing surplus on the current account of its balance of payments.

- Analyse how an increase in labour productivity in a country can increase a surplus on the current account of its balance of payments. [6]

0455/22/F/M/23

Safiye Ali became the first female doctor in Turkey in 1923. By 2020, 40% of Turkish doctors were women. Over this period, labour productivity increased. Turkey also experience advances in technology, a change in the current account balance on its balance of payments and a significant increase in the size of population.

- Analyse how advances in technology may improve the current account balance on a country's balance of payments. [6]

0455/23/O/N/22

Palau is a small island country in the Pacific Ocean. It has received considerable financial support from the US. Living standards are thought to be lower in Palau than in the US. Palau imposes some of the highest tariffs in the world. These trade tariffs affect Palau's current account of its balance of payments. In 2019, commercial bank lending to firms and households in Palau increased.

- Identify two components of the current account of the balance of payments. [2]

0455/22/F/M/22

South Africa (SA) experienced a recession in the second half of 2019 and an unemployment rate of 29%. Only a small proportion of this unemployment was frictional. South Africa's foreign exchange rate fell from 1 SA rand = US$0.08 in 2018 to 1 SA rand = US$0.06 in 2019. South Africa had reduced import tariffs, but in 2019 some South African economists suggested tariffs should be used to protect its infant industries.

- Analyse how a fall in a country's foreign exchange rate could reduce a deficit on the current account of its balance of payments. [6]

0455/21/M/J/21

The Canadian government has introduced a number of policy measures designed to encourage more women to enter the labour force. Canada's labour force has reduced as its population has aged. The number of workers and their output are influenced by changes in the country's foreign exchange rate and consumer expenditure. In 2018, the Canadian dollar fell in value while Canadian consumer expenditure increased.

- Analyse how a fall in the value of a country's foreign exchange rate could reduce a deficit on the current account of its balance of payments. [6]

0455/22/F/M/21

It is estimated that half of Egyptian men smoke. This is one of the highest rates in the world. In recent years the Egyptian government has increased the tax on cigarettes. The government and central bank have also tried to reduce inflation and improve Egypt's international trade performance. The Egyptian government could use subsidies to reduce its deficit on the current account of its balance of payments.

- Discuss whether or not an increase in government subsidies will reduce a deficit on the current account of the balance of payments. [8]

0455/23/O/N/20

The use of supply-side policy measures, including deregulation, is moving China closer to a market economic system. Some supply-side policy measures, such as education and subsidies, can also increase a country's economic growth rate. China joined the World Trade Organisation in 2001 and has since removed some quotas on imports and reduced some import tariffs. These measures may influence the size of its current account surplus.

- Discuss whether or not a reduction in a country's trade protection will reduce its current account surplus. [8]

0455/22/O/N/20

Mexico has a history of trade deficits. The government is moving the economy closer to free trade, to try to improve its macroeconomic performance. It was predicted in 2017 that Mexico's economy would experience a small rise in its unemployment rate. In 2017 the economy's inflation rate was 6.6%, the highest rate since 2001. A number of policy measures may be used to reduce inflation, including increasing the rate of income tax.

- Define trade in goods balance. [2]

0455/21/O/N/20

The election of a new president in South Africa in 2018 led to improvement in business and consumer confidence. Inflation rates fell despite a rise in total demand. One government policy measure established areas known as economic zones where firms pay lower, or no, taxes. These zones encourage domestic firms to become internationally competitive which could reduce the deficit on the current account of South Africa's balance of payment.

- State two components of the current account. [2]
- Analyse how a country's current account deficit might be reduced if its firms become internationally competitive. [6]

0455/21/M/J/20

Economists are uncertain about the future United States (US) macroeconomic performance. For instance, in recent years, US unemployment has fallen while the deficit on the current account of the balance of payments has fluctuated. Whether its current account deficit will rise or fall in the future may be affected by proposed tax cuts. Some economists suggest that the US government should not be concerned about the country's current account deficit.

- Discuss whether or not a current account deficit on its balance of payments harms an economy. [8]

0455/22/F/M/19

Ireland has attracted a significant number of foreign multinational companies (MNCs) to set up production in the country. These firms employ approximately 10% of the country's labour force and make a high proportion of Ireland's exports. The surplus on the current account of Ireland's balance of payments fell in 2016 while government spending rose.

- Analyse how an increase in exports could improve a country's economic performance. [6]
- Discuss whether or not an increase in government spending will reduce a surplus on the current account of that country's balance of payments. [8]

0455/22/M/J/18

Farms in the USA are getting larger. One dairy farm in the state of Indiana has over 38000 cows. Farms in the USA compete with farms in both developed and developing countries. The value of the farms' exports of milk appears in the trade in goods section of the current account of the USA's balance of payments.

- Explain how a country could have a trade in goods surplus, but a deficit on the current account on the balance of payments. [4]

0455/21/M/J/18

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- Discuss whether or not a reduction in a current account deficit on the balance of payments will benefit an economy. [8]

0455/21/M/J/18

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- Discuss whether or not a reduction in a current account deficit on the balance of payments will benefit an economy. [8]