Zürcher Hochschule
für Angewandte Wissenschaften

School of Engineering

Economic and Social Modelling of Contemporary Trade Interactions by comprising the Wealth of Nations.

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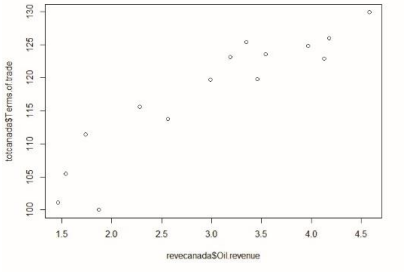
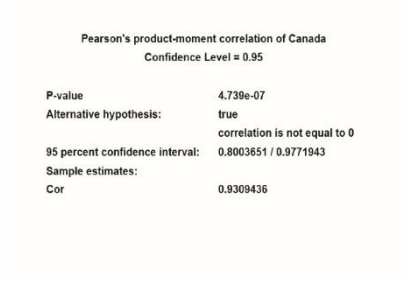
Terms of Trade. While exchange rates, currency valuations and central banking monetary policies are the focus of politics and media, the Terms of Trade are receiving moderate attention. This is, in the author of the present paper's judgement, not justified. Due to triple-digit oil prices, many oil exporters had been able to improve their Terms of Trade (artificially) and took a considerable share of the world's wealth. But, how does it look like with remaining low oil prices? What if developing oil-dispensers have no evasive capabilities and are highly dependent on oil as the solitary export good? Is there any linear and/or monotonic correlation between the oil price level and the respective Terms of Trade of an oil-exporting nation? Subsequently, by implication, do nations, who depend on oil as a source of energy, come to new wealth?
The present paper describes the expressiveness of the Terms of Trade (first part) and compares the Terms of Trade of oil-nations against the price level of crude oil and features its linear and/or monotonic correlations (second part). Furthermore, the present paper determines whether there are direct connections between changing Terms of Trade and the respective crises among oil-dependent economies. This paper portrays how the price level of crude oil is driven by geopolitics and political instability and how this affects related economies and its Terms of Trade (third part). The fourth and last part of the present paper explains plain and simple that today's trade is not only driven by the oil price and political fragmentation, but, more and more by large scale climate phenomena.



Linear relationship between the variables, revenue minus production cost of oil (percent of GDP) and Terms of Trade, of Canada.



Canada shows a very strong linear relationship between the measured variables and a strong, positive monotonic correlation between its revenues of oil and its TOT-values.