

## 3.1 INTERNATIONAL TRADE

### Terms & Objectives

#### ≠ TERMS

- ◁ Free Trade
- ◁ Absolute Advantage (HL)
- ◁ Theory of Absolute Advantage (HL)
- ◁ Comparative Advantage (HL)
- ◁ Theory (or Law) of Comparative Advantage (HL)
- ◁ Specialization
- ◁ Factor Endowments
- ◁ Foreign Exchange (or Foreign Currencies)
- ◁ World Trade Organization (WTO)
- ◁ Trade Protection
- ◁ Tariffs
- ◁ Import Quota
- ◁ Subsidies
- ◁ Infant Industry
- ◁ Administrative Barriers
- ◁ Dumping
- ◁ Anti-Dumping

#### ≠ OBJECTIVES

### I. FREE TRADE

#### The Benefits of Trade

- ∅ Explain that gains from trade include lower prices for consumers, greater choice for consumers, the ability of producers to benefit from economies of scale, the ability to acquire needed resources, a more efficient allocation of resources, increased competition, and a source of foreign exchange.

#### Absolute & Comparative Advantage (HL)

- ∅ Explain the theory of absolute advantage.
- ∅ Explain, using a diagram, the gains from trade arising from a country's absolute advantage in the production of a good.
- ∅ Explain the theory of comparative advantage.
- ∅ Describe the sources of comparative advantage, including the differences between countries in factor endowments and the levels of technology.
- ∅ Draw a diagram to show comparative advantage.
- ∅ Calculate opportunity costs from a set of data in order to identify comparative advantage.
- ∅ Draw a diagram to illustrate comparative advantage from a set of data.
- ∅ Discuss the real-world relevance and limitations of the theory of comparative advantage, considering factors including the assumptions on which it rests, and the costs and benefits of specialization (a full discussion must take into account arguments in favor and against free trade and protection—see below).

## The World Trade Organization (WTO)

- ∅ Describe the objectives and functions of the WTO.

## II. RESTRICTIONS ON FREE TRADE: TRADE PROTECTION

### Types of trade protection

- ∅ Explain, using a tariff diagram, the effects of imposing a tariff on imported goods on different stakeholders, including domestic producers, foreign producers, consumers and the government.
- ∅ Explain, using a diagram, the effects of setting a quota on foreign producers on different stakeholders, including domestic producers, foreign producers, consumers and the government.
- ∅ Explain, using a diagram, the effects of giving a subsidy to domestic producers on different stakeholders, including domestic producers, foreign producers, consumers and the government.
- ∅ Describe administrative barriers that may be used as a means of protection.
- ∅ Evaluate the effect of different types of trade protection.
- ∅ Calculate from diagrams the effects of imposing a tariff on imported goods on different stakeholders, including domestic producers, foreign producers, consumers and the government. **(HL)**
- ∅ Calculate from diagrams the effects of setting a quota on foreign producers on different stakeholders, including domestic producers, foreign producers, consumers and the government. **(HL)**
- ∅ Calculate from diagrams the effects of giving a subsidy to domestic producers on different stakeholders, including domestic producers, foreign producers, consumers and the government. **(HL)**

### Arguments for and against trade protection (arguments against and for free trade)

- ∅ Discuss the arguments in favor of trade protection, including the protection of domestic jobs, national security, protection of infant industries, the maintenance of health, safety and environmental standards, anti-dumping and unfair competition, a means of overcoming a balance of payments deficit and a source of government revenue.
- ∅ Discuss the arguments against trade protection, including a misallocation of resources, the danger of retaliation and "trade wars", the potential for corruption, increased costs of production due to lack of competition, higher prices for domestic consumers, increased costs of imported factors of production and reduced export competitiveness.