INTERNATIONAL TRADE STUDY GUIDE

A. Reasons for trade
   1. Scarcity
   2. Economic Gain

B. Comparative advantage and specialization

   1. Comparative advantage – ability to produce a product most efficiently given all the other products that could be produced.
      a. Law of Comparative Advantage
         > Nations should specialize and export goods with the lowest opportunity cost.

   2. Specialization – concentration of the productive efforts on a limited number of activities.
      > This helps nations become more efficient.
      > International trade along with specialization helps a nation increase productivity.

   3. International Trade

      How it influences trade
      How it influences production

C. Trade Barriers - Trade barriers are taxes or number limits placed on imported goods. Taxes placed on imported goods are called tariffs. Number limits placed on imported goods are called quotas.

   1. Types of Trade Barriers

      a. Tariffs - Governments create tariffs or taxes, which are placed on imported goods.

      b. Quotas - A numerical number placed on goods being imported.

      c. Embargo - A prohibition on the import or export of a good to or from another country.
D. Effects of Trade - Increasing or decreasing trade barriers has many impacts, these impacts include: price change, quantity available, interdependence between nations, and standard of living.

1. TB increase = Enact (Starting), Impose, Pass, Create or Increasing (raising) a TARIFF
   Enacting (starting), Place, Start, or Create a QUOTA
   Starting an embargo
   a. Results - higher prices
      - decrease in quantity available
      - decrease interdependence between nations
      - decrease in the standard of living

2. TB decrease = Removing (stopping), End, or Reducing a TARIFF
   Eliminating (stopping) a QUOTA
   Stopping an embargo
   b. Results - Lower prices
      - increase in quantity available
      - increase interdependence between nations
      - increase in the standard of living

Steps in determining Trade Impacts

#1 TB increase OR TB decrease
#2 Apply concept or formula

\[
\text{TB increase} = \$ \text{ increase} + Qa \text{ decrease} + \text{STD decrease} + I \text{ decrease} \\
\text{TB decrease} = \$ \text{ decrease} + Qa \text{ increase} + \text{STD increase} + I \text{ increase}
\]

E. Balance of Trade
1. Export – goods sent to another country for sale.

2. Import – goods brought in from another country.

   a) Trade deficit - The result of a nation importing more that it exports
   b) Trade surplus - The result of a nation exporting more than it imports.
4. Trade Agreements - Agreement that results from cooperation between at least two countries to reduce trade barriers and tariffs and to trade with each other.
   a) NAFTA - trade treaty between Canada, Mexico, and the United States which eliminated trade barrier between these three countries.
   b) WTO (World Trade Organization) - a group of countries that discuss international trade and how they work with each other. This organization was created in 1995 and it is the successor to GATT.
   c) GATT - agreement between the 23 participating nations was reached initially in 1947 for the purpose of eliminating tariffs and quotas.
   d) EU (European Union) - is a political and economic community of twenty-seven member states, located primarily in Europe which was established in 1993.

F. Exchange rates
1. Changing Dollar into foreign currency

   a) Impact of a strong dollar
      Australian dollar 1.09 to $1.00 US
      Australian dollar 1.25 to $1.00 US
      >What happened to the US Dollar? __________
      >What will happen to the price of US goods in Australia?
      __________________________
      > What will happen to US exports to Australia?
      __________________________

   b) Impact of a weak dollar
      Mexican Peso 10.9 to $1.00 US
      Mexican Peso 10.0 to $1.00 US
      >What happened to the US Dollar? __________
      >What will happen to the price of US goods in Mexico?
      __________________________
      > What will happen to US exports to Mexico?
      __________________________

*When a nation’s currency depreciates its products become ______________ to other nations
Trade Unit Terms

**Export** – goods sent to another country for sale.

**Import** – goods brought in from another country.

**Absolute advantage** – ability to produce more of a given product using a given amount of resources.

**Comparative advantage** – ability to produce a product most efficiently given all the other products that could be produced.

**Specialization** – concentration of the productive efforts on a limited number of activities.

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**EU** - is a political and economic community of twenty-seven member states, located primarily in Europe which was established in 1993.

**Exchange rate** - The value of a foreign nation’s currency in terms of the home nation’s currency.

**Trade deficit** - The result of a nation importing more that it exports.

**Tariff** - A tax placed on foreign goods.

**Quota** - A numerical limit placed on imported goods.

**Embargo** - A prohibition on the import or export of a good or all goods.

**Interdependence** - Two or more nations need each other in order to maintain a healthy economy. The need increases as trade relations increase.
Economic Measurements
Study Guide

From this unit you must be able to determine which of the following measurement of the economy is used to measure described economic conditions:
- Gross Domestic Product
- Consumer Price Index
- Unemployment Rate

**Gross Domestic Product (GDP)**
- The dollar value of all final goods and services produced within a country’s boarders in a given year.
- Components of GDP:
  - Consumption spending (sales = amount sold)
  - Investment spending
  - Foreign spending (minus imports)
  - Government spending
- GDP does not measure:
  - Second hand sales
  - Illegal sales/underground economy
  - Intermediate goods
  - Quality of life

**Consumer Price Index (CPI)**
- Measures changes in the price of goods and services over time
- Uses the prices on a set number of goods used by the average American (milk, bread, electricity etc.) called a basket of goods.
- An increase indicates inflation and a decrease indicates deflation.
- Used to determine the cost of living/standard of living

**Unemployment Rate**
- The unemployment rate is the percent of the labor force that is able to and actively seeking work.
- Persons who are full-time students and looking for part-time work are not measured.
- The workforce includes those who do have jobs. The job does not need to be full time.
- Persons who are not employed and are not looking for work are not part of the work-force and therefore not counted
- People who do volunteer work and people who are physically unable to work are not counted.
- Changes in the level of employment are measured through the unemployment rate.
Types of unemployment

Frictional Unemployment – Unemployment that occurs when people take time to find a job.

Seasonal Unemployment – Unemployment that occurs as a result of harvest schedules or vacations, or when industries slow or shut down for a season.

Structural Unemployment – Unemployment that occurs when workers skills do not match the jobs that are available.

Cyclical Unemployment – Unemployment that rises during economic downturns and falls when the economy improves.

Types of Inflation

Demand Pull – inflation occurs when demand for goods and services exceeds existing supplies.

Cost Push – inflation occurs when producers raise prices to meet increased costs.

Government Reaction

Offer job information unless worker quits then no action.

No action as unemployment is by choice of occupation.

Retrain workers for jobs in areas where demand for goods and services exists.

Increase the money supply
- cut taxes
- increase government spending
- buy government bonds
- decrease reserve rate
- decrease discount rate

Government Reaction (same for both)

Decrease the money supply
- increase taxes
- decrease government spending
- buy less government bonds
- increase the reserve rate
- increase the discount rate