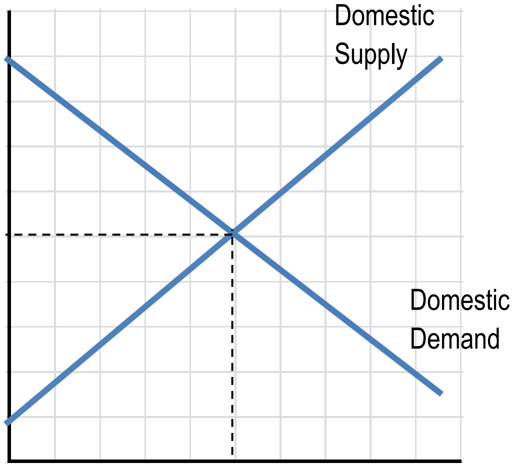
CLUTCH

www.clutchprep.com

CONCEPT: INTERNATIONAL TRADE – EXPORTING AND IMPORTING

● Countries should produce and trade goods for which they have a ______________________ over other countries.

□ ***Autarky*** – when a country _____________ trade with other countries



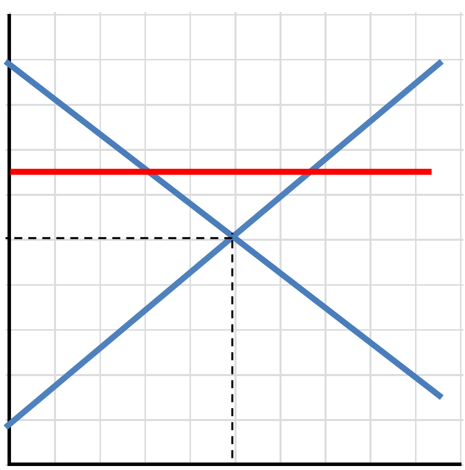
Domestic Price – The equilibrium price without trade

World Price – The price in the worldwide market

- International Trade happens at the world price.

- Quantities will always be _____________

□ High World Price: Export



Domestic Quantity Surplus → ______________

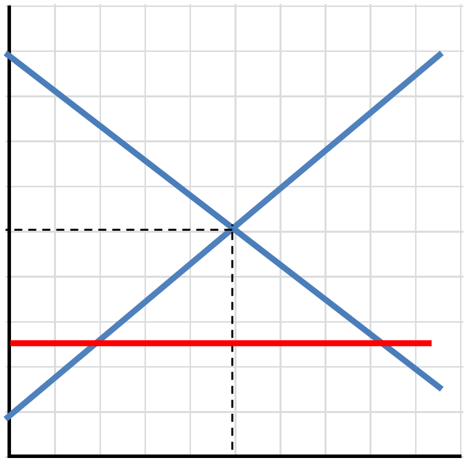
Exports – Goods produced __________________ but sold _______________________

	Before Trade (Autarky)	After Trade (Export)	Change
Consumer Surplus			
Producer Surplus			
Total Surplus			

- Exporting makes a country's _______________ better off and _______________ worse off.

- However, the nation is better off because the gains to __________ exceed the losses to __________

□ Low World Price: Import



Domestic Quantity Shortage → _______________

Imports – Goods produced _____________________

but sold ___________________

	Before Trade (Autarky)	After Trade (Import)	Change
Consumer Surplus			
Producer Surplus			
Total Surplus			

- Importing makes a country's _______________ better off and _______________ worse off.
- However, the nation is better off because the gains to __________ exceed the losses to __________

PRACTICE: A nation practicing autarky has a domestic price of extremely tight pants that is lower than the world price. If the nation opened up trade,

a) It would become an extremely tight pants exporter because the nation has a comparative advantage in producing extremely tight pants.

b) It would become an extremely tight pants importer because the nation has a comparative advantage in producing extremely tight pants.

c) It would become an extremely tight pants exporter because the nation does not have a comparative advantage in producing extremely tight pants.

d) It would become an extremely tight pants importer because the nation does not have a comparative advantage in producing extremely tight pants.

CONCEPT: SOURCES OF COMPARATIVE ADVANTAGE

- Comparative advantage in production of a good can be affected by various factors:

□ ***Differences in Climate***

Costa Rica	United Kingdom

□ ***Differences in Domestic Factors of Production***

Canada	Iraq

□ ***Differences in Amounts of Labor and Capital***

USA	China

□ ***Differences in Technology***

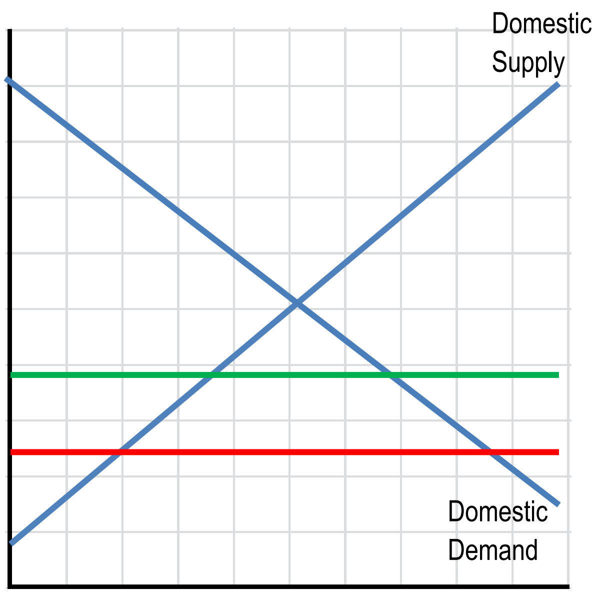
USA	Japan

□ ***External Economies*** – a geographical advantage due to the location of an industry

Southern California	London

CONCEPT: TARIFFS

● A ***tariff*** is a tax on ______________. Tariffs impede _________________, but provide tax revenue for the government.



	Before Tariff	After Tariff	Change
Consumer Surplus			
Producer Surplus			
Total Surplus			
Government Revenue			
Deadweight Loss			

□ A tariff causes consumer surplus to ___________ and producer surplus to _____________.

□ As with all taxes, a tariff creates a _______________________ and provides the government with revenue.

● A government can impose a tariff for two reasons:

□ ***Revenue Tariff*** – provides the government with tax revenue

□ ***Protective Tariff*** – defends domestic producers from foreign competition

- Domestic producers lobby government to add tariffs

PRACTICE: If a nation imposes a tariff on an imported good, it will increase

a) The domestic quantity demanded
b) The domestic quantity supplied
c) The quantity imported from abroad
d) All of the above

PRACTICE: Which of the following trade policies would benefit domestic producers, hurt domestic consumers, and increase the amount of trade?

a) An increase of a tariff in an importing country
b) A reduction of a tariff in an importing country
c) Starting to allow trade when the world price is greater than the domestic price
d) Starting to allow trade when the world price is less than the domestic price

PRACTICE: A tariff on imports benefits domestic producers because

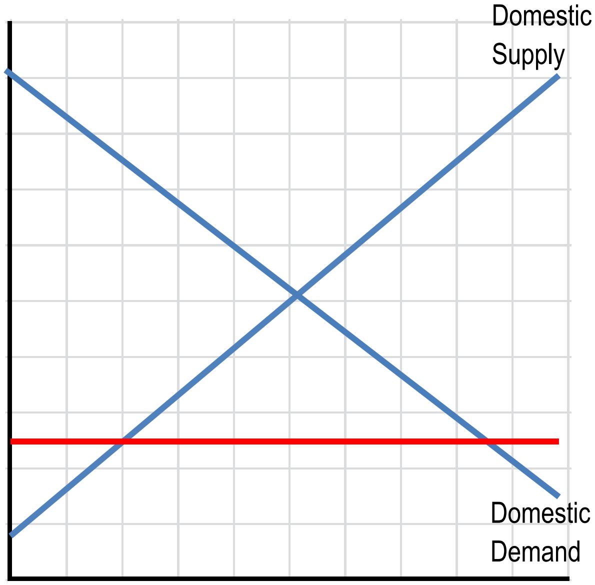
a) They receive the tariff revenue
b) It prevents imports from rising above a specified quantity
c) It reduces their producer surplus, making them more efficient
d) It raises the price for which they can sell their products in the domestic market.
e) All of the above

CONCEPT: IMPORT QUOTAS AND VOLUNTARY EXPORT RESTRAINT (VER)

● An ***import quota*** sets a numerical limit on the amount of a good that can be imported (ex. 1,000 units of the good).

□ Import quotas help protect domestic suppliers against low world prices.

EXAMPLE: The world price for oversized lollipops is $2.50. At the world price, domestic demand is 85,000 oversized lollipops and domestic supply is 20,000 oversized lollipops. The government sets an import quota of 25,000 units.



	Before Quota	After Quota	Change
Consumer Surplus			
Producer Surplus (domestic)			
Producer Surplus (foreign)			
Government Revenue			
Deadweight Loss			

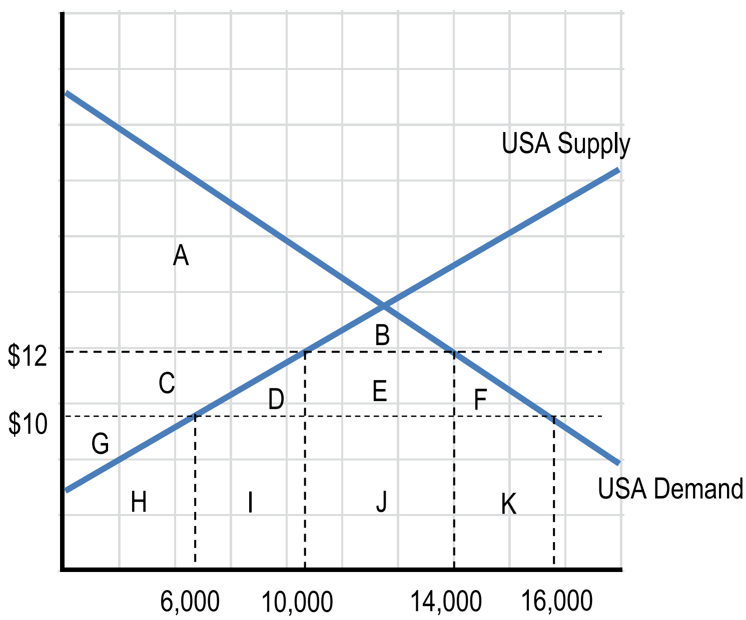
□ An import quota causes consumer surplus to ____________ and producer surplus to ______________.

● A ***voluntary export restraint (VER)*** is an agreement between two countries placing a limit on the amount traded.

□ Same results as an import quota!

Tariff	Import Quota / VER

PRACTICE: Suppose the USA currently both produces and imports wacky waving inflatable arm flailing tube men. The government decides to restrict international trade by imposing a quota that limits the import of wacky waving inflatable arm flailing tube men to 4,000 units. The figure shows the results of the quota. Fill in the following table, using the data from the figure.



	Without Quota	With Quota
World Price		
USA Price		
Quantity Supplied by US Firms		
Quantity Demanded by US Consumers		
Quantity Imported		
Area of Consumer Surplus		
Area of Domestic Producer Surplus		
Area of Deadweight Loss		

CONCEPT: ARGUMENTS AGAINST INTERNATIONAL TRADE

● ***Protectionism*** – shielding a country's domestic industries from foreign competition

	Against International Trade	Rebuttal
Jobs Argument	"They took our jobs"	Short Run: Long Run:
National-Security Argument	"We will trade key resources to our enemies that may affect national security"	
Infant Industry Argument	"My new company can't compete with foreign competition"	
Unfair Competition Argument	"They play by different rules"	
Protection-as-a-Bargaining Chip	"Take off your tariff or I'll add one"	

● On top of the gains from trade that increase total surplus, international trade offers other benefits:

- ☐ Increased variety of goods
- ☐ Lower costs through economies of scale
- ☐ Increased competition
- ☐ Enhanced flow of ideas