

### 3.5 Terms of trade (HL only)

Sub-topic	SL/HL core	HL
<b>The meaning of the terms of trade</b>		
Measurement		<ul style="list-style-type: none"> <li>• Explain the meaning of the terms of trade.</li> <li>• Explain how the terms of trade are measured.</li> <li>• Distinguish between an improvement and a deterioration in the terms of trade.</li> <li>• Calculate the terms of trade using the equation: <math>\text{Index of average export prices} / \text{index of average import prices} \times 100</math>.</li> </ul>
Causes of changes in the terms of trade		<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>
Consequences of changes in the terms of trade		<ul style="list-style-type: none"> <li>• Explain how changes in the terms of trade in the long term may result in a global redistribution of income.</li> <li>• 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.</li> </ul>

Sub-topic	SL/HL core	HL
		<ul style="list-style-type: none"> <li>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.</li> </ul>

## Section 4: Development economics

### 4.1 Economic development

Sub-topic	SL/HL core	HL
<b>The nature of economic growth and economic development</b>		
Economic growth and economic development	<ul style="list-style-type: none"> <li>Distinguish between economic growth and economic development.</li> <li>Explain the multidimensional nature of economic development in terms of reducing widespread poverty, raising living standards, reducing income inequalities and increasing employment opportunities.</li> <li>Explain that the most important sources of economic growth in economically less developed countries include increases in quantities of physical capital and human capital, the development and use of new technologies that are appropriate to the conditions of the economically less developed countries, and institutional changes.</li> </ul>	