

Chapter 34 International trade

Answers to Knowledge checks

- 34.1** The reported trade flow within Europe is high because countries within Europe are recorded independently, whereas trade between states in the USA is not.
- 34.2** An example of this is cars. The UK both imports and exports cars. However, the cars produced in the UK are not identical to those produced by other producers in Germany or France. There is therefore scope for product differentiation and specialisation in different segments of the market.
- 34.3** On the basis of the data shown in Figure 28.10 (*see* page 389 of the book), India weathered the crisis rather better than the UK.
- 34.4** If the prices of goods exported by primary producers vary from year to year this means that revenues are also volatile, making it difficult to plan ahead — either as a firm or as a country. It is in the nature of some agricultural goods that prices will vary from season to season, depending upon weather conditions.

Answers to Exercises and Case studies

Exercise 34.1

It is not easy for me to comment here, as I don't know what you found at the shops — or which sort of shop you visited! However, I would guess that you would find food products from a range of different countries, perhaps tomatoes from Spain or asparagus from Peru. If you were in a department store, I would expect you to find goods from China, from countries in Europe and perhaps from the United States as well. The UK is an open economy, and imports goods from many different countries.

Exercise 34.2

- a** See Table A34.1

Table A34.1 Inter- and intra-regional trade patterns

Region	Share of total exports (%)	Share of total imports (%)	% of exports within region	% of imports within region
North America	14.1	18.6	50.5	38.3
South and Central America	3.3	3.3	22.7	22.2
Europe	38.0	37.7	69.7	70.4
CIS	2.7	2.1	18.5	24.2
Africa	2.2	3.1	20.1	14.2
Middle East	3.8	4.2	14.6	13.3
Asia	33.8	29.0	52.4	61.2

The export shares are calculated from the data in Table 34.1 (*see* page 465 of the book) by expressing each row total as a percentage of the world total. For example, North America's total exports sum to \$2,187bn, which represents $100 \times 2,187/15,494 = 14.1\%$ of total world exports. The import shares are similarly calculated from the columns. The shares within region are calculated as the diagonal (bold) entries relative to the row (column) totals in that table.

In terms of population, there are more people living in Africa than in Europe — and yet Africa constitutes only about 2.6% of total world trade, while Europe accounts for about 37.8%. In part this may reflect the extreme differences in average incomes between the two regions. It is also significant that a high proportion of the trade in North America and Europe is *within* the respective regions — in other words, the trade is between countries in North America and within Europe, whereas this proportion is much smaller in Africa. In addition, it is important to remember that trade within Europe has been consciously encouraged through increasing integration in the EU — especially the Single Market measures, which have reduced the transaction costs of trade within the region.

- b** I cannot help you with this, as I cannot tell what will have surprised you...

Case study 34.1

Trade: who benefits?

The main gainers from international trade have been the emerging countries (that benefited from export-led growth) and the developed countries (that are able to specialise and profit from trade). The large firms that engage in exporting activity also gain from international trade. Developing countries have not benefited so much, as they have not been able to make substantial inroads into global markets, and are hampered by a dependence on primary production.

As for Brexit, I do not know what you will have observed.

Answers to end-of-chapter questions

B Knowledge and understanding questions

- 1** International trade involves engaging in exporting and importing activity.

A full explanation of international trade	2 marks
A vague or partial explanation of international trade	1 mark

- 2** Disadvantages may include:

- Increasing imports of cheaper foreign goods — increasing imports and decreasing *AD*
- May lead to the closure of domestic industry
- Cultural issues
- Intellectual property rights risks

Two disadvantages explained	4 marks
One disadvantage explained AND one disadvantage identified	3 marks
One disadvantage explained OR two disadvantages identified	2 marks
One disadvantage identified	1 mark

3 Advantages may include:

- Increasing imports of cheaper goods — increasing standard of living
- Promoting development
- Encouraging *AD*/economic growth (increasing exports)
- Exploiting comparative and absolute advantages

Two advantages explained	4 marks
One advantage explained AND one advantage identified	3 marks
One advantage explained OR two advantages identified	2 marks
One advantage identified	1 mark

C Stimulus response question**4**

AO1 Knowledge	1 mark
AO2 Application	1 mark
AO3 Analysis	5 marks
AO4 Evaluation	5 marks

Knowledge (1 mark) is likely to include:

- International trade

Application (1 mark) is likely to include:

- Application to the US economy, for example;
 - US steel industry

Analysis (5 marks) is likely to include:

Analysis of possible disadvantages of international trade, for example:

- Increasing imports of cheaper foreign goods — increasing imports and decreasing *AD*
- May lead to the closure of domestic industry
- Cultural issues
- Intellectual property rights risks

Evaluation (5 marks) is likely to include:

- Evaluation over which disadvantage is the greatest.
- Evaluation that international trade may not be a disadvantage to the US economy

A judgement of the possible disadvantages to the US economy of international trade