



Worksheet 25.2

Terms of Trade and the Balance of Payments

One of the challenges to learning about the terms of trade is understanding its connection to the trade balance. How do changes in one affect the other?

Independent Research Project

Your teacher will assign you a country* to research.

1. Use data over the 10 year period of 2001-2010
2. Identify the year to year trends in the terms of trade.
3. You might choose to diagram these on a line graph.
 - a. Percentage increase or decrease (movement toward surplus or deficit).
4. Identify the changes in trade balance over this same period.
5. Plot these changes on the same diagram
 - a. Percentage changes in TOT, positive or negative
6. Next, using your understanding of price elasticity of demand, research the types of exports and imports for your assigned country.
 - a. Based on the results of your research, to what degree do you think demand for exports/imports is elastic or inelastic?
 - b. Based on your research, does it appear that changes to the terms of trade has affected the balance of payments?

*Research note: data for regions (ASEAN, Central and Eastern Europe), rather than countries, is sometimes easier to find. Teachers should identify relevant websites and their classification method before making student assignments.