

Chapter 19

International Trade

These slides supplement the textbook, but should not replace reading the textbook

Why trade with other nations?

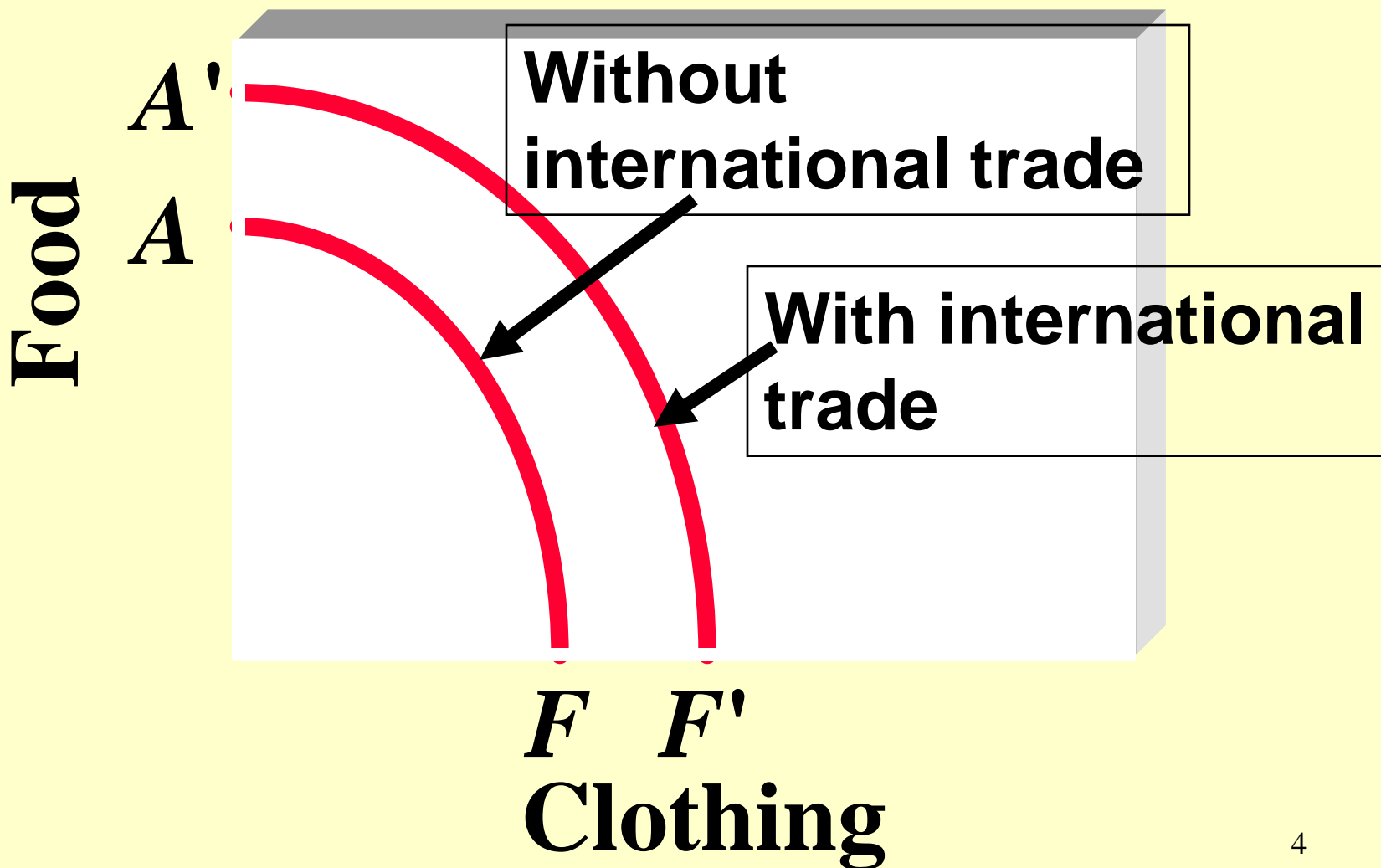
All nations can increase productivity, lower prices, increase jobs and standard of living

Why is trade advantageous for all countries?

Because the world's resources are not evenly distributed around the globe

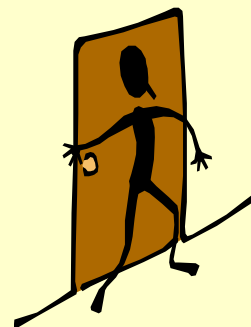
Shifts in the Economy's PPF

An increase in available resources



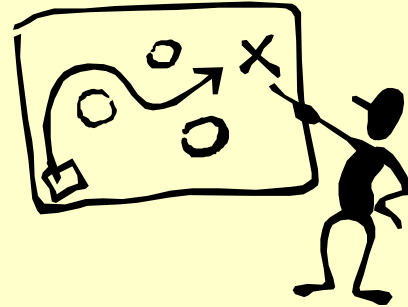
What is Autarky?

A situation of national self-sufficiency in which there is no economic interaction with foreigners



How much do we export to other nations?

12% of GDP is exported



What are the main products that we export?

- High tech
- Industrial
- Agricultural
- Entertainment



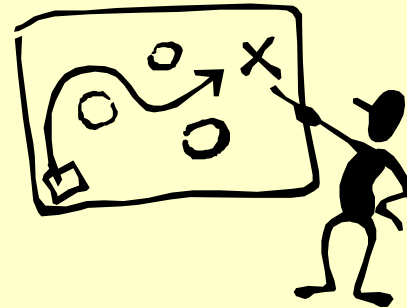
What are key imports?

- Manufactured consumer goods
- Capital goods
- Oil
- Metals



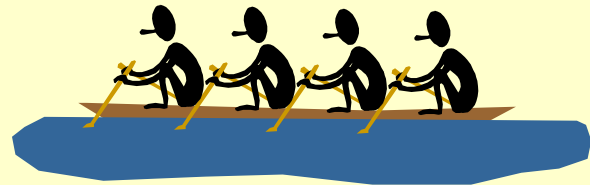
How much do we import from other nations?

14% the size of GDP is imported



What are the terms of trade?

How much of one good exchanges for a unit of another good



What gives a country's currency value?

It has something that
other countries want



What determines the value of a county's currency

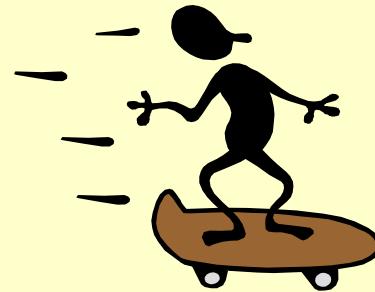
The demand and supply
of that currency on the
international market

Who are our main trading partners?

- Canada
- Japan
- Mexico
- Germany
- Great Britain
- South Korea
- France
- Hong Kong
- Italy
- Brazil

**Which country do we
trade the most with?**

Canada



What are changes in trade over the past 20 years?

- Exports - an increase the export of machinery
- Imports - an increase in the purchase of oil

Does specialization increase in productivity?

Yes!



By each country specializing in certain exports non-productive activity is lessened

What should a country specialize?

In those goods and services that it has a comparative advantage

What is comparative advantage?

Producing something
with lower opportunity
costs than others

What is absolute advantage?

Producing something
better than others



What should a country produce?

It should produce those things in which it has a comparative advantage

What is an example of comparative advantage?

Even if Americans were best at making wicker baskets our opportunity costs would be very high in this activity

What is the good enough rule?

If a country has a comparative advantage in a product that product should be produced if the job can be done good enough

What are the reasons for international specialization?

- differences in resources
- economies of scale
- differences in tastes

When will we trade?

When the world price is ...

$>$ our price, export

$<$ our price, import

$=$ our price, will not trade

When would a high wage worker be cheaper than a low wage worker?

When the high wage worker is a lot more productive than the low wage worker

What makes one worker more productive than another? Better

- Infrastructure
- Capital
- Education
- Skills
- Attitude

Why have trade restrictions?

There are good and bad
reasons for trade
restrictions



How do we restrict trade?

- tariffs
- import quotas
- export subsidies
- licensing agreement
- unreasonable standards

What are two types of tariffs?

- *Specific* - applied to a specific good, like a barrel of oil
- *Ad Valorem*- a percentage of the price of imports at the port of entry

What are the effects of a tariff or quota?

- An increase in prices
- A decrease quantity in supplied
- A lower standard of living

What is dumping?

The practice of selling a commodity abroad at a price that is below its cost or below the price charged in the home market

What are the three types of dumping?

- Predatory is when the purpose of dumping is to drive competitors out of the market, this is rare
- Long-term is when there are economic reasons that a product can be sold at a low price, for example, less competition
- Sporadic occurs when there are excess inventories

**What are arguments
for tariffs and quotas?**

- National defense
- Protect infant industries
- Protect against predatory dumping
- Reduce unemployment
- Protect temporary declining industries
- Promote variety

What is export substitution?

A development strategy that emphasizes domestic manufacturing of products that are currently imported

What are arguments against trade restrictions?

- Leads to retaliation
- Subsidizes weakness
- Works against comparative advantage
- Problems with policing & enforcing
- Encourages rent seeking

What is export promotion?

A development strategy that concentrates on producing for the export market

What is the General Agreement on Tariffs & Trade (GATT)?

- Treat all nations equally
- Reduce tariff rates
- Reduce import quotas

When was GATT formed and how big is it?

1947 and there are
presently 123 participating
countries

Is GATT still GATT?

NO, as of Jan. 1, 1995 GATT was replaced by the *World Trade Organization (WTO)*

What is the Common Market?

A market in Europe
begun in 1958 as a way
of creating barrier-free
trade in Europe

What is North American Free Trade Agreement (NAFTA)?

Passed during the Clinton Administration to remove barriers of trade with Mexico

END