

PENANG SANGAM HIGH SCHOOL

P.O BOX 44, RAKIRAKI

LESSON NOTES -WEEK 17

Subject: Economics

Year: 11

Strand: 4- International Trade

Sub Strand: 4.1

Content Learning Outcome: - Explain the concept of Terms of Trade.

- Explain Bilateral, Regional and Multilateral Trade Agreements with current examples.
- Explain the importance of current marketing agencies and boards.

Lesson Notes

- ✓ It is the ratio of export price exchange with import price.
- ✓ Formula

$$TOT = \frac{\text{Index of export prices}}{\text{Index of import prices}} \times 100$$

- ✓ Note: If Export > Import = Favourable Terms of Trade
Import > Export = Unfavourable Terms of Trade

✓ **Example**

EXPORT			IMPORT	
Year	Price per unit	Qty	Price per unit	Qty
1	100	1500	110	1000
2	120	1700	100	1400
3	150	1900	190	1750

Calculate the Terms of Trade for:

$$\begin{aligned} \text{Year 2} &= 120/100 \times 100/1 \\ &= \underline{120 \text{ (favourable)}} \end{aligned}$$

$$\begin{aligned} \text{Year 1} &= 100/110 \times 100/1 \\ &= \underline{90.0 \text{ (unfavourable)}} \end{aligned}$$

- ✓ **Measures to Improve Terms of Trade**
 - Increase export.
 - Decrease import.
 - Export Oriented Policies- country specialises in production for the purpose of export only.

- Import Substitution- replacing imported goods with locally produced goods.
- ✓ Dumping- is the selling of goods at a lower price in the foreign market than in the domestic market.

✓

Trade Agreement		
<u>Bilateral</u>	<u>Regional</u>	<u>Multilateral</u>
- Trade agreement between 2 countries. Eg: Singapore and Fiji	- Trade agreement with members within the region such as Pacific. Eg: PACER	- Trade agreement with many countries. Eg: WTO

✓

Fiji Export Council	Investment Fiji	Overseas Trade Mission
- Promotes scheme to benefit export.	- Promote, stimulate and facilitate economic development in Fiji. - Promote development of industries and enterprises to increase export.	- Export development tool. - Primary objective is to increase the flow of bilateral trade.

Class Activity

1. The table given below shows the index of export and import of goods and services for **Economy Y** for the year 2008-2009.

Export and Import Price Index for Economy Y

Year	Export Price Index	Import Price Index
2008	134	145
2009	204	165

Base year 2007: 100

Calculate the **terms of trade** for the years 2008 and 2009.

2. The table given below shows terms of trade for **Economy Y** for the year 2005-2007.

Export and Import Price Index for Economy Z

Year	Export Price Index	Import Price Index	Terms of Trade
2005	120	130	92.31
2006	110	148	74.32
2007	130	115	113.04

Base year 2004: 100

Use the table given below and your knowledge to answer the following questions:

- i. Explain the terms of trade for the years 2006 and 2007
- ii. State the formula for calculating terms of trade
- iii. State **one** way of improving a country's terms of trade.