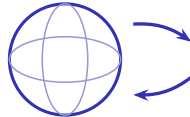


International Economic Issues

A-Level Economics ■ Topic 6

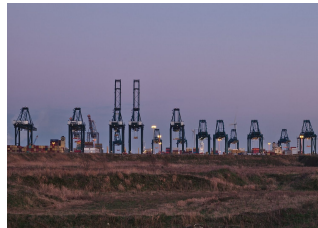
A-Level Economics



International Economic Issues

What we will cover

- 1 Comparative advantage
- 2 Protectionism
- 3 Tariffs
- 4 The balance of payments
- 5 Exchange rates
- 6 Correcting a deficit



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

tax on imports

quota

配额

import limit

subsidy

补贴

help home firms

embargo

禁运

total ban

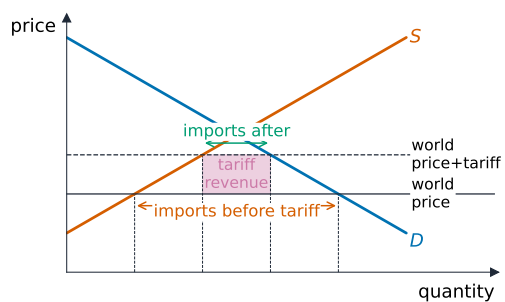
admin

行政壁垒

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.

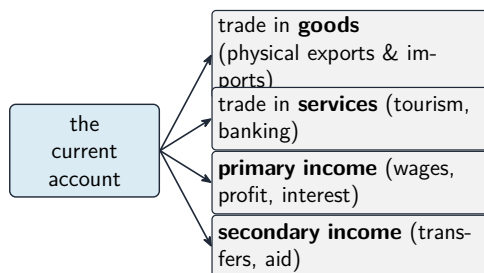
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Balance of payments and exchange rates

International Economic Issues

└ Balance of payments and exchange rates

The balance of payments

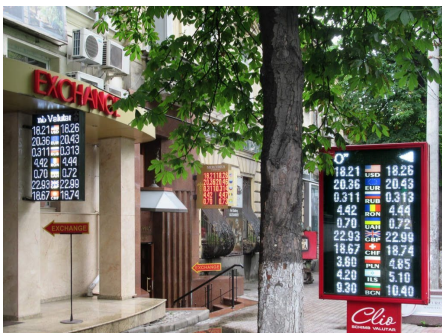


The **current account** 经常账户 adds up four flows: trade in goods & services, plus **primary income** 初次收入 (work & investment) and **secondary income** 二次收入 (transfers). A **deficit** 经常账户赤字: buy more than you sell.

International Economic Issues

└ Balance of payments and exchange rates

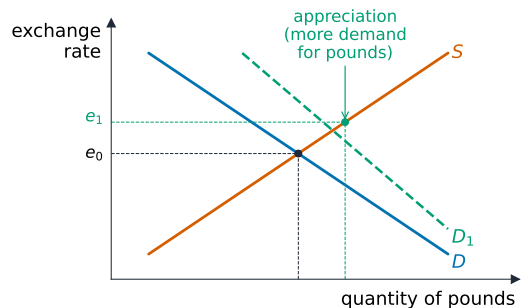
Exchange rate systems



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

lower demand
→ fewer imports

expenditure-switching 支出转换

tariff or weaker currency
→ home goods

supply-side

raise competitiveness 竞争力
(slow)

3

Recap

Worked example – terms of trade

Export prices rise 100 → 110; import prices rise 100 → 105. Find the new terms of trade.

- Terms of trade = $\frac{\text{export price index}}{\text{import price index}} \times 100$
- = $\frac{110}{105} \times 100 = 104.8$
- Above 100 ⇒ 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

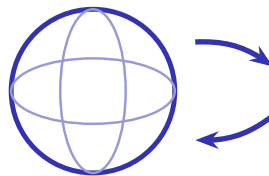
current account: goods, services, income

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