



IB Economics: [www.IBDeconomics.com](http://www.IBDeconomics.com)

### 3.9 TERMS OF TRADE HL: EXAM PRACTICE QUESTIONS

Answer the questions that follow.

#### I. IB ECONOMICS PAPER 2 EXAMINATION QUESTIONS – INTERNATIONAL ECONOMICS

Paper 2. Duration: 1 hour 30 minutes. Weighting: Higher Level 40%, and Standard Level 30%.

IB Economics exam Paper 2 is divided into Section A and Section B. Section A – International Economics – assesses the IB Economics student's knowledge, analytic and evaluative skills.

Students are expected to demonstrate the following assessment objectives.

##### Section A

The principal focus is on section 3 of the syllabus – **international economics**.

While the principal focus of the questions is on section 3, it is likely that students will be required to draw on other sections of the syllabus.

The command terms used in each question, or part thereof, indicate the depth required.

**Part (a)** of each question requires knowledge and understanding. It is subdivided into (i) and (ii). The maximum for each of these is 2 marks, with a combined maximum of **4 marks**.

**Part (b)** of each question requires knowledge and understanding, application and analysis, and selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is **4 marks**.

**Part (c)** of each question requires knowledge and understanding, application and analysis, and selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is **4 marks**.

**Part (d)** of each question requires knowledge and understanding, application and analysis, and synthesis and evaluation. The maximum for this part is **8 marks**.

The section A question is worth a total of **20 marks**.

**Exam Practice Questions: 3.9 Terms of Trade HL****3.8 ECONOMIC INTEGRATION: EXAM PRACTICE QUESTIONS**

Study the extract below and answer the questions that follow.

**ITEM 1: BREAKING BUSINESS NEWS**

News item appearing in all major English-language newspapers and global media.

The screenshot shows the Reuters homepage with a prominent headline: "South Africa rand positively affected by improved terms of trade". Below the headline is a sub-headline: "NEW YORK". To the right of the main article, there is a sidebar titled "EDITOR'S CHOICE" featuring a thumbnail of a man in a suit and a link to "A dramatic week ahead". Another sidebar titled "PHOTOS OF THE WEEK" shows a person carrying a large white box through a burning area. At the bottom, there is a section titled "TRENDING ON REUTERS" with three items: "IB Students show very elevated levels of stress compared to other students" (ranked 1), "Sarah Palin and Donald Trump announce birth of new daughter, Freedom Hilton" (ranked 2), and "Queen Margaret College rocked by rampant student lethargy during mocks" (ranked 3).

**REUTERS** EDITION: U.S. SIGN IN | REGISTER [Twitter](#) [Facebook](#) [LinkedIn](#) Search Reuters

Business Tues Nov 15, 2016 6:56am EST

## South Africa rand positively affected by improved terms of trade

NEW YORK

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Rio Tinto iron ore mining operation in South Africa. November 16, 2017.  
REUTERS/Teresa Johnston

South Africa's terms of trade improved as world prices for its commodity exports jumped in the last quarter to September. Commodity prices for South Africa's main exports including metals such as copper, iron, cobalt and gold have increased by 25 percent in the last year on increased global demand, reversing the sharp declines in commodity prices over the previous two years. The South African rand quickly rose five percent on the news in trading yesterday, and the current account deficit is now expected to narrow slightly. Commodity prices reached a 30-year peak in the middle of 2008. With the beginning of the global financial crisis in late 2008, prices dropped significantly. By the second half of 2014, prices had increased again, though they were much below their peaks of 2008. Then from 2015-2017 prices slumped again. 'These dramatic price swings represented the latest 'boom and bust' cycle in commodity markets.' They also represent major short-term fluctuations in the terms of trade of commodity-exporting countries.

**EDITOR'S CHOICE**

A dramatic week ahead

**PHOTOS OF THE WEEK**

Our top photos from the past week. [Full Coverage »](#)

**TRENDING ON REUTERS**

- 1 [IB Students show very elevated levels of stress compared to other students](#)
- 2 [Sarah Palin and Donald Trump announce birth of new daughter, Freedom Hilton](#)
- 3 [Queen Margaret College rocked by rampant student lethargy during mocks](#)

# IB Economics – International Economics

## Exam Practice Questions: 3.9 Terms of Trade HL

### QUESTIONS HL

- a. Define the following terms from the newspaper extract above, concerning economic integration:
  - i. Terms of trade **[2 marks]**
  - ii. Current account deficit **[2 marks]**
- b. Explain the meaning of improving terms of trade. **[4 marks]**
- c. Use a diagram to explain how the price elasticity of demand influences short-term fluctuations in the terms of trade of a nation exporting primary commodities. **[4 marks]**
- d. Using information in the text and your knowledge of economics, to what extent can the terms of trade change in the long term due to changes in world income levels, changes in productivity within the country, and technological developments. **[8 marks]**

### QUESTIONS HL

- a. Answer the following questions:
  - i. Outline one reason why a country's terms of trade can change in the short-term. **[2 marks]**
  - ii. Outline one reason why a country's terms of trade can change in the long-term. **[2 marks]**
- b. Use a diagram to explain how an increase in global demand for South Africa's commodity exports will affect its terms of trade. **[4 marks]**
- c. Distinguish between an improvement and a deterioration in the terms of trade. **[4 marks]**
- d. Using information in the text and your knowledge of economics, examine the effects of changes in the terms of trade on a country's current account, using the concepts of price elasticity of demand for exports and imports. **[8 marks]**

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