International Economics Test November 18th SSENI1-SSENI3

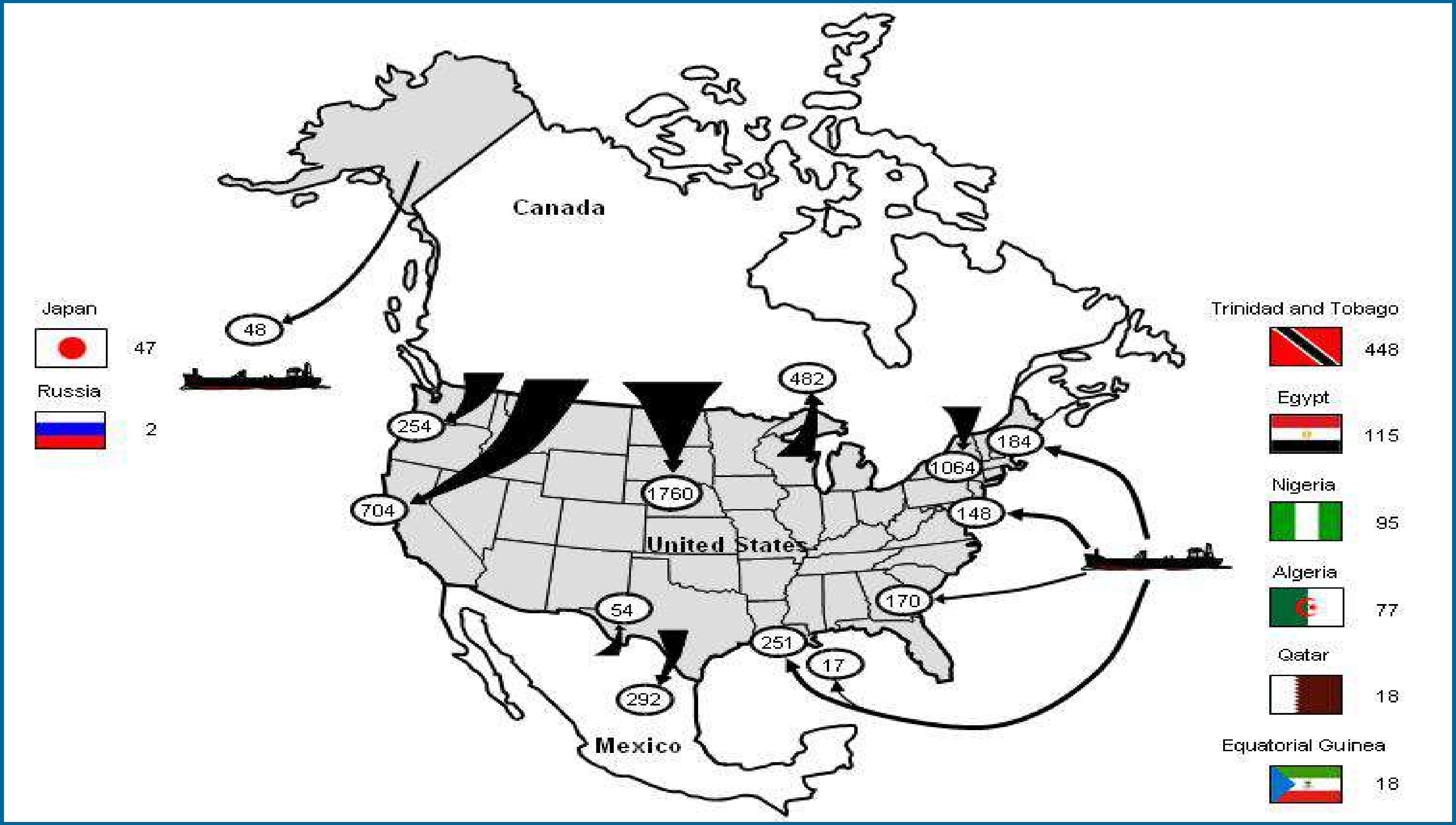
International Economics:

- The study of how economics in other countries and regions of the world affect one another.

Int. Trade

- The buying and selling of goods and services across national boarders.

Imports



Canada
United States
Mexico
Japan
47
Russia
2
48
254
704
1760
482
1064
184
148
170
54
292
251
17
Trinidad and Tobago
448
Egypt
115
Nigeria
95
Algeria
77
Qatar
18
Equatorial Guinea
18

- Goods that nations buy from another country

Exports

- Goods that a nation sells to other countries.

Market Advantage:

- Occur when one country has abundance of resources and/or produce certain products more efficiently and in greater quantity than a competing nation.

Create a list of Countries and their Market Advantage…..

SSEIN1

- The Student will explain why individuals, businesses, and governments trade goods and services.

SSEIN1:a

- Define and distinguish the between absolute advantages and comparative advantages.

Absolute Advantage

- The ability to produce a good using fewer inputs than other producers
- A country can produce a product using less resources than another country.

Comparative Advantage:

- A country has comparative advantage when it can produce a good a lower *opportunity cost* than another nation or/in compared to another country.

Opportunity Cost:

- Is *what* a person, business, or government gives up when it allocates its resources one way instead of another.

Absolute Advantage Chart:

	Japan	USA
Cars	25	60
Computers	100	46

- Which country has the absolute advantage?

Comparative Advantage:

- Is good because a country can produce the good at a lower opportunity cost compared to another country.

SSEIN1:b

- Explain that most trade takes place because of comparative advantage in the production of a good or service

- Trade takes place most often because of differences in comparative advantages

SSEIN1: c

- Explain the difference between balance of trade and balance of payment

Balance of Trade

- A nations B. of T. is the difference between the value of its imports and the value of its exports in a given year

More explanation:

- Value of all money coming and going into the country thanks to exports, minus all of the money going out of the country as it pays for imports.

Balance of Trade

- The rate at which a nation trade with other nations.

Favorable Balance of Trade

- Is when a country exports more than it imports (brings money into the economy)

Unfavorable balance of trade

- Is when a nation imports more than it exports

Balance of Payments

- The difference between the total amount of money coming into a nation and the total amount leaving the country.

- Assume America buys $4 million worth of shoes from France? How are the balance of trade and balance of payments affected?

- The balance of trade and balance of payments will both decrease by $4million why?

SSEIN2:

- The student will explain why countries sometimes erect trade barriers and sometimes advocate free trade.

SSEIN2:a

- Define *trade barriers* as <u>tariffs</u>, <u>quotas</u>, <u>embargoes</u>, <u>standards</u>, and <u>subsidies</u>.

Trade Barriers

- Imposed to improve the balance of payments and to protect businesses in certain domestic industries and nations.

Tariffs

- A tax on certain imported goods.
  - Tariffs make imported goods more expensive to buy, because the costs is passed on the consumers.
  - What do you think the tariff is on goods from China?

Quotas:

- A Limit on the number of certain products that can be imported from another nation.
- *"Limit of 1 million tons of sugar to be imported"*

- Business owners lobby for quotas, because barriers increase their revenue!
  - What are some examples?

Embargoes

- When a country imposed economic sanctions
- The most severe trade barrier
- A total ban on one or more products from a particular nation.

- “Mexican imports abolished”
- 1979: Us stopped shipping grain to the us after soviet invaded Afghanistan!

- Why is an embargo used in situations where countries have severe political differences?

- What can Embargoes create?
- What did America create in Russia when it stopped shipping grain to America?

Subsides

- A payment from the government to businesses. Trade Barriers increase the likely hood of Subsidy payments!

- Involve direct financial aid, often through tax credits or tax deductions, to certain domestic industries. (Protecting Domestic firms)

DRAW BACK to Subsides:……

- Higher Taxes!!!!

BUT, Subsides are….

- Beneficial to both domestic producers AND Domestic Consumers of a good.
- “US producers of wheat get big payday from congress.”

Standards

- A means to regulate trade and provide specific guidelines on goods coming into the country. In the following way:

- rules concerning the quality of imported goods to meet health standards.
  - Goods that do not meet the standards are not accepted into the country

SSEIN2:b

- Identify costs and benefits of trade barriers over time.

Benefits to trade Barriers

- Help Domestic businesses compete at home
- Protect domestic jobs
- Maintain standers of safety in the market place
- Help poorer nations that are still trying to develop economically and compete with wealthier nations.

Costs to Trade Barriers

- Limit the number of goods in the market place driving up the prices
- Tariffs
- “Usually result in people having to pay more for things they want…”

SSEIN2:c

- List specific examples of trade barriers.

- Refer to the items in quotes.

SSEIN2:d

- List Specific example of trading blocs such as EU, NATA, AND ASEAN.

EU: European Union

- Trading union consisting of 25 European nations that facilitates trade and commerce as it seeks to create a unified regional, rather than national, economy. = Promotes free trade

ASEAN: Association of Southeast Asian Nations

- International organization that aims to accelerate economic growth, social progress, and cultural development among its members = free trade…has almost eliminated all tariffs with in its countries.

NAFTA: North American Free Trade Agreement (NAFTA)

- Trade agreement ratified during the Clinton administration, which lowered trade barriers between the U.S., Canada, and Mexico. It caused concerns in the US as

- Some feared it would result in the loss of US jobs. Proponents of the agreement argued, however, that NAFTA would benefit the economy by allowing U.S. businesses greater access to foreign markets. = Promotes free trade.

SSEIN2:e

- Evaluate arguments for and against free trade.

FREE TRADE:

- Open trade between nations without any barriers to imports.

Quick Assignment:

- Write an argument for free trade.
- Write an argument against free trade.
  - Must use information from SSEIN2 (a&b,d) to answer question.

- People who oppose strong tariffs and quotes could argue that the barrier will lead to higher prices and fewer imported goods.

SSEIN3

- The student will explain how changes in exchange rates can have an impact on the purchasing power of individuals in the U.S. and in other countries.

SSEIN3:a

- Define exchange rates as the prices of one nation’s currency in terms of another nation’s currency.

Exchange Rates

- Relative values of different currencies are expressed as an exchange rate, the price of one nation’s currency in terms of another nation’s currency.

Fixed Exchange Rate

- Establishes a price for a foreign currency that is tied to a stable currency of a developed country. Ex. China, Belize, and Panama

Floating Exchange Rate

Is Determined by supply and Demand Rate

Ex. US, Japan, Canada, and Romania

SSEIN3:b

- Locate information on exchange charts

	1 YEN	1 US DOLLAR	1 EURO
YEN	1	96.86	125
US DOLLAR	.03	1	1.22
ERO	.0024	.78	1

SSEIN3:C

- Interpret exchange rate tables.

- $1=.03 YEN
- $1,000= .03 YEN X 1,000 = ____________YEN

- If American beef costs 250 pound, then the Japanese importer must exchange 250 yen for about __________ to pay for each pound of beef.
- 1 yen= .008 U.S. Dollar
- 250 yen= $.008 X 250 =

SSEIN3:d

- Explain why, when exchange rates change that some groups benefit and other lose.

Appreciation and Depreciation

- Some Americans benefit from a strong dollar, while other benefit from a week dollar.

Strong, Appreciate Dollar

- Imports increase and are cheaper from consumers to buy
- Travel abroad is cheaper for American Tourists
- U.S. Exports decline
- U.S. trade deficit increase

Weak or depreciated dollar:

- U.S. exports increase and the prices or exports go up
- Travel abroad is more expensive for American tourist
- U.S. imports decline and the price of imports increase
- Foreign investment in U.S. businesses increase.

- Imports will increase and exports will decrease if the US dollar becomes stronger relative to other currencies.

Depreciation

- Who benefits when a currency Depreciates?
- Hint: Countries will devalue its currency if the trade deficit is high. Why?

- Foreign governments with US Treasury Bonds benefit when the US dollar depreciates against other currencies explain…by creating your own table…..