Notes on Trade and Specialization

What affects economic decisions?

- Voluntary Trade
- Specialization
- Trade Barriers

What is Voluntary Trade

- Voluntary trade is a key to a healthy market economy.
- VT goes on when both parties are able to gain something for the exchange.
- Ideally, this happens without government restrictions or regulations.

**How do you participate in voluntary trade every day?

Specialization

- Specialization is where a country makes the products they can produce BEST and most efficiently to sell on the world market
- Not every country can produce **all** of the goods and services it needs.
- Therefore, countries specialize in producing those goods and services they can produce most efficiently.
- In international trade, no country can be completely self-sufficient.

Specialization

- Specialization encourages trade and can be a positive factor in a country’s economy. Specialization occurs when one country can produce a good or service at a lower opportunity cost than another country.
- What are the potential problems of over-specialization, such as one-crop economies and lack of diversification? How can this impact a region’s economy?

Exchange Rate

- Does every country use the same currency?
- Therefore, an "Exchange rate" is necessary in order for international trade to exist
  - For example:
    - One Dollar = .75 Euro
    - One Dollar = 10.28 South African Rand

Currency Exchange

- Currency exchange – the act of exchanging money from one currency to another

Example: dollar to a euro

- Exchange rates provide a procedure for determining the value of one country's currency in terms of another country's currency. Without a system for exchanging currencies, it would be very difficult to conduct international trade.

Trade Barriers

- **Tariff** – a duty levied by a government on imported or exported goods; a list of fees fares, or other prices charged by a business.
- **Quota** – a maximum number or quantity that is permitted or needed
- **Embargos –** a government order restricting or prohibiting commerce, especially trade in a given commodity or with a particular nation

- **Why would a specific trade barrier be used and how would that trade barrier affect each country involved?**

Trade Barriers

Type of Barrier	Definition	Barrier in Action	Why it matters	Illustration
TARIFF				
QUOTA				
EMBARGO				

Trade Barriers

Type of Barrier	Definition	Barrier in Action	Why it matters	Illustration
TARIFF	A tax on imports	The United States charges a 30% tax on all steel entering the country. This helps protect U.S. steel companies from foreign competition.	Tariffs make money for the importing country. They also raise the price of imported goods, encouraging people to buy items made in their own country.	
QUOTA	A limit on the amount of products that can come into a country.	In the 1980s, the Japanese only exported only a certain number of cars to the US.	Quotas helps to encourage the people of a country to buy products made in their country and not foreign goods.	
EMBARGO	Cutting off trade to a certain country because of political reasons.	Because of Saddam Hussein's actions in 1990, the United States put an embargo on Iraqi products.	Embargoes hurt the exporting country because we don't buy their products. It also makes a political statement.