Terms of Trade

Economics

The ratio of export prices to import prices, and why it matters.

Terms of trade is the index of export prices divided by the index of import prices.

$$ToT = (Px / Pm) \times 100$$

Export prices rise More imports per export.	**Improvement**
Oil importer, oil price rises	**Deterioration**
Commodity exporters	**Highly volatile**

THE COMMON MISTAKE

× **Reading an improvement as always good**

✓ **It depends on the cause**

Export prices rising because of scarcity from a failed harvest is an improvement in the index and a loss in reality.

The Prebisch-Singer hypothesis argued primary exporters face a long-run decline in terms of trade. The evidence is mixed.