What are Terms of Trade?

Worksheet

Terms of trade (TOT) = Export price index / Import price index. A higher ratio means a country gets more favorable prices and greater purchasing power in world markets.

Questions

1. Terms of trade (TOT) are…

A) the total value of exports
B) export price / import price ratio
C) import tariffs
D) exchange rate

2. If a country's TOT improves, it can…

A) buy fewer imports
B) buy more imports
C) export less
D) import nothing

3. Export prices rise 15%, import prices fall 5%. TOT has…

A) worsened
B) stayed the same
C) improved
D) reversed

4. A country exporting oil faces volatile TOT because…

A) oil is not traded globally
B) oil prices swing on global demand
C) oil is imported
D) no reason

5. Country X exports oil at 80/barrel and imports grain at200/ton. Exports are 100 barrels, imports are 50 tons. Calculate TOT.

6. Oil prices double to 160/barrel while grain stays200/ton. What happens to TOT?

7. A country's export prices fall 20%, import prices rise 10%. Roughly, TOT changes by…?

8. Define: What are terms of trade?

9. Define: What does a TOT of 0.8 mean?

10. Define: What does a TOT of 1.2 mean?

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Answer Key

1. B) export price / import price ratio — TOT measure how much export volume is needed to buy a fixed volume of imports.

2. B) buy more imports — Better TOT means more favorable prices—the country can afford more imports with same exports.

3. C) improved — Export price up, import price down = higher ratio = improved TOT.

4. B) oil prices swing on global demand — Commodity prices (oil, metals) fluctuate widely, directly impacting countries dependent on them.

5. Total export value = 100 × 80 =8,000 Total import value = 50 × 200 =10,000 TOT index = Export index / Import index (simple: 8,000 / 10,000 = 0.8) TOT = 0.8 or 80 — less favorable (need more exports per import unit)

6. New export value = 100 × 160 =16,000 Import value = $10,000 (unchanged) New TOT = 16,000 / 10,000 = 1.6 TOT improved from 0.8 to 1.6 — the country is better off.

7. Export index: 100 × (1 - 0.20) = 80 Import index: 100 × (1 + 0.10) = 110 TOT = 80 / 110 ≈ 0.727 TOT deteriorated (fell from 1.0) — less favorable trade.

8. The ratio of export prices to import prices; shows a country's trade-price advantage or disadvantage.

9. For every unit exported, the country can buy less than one unit of imports—less favorable.

10. For every unit exported, the country can buy 1.2 units of imports—more favorable.

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