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| **Unit Plan** | **03** | Start:  End: | May. 2017  Oct: 2017 | **Module 3: International Economics** | Grade Level: Teacher: | IB Economics  Stephen Ellis |

**PART I**

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| **Global Contexts** | |  | **Topic** (give subtopic code and title as required) |
| * identities and relationships * orientation in time and space * personal and cultural expression * scientific and technical innovation * globalization and sustainability | This Global Context will be explored through inquiry into international trade, the balance of payments and international exchange rates. |  | * Module 3: International Economics |

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| **Key Concepts explored within the Unit:** |
| The key concepts explored in this unit include:   * the benefits of trade * absolute and comparative advantage (higher level) * the world trade organization (WTO) * restrictions on free trade: trade protection * free floating exchange rates * value of an exchange rate in a floating system * changes in the demand for and supply of a currency * the effects of exchange rate changes * government intervention * fixed exchange rates * managed exchange rates * the structure of the balance of payments * the meaning of the balance of payments * the components of the balance of payments * the relationships between the accounts * current account deficits * relationships between the current account and the exchange rates * the Marshall Lerner condition and the j-curve effect (higher level) * preferential trade agreements * trading blocs * concepts of trade creation and trade diversion in a customs union (higher level) * different forms of economic integration allow member countries to gain from economies of scale (higher level) * economic integration * different trading blocs * monetary union |
| **Content: Skills and Knowledge (Learning outcomes stated using command terms)** |

**3.1 International trade**

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| **Sub-topic** | **Content** | **Skills** |
| **Free trade** |  |  |
| The benefits of trade | •      Explain that gains from trade include lower prices for consumers, greater choice  for consumers, the ability of producers to benefit from economies of scale, the ability to acquire needed resources,  a more efficient allocation of resources, increased competition, and a source of foreign exchange. |  |

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| Absolute and comparative advantage |  | •      Explain the theory of absolute advantage.  •      Explain, using a diagram, the gains from trade arising from a country’s absolute advantage in the production of a good.  •      Explain the theory of comparative advantage.  •      Describe the sources of comparative advantage, including the differences between countries in factor endowments and the levels of technology.  •      Draw a diagram to show comparative advantage.  •      Calculate opportunity costs from a set of data in order to identify comparative advantage.  •      Draw a diagram to illustrate comparative advantage from a set of data.  •      Discuss the real-world relevance and limitations of the theory  of comparative advantage, considering factors including the assumptions on which  it rests, and the costs and benefits of specialization (a full discussion must take into account arguments in favour and against free trade and protection—see below). |
| The World Trade  Organization (WTO) | •      Describe the objectives and functions of the WTO. |  |
| **Restrictions on free trade: Trade protection** |  |  |
| Types of trade protection | •      Explain, using a tariff diagram, the effects of imposing a  tariff on imported goods on different stakeholders, including domestic producers, foreign producers, consumers and the government. | •      Calculate from diagrams the effects of imposing a tariff on imported goods on different stakeholders, including domestic producers, foreign producers, consumers and the government. |

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|  | •      Explain, using a diagram, the effects of setting a quota on foreign producers on different stakeholders, including domestic producers, foreign producers, consumers and the government.  •      Explain, using a diagram, the effects of giving a subsidy  to domestic producers  on different stakeholders, including domestic producers, foreign producers, consumers and the government.  •      Describe administrative barriers that may be used as a means of protection.  •      Evaluate the effect of different types of trade protection. | •      Calculate from diagrams the effects of setting a quota on foreign producers on different stakeholders, including domestic producers, foreign producers, consumers and the government.  •      Calculate from diagrams the effects of giving a subsidy  to domestic producers  on different stakeholders, including domestic producers, foreign producers, consumers and the government. |
| Arguments for and against trade protection (arguments against and for free trade) | •      Discuss the arguments in favour of trade protection, including the protection of domestic jobs, national security, protection of infant industries, the maintenance of health, safety and environmental standards, anti-dumping and unfair competition, a means  of overcoming a balance of payments deficit and a source of government revenue.  •      Discuss the arguments against trade protection, including  a misallocation of resources, the danger of retaliation and “trade wars”, the potential for corruption, increased costs  of production due to lack of competition, higher prices for domestic consumers, increased costs of imported factors of production and reduced export competitiveness. |  |

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| **Freely floating exchange rates** |  |  |
| Determination of freely floating exchange rates | •      Explain that the value of an exchange rate in a floating system is determined by the demand for, and supply of, a currency.  •      Draw a diagram to show determination of exchange rates in a floating exchange rate system. | •      Calculate the value of one currency in terms of another currency.  •      Calculate the exchange rate for linear demand and supply functions.  •      Plot demand and supply curves for a currency from linear functions and identify the equilibrium exchange rate.  •      Using exchange rates, calculate the price of a good in different currencies. |
| Causes of changes in the exchange rate | •      Describe the factors that lead to changes in currency demand and supply, including foreign demand for a  country’s exports, domestic demand for imports, relative interest rates, relative inflation rates, investment from overseas in a country’s firms (foreign direct investment  and portfolio investment) and speculation.  •      Distinguish between a depreciation of the currency and an appreciation of the currency.  •      Draw diagrams to show changes in the demand for, and supply of, a currency. | •       Calculate the changes in the value of a currency from a set of data. |
| The effects of exchange rate changes | •      Evaluate the possible economic consequences of a change in the value of a  currency, including the effects on a country’s inflation rate, employment, economic growth and current account balance. |  |

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| **Government intervention** |  |  |
| Fixed exchange rates | •      Describe a fixed exchange rate system involving commitment to a single fixed rate.  •      Distinguish between a devaluation of a currency and a revaluation of a currency.  •      Explain, using a diagram, how a fixed exchange rate is maintained. |  |
| Managed exchange rates  (managed float) | •      Explain how a managed exchange rate operates, with reference to the fact that there is a periodic government intervention to influence the value of an exchange rate.  •      Examine the possible consequences of overvalued and undervalued currencies. |  |
| Evaluation of different exchange rate systems | •      Compare and contrast a fixed exchange rate system with  a floating exchange rate system, with reference to factors including the degree of certainty for stakeholders,  ease of adjustment, the role of international reserves in the form of foreign currencies and flexibility offered to policy makers. |  |

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| The meaning of the balance of payments | •      Outline the role of the balance of payments.  •      Distinguish between debit items and credit items in the balance of payments. |  |

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| The components of the balance of payments accounts | •      Explain the four components of the current account, specifically the balance of trade in goods, the balance of trade in services, income and current transfers.  •      Distinguish between a current account deficit and a current account surplus.  •      Explain the two components of the capital account, specifically capital transfers and transaction in non- produced, non-financial assets.  •      Explain the three main components of the financial account, specifically, direct investment, portfolio investment and reserve assets. | •      Calculate elements of the balance of payments from a set of data. |
| The relationships between the accounts | •      Explain that the current account balance is equal to  the sum of the capital account and financial account balances (see the appendix, “The balance of payments”).  •      Examine how the current account and the financial account are interdependent. |  |
| The relationship between the current account and the exchange rate | •      Explain why a deficit in the current account of the balance of payments may result in downward pressure on the exchange rate of the currency. |  |

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| Methods to correct a persistent current account deficit |  | •      Explain the methods that a government can use to correct a persistent current account deficit, including expenditure switching policies,  expenditure reducing policies and supply-side policies, to increase competitiveness.  •      Evaluate the effectiveness of the current account deficit. |
| The Marshall-Lerner condition and the J-curve effect |  | •      State the Marshall-Lerner condition and apply it  to explain the effects of depreciation/devaluation.  •      Explain the J-curve effect and Marshall- Lerner condition. |
| The relationship between the current account and the exchange rate | •     Explain why a surplus in the current account of the balance of payments may result in upward pressure on the exchange rate of the currency. |  |
| Implications of a persistent current account surplus |  | •      Discuss the possible consequences of a rising current account surplus, including lower domestic consumption and investment, as well as the appreciation of the domestic currency and reduced export competitiveness. |
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|  | •      Distinguish between bilateral and multilateral (WTO) trade agreements.  •      Explain that preferential trade agreements give preferential access to certain products from certain countries by reducing or eliminating tariffs, or by other agreements relating to trade. |  |
| Trading blocs | •      Distinguish between a free trade area, a customs union and a common market.  •      Explain that economic integration will increase competition among producers within the trading bloc.  •      Compare and contrast the different types of trading blocs. | •      Explain the concepts of trade creation and trade diversion in a customs union.  •      Explain that different forms of economic integration allow member countries to gain from economies of scale. |
| Monetary union | •      Explain that a monetary union is a common market with  a common currency and a common central bank.  •      Discuss the possible advantages and disadvantages of a monetary union for its members. |  |

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| Measurement |  | •      Explain the meaning of the terms of trade.  •      Explain how the terms of trade are measured.  •      Distinguish between an improvement and a deterioration in the terms of trade.  •      Calculate the terms of trade using the equation: Index of average export prices/index of average import prices x 100. |
| Causes of changes in the terms of trade |  | •      Explain that the terms of trade may change in the short term due to changes in demand conditions for exports and imports, changes in global supply of key inputs (such  as oil), changes in relative inflation rates and changes in relative exchange rates.  •      Explain that the terms of trade may change in the long term due to changes in  world income levels, changes in productivity within the country and technological developments. |
| Consequences of changes in the terms of trade |  | •      Explain how changes in the terms of trade in the long term may result in a global redistribution of income.  •      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. |

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|  |  | •      Explain the impacts of  short-term fluctuations and long-term deterioration in the terms of trade of economically less developed countries  that specialize in primary commodities, using the concepts of price elasticity of demand and supply for  primary products and income elasticity of demand. |

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| **Resources** |
| IB Diploma Course Companion: Economics Second Edition: Jocelyn Blink and Author Ian Dorton, OUP  Economics for the IB Diploma: Ellie Tragakes, CUP  IB Economics 2nd Edition: Study Guide: For the IB diploma, Constantine Ziogas, OUP  IB Economics: Skills and Practice: For the IB diploma, Constantine Ziogas OUP  [Welker’s Wikinomics](http://welkerswikinomics.com/home.html) – A website created by an IB economics teacher containing useful IB lecture notes as well as a blog [Tutor2U](http://www.tutor2u.net/economics/revision-notes/index.html) – A resource for AS, A2 and IB economics revision [Biz/ed](http://www.bized.co.uk/learn/economics/index.htm) – A general resource for learning economics, listed by topic. |

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| **Assessment instruments used**  **Formative/Summative Assessment (IA)/ Culminating Task(s)** | **Content/ Exam preparation** | **Internal Assessment Requirement** |
| Task & Description | IA type description |
| e.g Unit test: Quiz, Past Paper Practice, Presentations, Timed assessments | x | Module 3 Commentary 3 |
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| **Making Connections** | |
| **Links with ToK** *(possible links – can it be communicated to ToK teachers?)* | **How can this unit *support* or *be supported by* other subject areas?** |
| * Are there moral as well as economic arguments in favor of free trade? * What criteria can be used to assess the benefits and the costs of increased economic integration? * Might increased economic integration ever be considered undesirable? | * Strong link with History in terms of looking at the impact of the industrial revolution, the history of world trade and how sanctions and embargoes can damage a nation’s economy during periods of conflict. |

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| **International mindedness** |
| **We look carefully at how international trade has impacted on globalization. We also consider how the WTO operates and evaluate its effectiveness in recent years. Bilateral trade agreements are analyzed, particularly in terms of how they may clash with objectives of the WTO.** |

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| ***Approaches to Learning* and the *Learner Profile*** | | | |
| *Approaches to Learning* | *Learner Profile* Attributes | | How will the checked attributes be explicitly taught and assessed in the unit? |
| * Self-Management * Research * Thinking * Social Skills * Communication | * Inquirers * Knowledgeable * Thinkers * Communicators * Principled | * Open-minded * Caring * Risk-takers * Balanced * Reflective | Students are trained to read, understand and analyze news articles using economics concepts and theory. By looking at the benefits of international trade, students have the opportunity to consider the potential growth that come with freer terms of trade. |

**PART II**

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| **Approaches to Teaching** |
| **How will teaching within this unit be grounded within the identified Approaches to Teaching (teaching that is inquiry based, conceptually focused, contextualized, collaborative, differentiated and informed by assessment)?**  The areas that we will be focusing on in this unit reflect the Assessment Objectives and Learning outcomes given in the Economics guide including:   * Knowledge & Understanding ; * Application & Analysis; * Synthesis & Evaluation and * Selection, Use and Application of a variety of appropriate skills and techniques.   In terms of differentiation, for non-native students, the initial focus will be on helping them construct simple examples relevant to economic concepts like scarcity, choices, and free trade. Students will be given additional support by giving simple fill-in-the blank activities, and wherever necessary dictionary will be allowed for reference.  •Formative assessments will be based on marks and/or criteria on different tasks using IB Economics resource books and websites.  •Examination questions will be drawn from sections 1 to 4 of the syllabus, and the questions will be drawn from the specific topic areas and will reflect the command terms outlined in the Economics Guide. |