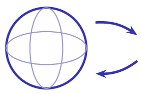
International Economic Issues

A-Level Economics ▪ Topic 6

A-Level Economics



What we will cover

trade moves goods worldwide

1 Trade

Comparative advantage

A country has **comparative advantage** 比较优势 in the good it can produce at lower opportunity cost. Both countries gain from trade if they specialise that way – even if one has absolute advantage in both.

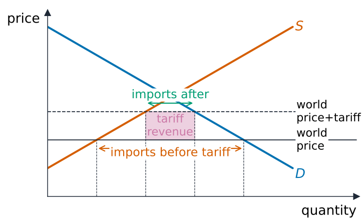
> Absolute advantage is who is better. Comparative advantage is who gives up less.

Protectionism

tariff 关税	**quota** 配额	**subsidy** 补贴	**embargo** 禁运	**admin** 行政壁垒
tax on imports	import limit	help home firms	total ban	red tape

> **For**: **infant industry** 幼稚产业, jobs, stop **dumping** 倾销. **Against**: higher prices, inefficiency, **retaliation** 报复.

How a tariff works



A **tariff** 关税 raises the price to "world price + tariff":

- home supply rises, demand falls, imports shrink
- the box is government revenue

Producers & government gain; consumers lose.

2 Balance of payments and exchange rates

The balance of payments

the current account
- trade in **goods** (physical exports & imports)
- trade in **services** (tourism, banking)
- **primary income** (wages, profit, interest)
- **secondary income** (transfers, aid)

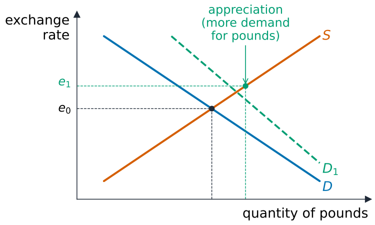
The **current account** 经常账户 adds up four flows: trade in goods & services, plus **primary income** 初次收入 (work & investment) and **secondary income** 二次收入 (transfers). A **deficit** 经常账户赤字: buy more than you sell.

Exchange rate systems

An **exchange rate** 汇率 is the price of one currency in another.

- **floating** 浮动汇率 – set by demand & supply
- **fixed** 固定汇率 – held by the central bank
- **managed** 管理浮动汇率 – floats, with occasional steering

Appreciation and depreciation



- **appreciation** 升值 – value rises: exports dearer, imports cheaper
- **depreciation** 贬值 – value falls: exports cheaper, imports dearer

A depreciation can help the current account but raise inflation.

Correcting a current account deficit

expenditure-reducing 支出减少	**expenditure-switching 支出转换**	**supply-side**
lower demand → fewer imports	tariff or weaker currency → home goods	raise **competitiveness** 竞争力 (slow)

3 Recap

Worked example – terms of trade

Export prices rise $100 \to 110$; import prices rise $100 \to 105$. Find the new terms of trade.

- Terms of trade $= \dfrac{\text{export price index}}{\text{import price index}} \times 100$
- $= \dfrac{110}{105} \times 100 = 104.8$
- Above 100 $\Rightarrow$ the terms of trade have improved: each export buys more imports.
- But an improvement is not always good – dearer exports may sell far fewer units.

"Improved" means only that the ratio rose. Whether the current account gains depends on elasticity – see Marshall-Lerner.

Topic 6 – key takeaways

1 Comparative adv.

specialise where opportunity cost is lowest

2 Protectionism

tariffs, quotas, subsidies – risk retaliation

3 Balance of payments

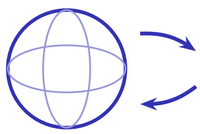
current account: goods, services, income

4 Exchange rates

float/fix/manage; depreciation aids exports

Check yourself

1. Comparative advantage is about which cost?
2. A quota limits what?
3. Name a part of the current account.
4. Depreciation makes exports cheaper or dearer?



Answers **1.** opportunity cost **2.** the quantity imported **3.** goods / services / primary / secondary income **4.** cheaper