In this lesson we will:
- Discuss what are the recent trends in international trade
- Analyze the ways nations benefit from international trade
- Consider the impact of trade restrictions on the economy and why they are popular

We live in an increasingly global economy where in 2000 approximately 21% of the world products end up being sold in another country.

- Trade between countries varies greatly. In Liberia trade (average of exports & imports) represented over 580% of GDP. Malaysia & Singapore have trade that is 98% & 84% of their GDP respectively. On the other hand, trade in Congo, Japan and the U.S. represents 3.1%, 8.3% & 10.2% of the economy respectively.
- In the U.S. both exports and imports have been growing as a percent of GDP. Who are our main trading partners & why?
- The U.S. exports capital goods, supplies, crafts & chemicals. What do we import?
- 90% of all shoes and 2/3 of all electronics are produced abroad. Why these goods?

Gains from International Trade:
- Absolute Advantage: Some countries can produce more of one good compared to another country. Saudi Arabia has the largest petro reserve in the world. More examples.
- Comparative Advantage: Some countries can produce a certain goods more efficiently (at a lower cost) than other countries. Coffee in Columbia & textile in Vietnam.

Expanding the Countries Consumption Possibilities:
- Each country specializes in the good in which it has a comparative advantage. Which?
- Countries trade along a trade line. What are the terms of trade?
Assume: No transportation costs & constant production costs. What does it mean for a country to be more efficient? What if Japan became more efficient at producing cars?
The Benefits of Trade:
- Consumers are able to buy from a larger market and for a lower cost. *Examples?*
- Firms in industries with *economies of scale* can reduce their production cost
- An integrated market increases competition and reduces costs for firms. *Examples?*
- *Openness* compels governments to use sound policies such as a low deficit

Many Americans support the use of *tariffs* and other *non-tariffs barriers* such as *quotas*.
- Tariffs peaked during WWII at over 60% (on average) to 4% these days.
- The World Trade Organizations was built to facilitate trade and reduce trade barriers.
- Tariffs reduce consumers surplus and increase deadweight loss.

![Graph showing the effects of trade and tariffs](image)

**What effect does trade have on:**
- Consumer Surplus?
- Producer Surplus?
- Efficiency?

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Arguments for Adopting Trade Barriers:
- Protect jobs from going abroad. *Are American jobs in danger?*
- Promote infant industries. *Will infant industries ever mature with trade barriers?*
- National defense for industries such as petroleum and others … *Is this necessary?*
- Anti-dumping Argument: Some countries dump their goods at below cost

Why Are Trade Barriers Popular?
- The benefits tend to be very visible while the costs are dispersed. *Who bears the costs?*
- People assume that restricting imports will save American jobs. *How does it hurt American exports and American jobs?*
- American workers think that they are not able to compete with foreigners who work for a much lower wage. However, American workers are more productive (*why?*) and have a comparative advantage in many industries (*which industries?*)

Evidences suggest that countries with *trade openness* have a higher GDP per Capita and a higher rate of growth.
- The 12 most open countries have an average GDP per Capita of $25,000 and a growth rate of 2.7%. While the bottom 12 have a GDP/Capita of $3,250 and a .4% growth.

**Review:** pp. 411-12, problems 1, 4, 5, 9, 11 & 14.