

1  **Why Nations Trade**

- How does resource distribution affect trade?
- What are the differences between absolute and comparative advantage?
- What are the major imports and exports of the United States?
- How does trade affect employment?

2  **Resource Distribution and Trade**

- Each country of the world possesses different types and quantities of land, labor, and capital resources.
- By specializing in the production of certain goods and services, nations can use their resources more efficiently.
- Specialization and trade can benefit all nations.

3  **Absolute and Comparative Advantage**

- 1  • A person or nation has an absolute advantage when it can produce a particular good at a lower cost than another person or nation.
- 2  • Comparative advantage is the ability of one person or nation to produce a good at a lower opportunity cost than that of another person or nation.

4  **Benefits of Trade**

5  **Imports and Exports of the United States**

6  **Trade and Employment**

- Workers who lose their jobs due to specialization face three options:
  - Unemployment: Inability to adapt and find a new job
  - Relocation: Moving to where current skills meet current jobs
  - Retraining: Gaining new human capital to meet the demands of specialized labor markets

7  **Section 1 Assessment**

1. Trade benefits both wealthy and poor countries because
  - (a) self-sufficiency is too costly.
  - (b) both wealthy and poor countries increase their wealth if they specialize.
  - (c) both wealthy and poor countries lack human resources.
  - (d) without trade neither wealthy nor poor countries could increase their wealth.
2. What is the law of comparative advantage?
  - (a) a country is better off producing goods for which they have a comparative advantage in supplying
  - (b) a country that supplies things for others has a comparative advantage in trade
  - (c) a country has a comparative advantage if it produces goods for export
  - (d) a country's greatest advantage is in the import of goods that it cannot produce

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9  **Trade Barriers and Agreements**

- What are trade barriers?
- What are the effects of trade barriers?
- What is protectionism?
- What organizations promote international cooperation on matters of trade?

10  **What Are Trade Barriers?**

- Import Quotas
  - An import quota is a limit on the amount of a good that can be imported.
- Voluntary Export Restraints
  - A voluntary export restraint (VER) is a self-imposed limitation on the number of products shipped to a certain country.
- Tariffs
  - A tariff is a tax on imported goods, such as a customs duty.
- Other Barriers to Trade
  - Other barriers to trade include high government licensing fees and costly product standards.

11  **The Effects of Trade Restrictions**

Increased Prices for Foreign Goods

- Tariffs and other trade barriers increase the cost of imported products, making domestic products more competitive.
- Although manufacturers of many products may benefit from trade barriers, consumers can lose out.

Trade Wars

- When one country restricts imports, its trading partner may impose its own retaliatory restrictions.

12  **Arguments for Protectionism**

- Protecting Jobs
  - Protectionism shelters workers in industries that would be hurt by specialization and trade.
- Protecting Infant Industries
  - Protectionist policies protect new industries in the early stages of development.
- Safeguarding National Security
  - Certain industries may require protection from foreign competition because their products are essential to the defense of the United States.
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13  **International Cooperation**

- Recent trends have been toward lowering trade barriers and increasing trade through international trade agreements.
- In 1948, the General Agreement on Tariffs and Trade (GATT) was established to reduce tariffs and expand world trade.
- In 1995, the World Trade Organization (WTO) was founded to ensure compliance with GATT, to negotiate new trade agreements, and to resolve trade disputes.

14  **Global Trade Agreements**

15  **Section 2 Assessment**

1. Protectionism does not
  - (a) protect immigrant labor.
  - (b) protect domestic jobs.
  - (c) protect infant industries.
  - (d) safeguard national security.
2. Members of regional trade organizations generally work together to
  - (a) abolish free-trade zones.


- (b) limit commerce between member states.
- (c) establish centrally planned economies.
- (d) eliminate trade barriers.

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17  **Measuring Trade**

- How do exchange rates affect international markets?
- How do exchange rate systems vary?
- What is a balance of trade?
- What is the United States trade deficit?

18  **Exchange Rates and International Markets**

- An increase in the value of a currency is called appreciation.
- A decrease in the value of a currency is called depreciation.
- Multinational firms convert currencies on the foreign exchange market, a network of about 2,000 banks and other financial institutions.

19  **Reading an Exchange Rate Table**

20  **Types of Exchange Rate Systems**

① **Fixed Exchange-Rate Systems**

- A currency system in which governments try to keep the values of their currencies constant against one another is called a fixed exchange-rate system.
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② **Flexible Exchange-Rate Systems**

- Flexible exchange-rate systems allow the exchange rate to be determined by supply and demand.


21  **Balance of Trade**

- ① • When a nation exports more than it imports, it has a trade surplus.
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- ② • When a nation imports more than it exports, it creates a trade deficit.

22  **The United States Trade Deficit**

- The Trade Deficit
  - The United States has run a trade deficit since the early 1970s.
- Why the Trade Deficit?
  - Imports of foreign oil as well as Americans' enjoyment of imported goods account in part for the large American trade deficit.
- Reducing the Trade Deficit
  - Quotas and other trade barriers can be used to raise prices of foreign-made goods and urge consumers to buy domestic goods.

23  **Section 3 Assessment**

1. When a nation imports more than it exports, economists say it has a

- (a) trade insufficiency.
  - (b) trade deficit.
  - (c) balance of payments.
  - (d) trade surplus.
2. When an economist says that a currency has become stronger, he or she means that
- (a) it will buy less foreign goods.
  - (b) it can be exchanged for more of a foreign currency.
  - (c) services, unlike goods, can be exported freely.
  - (d) there are very few things that the currency cannot buy in a foreign market.

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