2.25 Trade Agreements, Trading Blocs and Globalisation: Test Pack

Total Marks

AQA 7136 · Calculators not allowed · about 20 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions. Full sentences are required for questions worth 4 marks or more. Allow about 20 minutes for the whole pack.

1 Define a free trade area in the context of regional trading blocs, and name one feature that distinguishes a free trade area from a customs union, using the example context of NAFTA/USMCA.

(Total for Question 1 is 2 marks)

2 Using the example of the European Union, state one clear example that distinguishes trade creation from trade diversion when the EU expanded eastwards, naming which of the two each example illustrates.

(Total for Question 2 is 2 marks)

3 State three main drivers of globalisation that explain why countries became more economically interdependent since the 1980s.

(Total for Question 3 is 3 marks)

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4 Explain, in the context of a country joining a trading bloc, what is meant by trade creation and give one example effect on domestic producers or consumers after tariff removal between members.

(Total for Question 4 is 3 marks)

5 Explain trade diversion and how it can reduce a country's welfare compared with the pre-bloc situation, in the context of the UK joining a hypothetical trading bloc that sources goods from a higher-cost partner instead of a lower-cost non-member.

(Total for Question 5 is 3 marks)

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Mark scheme · 2.25 Trade Agreements, Trading Blocs and Globalisation: Test Pack

Question 1

a free trade area is an agreement between countries to remove tariffs and quotas on trade between member states **B1**

distinguishing feature: members retain their own external tariffs on imports from non-members, rather than adopting a common external tariff **B1**

Answer: A free trade area removes tariffs between member states; unlike a customs union, each member can keep its own external tariff on non-members.

Question 2

trade creation example: after expansion, firms in western EU countries import cheaper manufactured parts from lower-cost eastern member states instead of producing them domestically **B1**

trade diversion example: if the EU now imports a product from a higher-cost eastern member instead of a cheaper non-member supplier because of external tariffs, that is trade diversion **B1**

Answer: Trade creation: western firms buying cheaper parts from new eastern members rather than producing them at higher domestic cost. Trade diversion: buying from a higher-cost eastern member instead of a cheaper non-member because of the EUs external tariff.

Question 3

trade liberalisation and reduction in tariffs **B1**

growth of multinational companies and foreign direct investment **B1**

advances in transport and information technology reducing costs of moving goods, services and information **B1**

Answer: Trade liberalisation; expansion of multinational companies and foreign direct investment; and improvements in transport and information technology.

Question 4

trade creation occurs when higher-cost domestic production is replaced by lower-cost imports from a partner country after tariffs are removed **B1**

example effect: consumers gain from lower prices and greater variety of goods **B1**

alternative effect: some inefficient domestic producers may lose market share and shrink or close **B1**

Answer: Trade creation is when cheaper member imports replace more expensive domestic production after tariffs are removed; consumers benefit from lower prices and more choice, while some domestic producers may lose market share.

Question 5

trade diversion occurs when tariff removal within a bloc causes imports to switch from a lower-cost non-member supplier to a higher-cost member supplier because of the bloc's external tariffs **B1**

this can reduce national welfare because consumers may pay higher prices than before the bloc, losing the gains from lower-cost non-member imports **B1**

another consequence: resources are allocated less efficiently as production shifts to higher-cost producers inside the bloc, lowering overall economic welfare **B1**

Answer: Trade diversion is when imports switch from a lower-cost non-member to a higher-cost member because of the bloc's arrangements, which can raise prices and reduce welfare by moving consumption and production away from the most efficient suppliers.

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