

#### **Activity 4: Monetary Union**

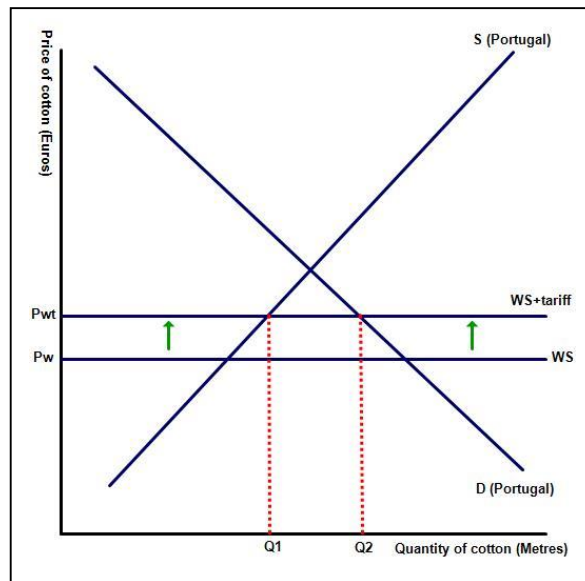
Start by watching the short [video](#) and then explain the benefits and costs of Monetary Union membership.

#### **Activity 5: A focus on Greece**

Start by watching the following short [video](#) and then summarise why Greece appears to have suffered as a consequence of Monetary Union membership?

### Activity 6: Trade creation

The diagram to the right illustrates the cotton market in Portugal, prior to joining a Customs Union. The nation imported its cotton from Greece and placed a tariff on all imported cotton, indicated by the  $WS + \text{tariff}$ .



(a) Portugal and Greece join the EU, a customs Union and Portugal is forced to remove the tariff on cotton imports. Indicate this on the diagram and show the following points:

i. welfare gain from increased consumer surplus

ii. welfare gain from greater world efficiency

iii. the increase in trade as a result (the trade creation).

(b) Are there any losers from this trade creation?

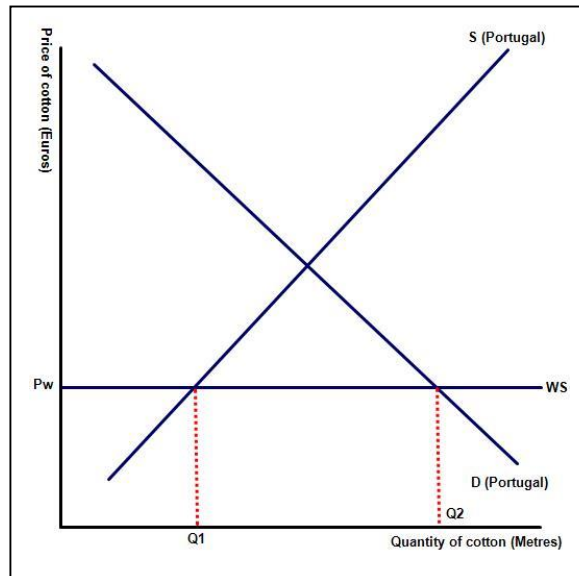
### Activity 7: Trade diversion

The diagram to the right illustrates once again the domestic raw cotton market in Portugal. The nation imports its raw cotton from Vietnam without tax due to a bilateral trade agreement between themselves and Vietnam.

On joining the EU Portugal is now forced to place tariffs against Vietnamese cotton (this being EU policy). The cheapest cotton available within the EU is from Italy, but is more costly than pre-tariff Vietnamese cotton.

*(a) Illustrate this on the diagram and show the following:*

- i. welfare loss from reduced consumer surplus
- ii. welfare loss from reduced world efficiency
- iii. the reduction in world trade as a result of the trade diversion.



**Activity 8: Link to the assessment (resource material not included) old syllabus**

*An example of relevant paper two examination questions:*

- (a) i. Explain the difference between a free trade area and a customs union? *[2 marks]*
- ii. State two examples of trade protection. *[2 marks]*
- (b) Using an appropriate diagram, explain the impact on the market for a product, following an increase in the size of the tariff from 40% - 80%. *[4 marks]*
- (c) Distinguish between a free trade area, a customs union and a common market. *[4 marks]*
- (d) Using information from the text/data (included in the examination paper) and your knowledge of economics, evaluate the impact of trade diversion and trade creation on a nation joining a customs union. *[8 marks]*