



Chapter 17: International Trade Section 1

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Objectives

1. **Evaluate** the impact of the unequal distribution of resources.
2. **Apply** the concepts of specialization and comparative advantage to explain why countries trade.
3. **Summarize** the position of the United States on world trade.
4. **Describe** the effects of trade on employment.



Key Terms

- **export:** a good or service sent to another country for sale
- **import:** a good or service brought in from another country for sale
- **absolute advantage:** the ability to produce more of a given product using a given amount of resources



Key Terms, cont.

- **comparative advantage:** the ability to produce a product most efficiently give all the other products that could be produced
- **law of comparative advantage:** the principle that a nation is better off when it produces goods and services for which it has a comparative advantage
- **interdependence:** the shared need of countries for resources, goods, services, labor, and knowledge supplied by other countries



- Why do nations trade?
 - Nations trade because they don't have enough natural resources or the right kind of natural resources to provide for their entire population.
 - Different nations specialize in different products, but can't specialize in all products so they need to trade with other nations to obtain the products they can't make themselves.



Natural Resources

- Natural resources, capital (both human and physical), and labor help determine what goods and services an economy will produce.
 - The availability of resources varies greatly from one country to another. A nation's ability to use its physical resources, is affected by culture and history.



Resource Distribution

- Like all countries, the countries shown on the table below possess different natural, human, and physical resources.
 - Which resource on this chart is most closely related to human capital?

	India	Peru	United Kingdom	United States
Total area (sq km)	3,287,590	1,285,220	244,820	9,826,630
Arable land (%)	48.83	2.88	23.23	18.01
Natural resources	Coal, iron ore, manganese, mica, bauxite, titanium ore, chromite, natural gas, diamonds, petroleum, limestone, arable land	Copper, silver, gold, petroleum, timber, fish, iron ore, coal, phosphate, potash, hydropower, natural gas	Coal, petroleum, natural gas, iron ore, lead, zinc, gold, tin, limestone, salt, clay, chalk, gypsum, potash, silica sand, slate, arable land	Coal, copper, lead, molybdenum, phosphates, uranium, bauxite, gold, iron, mercury, nickel, potash, silver, tungsten, zinc, petroleum, natural gas, timber
Population	1.1 billion	28,674,757	60,776,238	301,139,947
Labor force	509.3 million	9.21 million	31.1 million	151.4 million
Literacy rate	61%	87.7%	99%	99%
Telephones	215.85 million	10.83 million	103.26 million	405 million
Airports	341	268	471	14,858



Specialization

- Checkpoint: How does specialization create a need for trade?
 - When nations specialize in certain goods, they obtain the goods they cannot produce through importing and exporting.
 - In some cases, more than 70 percent of a nation's export trade depends upon a single resource.
 - Examples include Kuwait (petroleum and natural gas), Guinea-Bissau (cashews), and the Marshall Islands (fish).



Absolute Advantage

- Most nations are not self-sufficient.
- It is actually better for countries to specialize in some products and trade for others. This can be understood by looking at absolute and comparative advantage.
 - A person or nation has an absolute advantage when it can produce more of a given product than another person or nation using a given amount of resources.



Productivity and Opportunity Cost

- Carlos has an absolute advantage over Jenny in producing both T-shirts and birdhouses. However, their opportunity costs are different.
 - How many T-shirts can Carlos make in the time it takes Jenny to make 5 T-shirts?

	Carlos	Jenny
T-shirts per hour	6	1
Birdhouses per hour	2	1
Opportunity cost of one T-shirt	1/3 birdhouse	1 birdhouse
Opportunity cost of one birdhouse	3 T-shirts	1 T-shirt



Comparative Advantage

- A country has a comparative advantage in the product that it can produce most efficiently given all the products it could choose to produce.
- A nation is better off when it produces goods and services for which it has a comparative advantage.
 - According to the law of comparative advantage, each person should produce the good for which he or she has a lower opportunity cost.
 - Comparative advantage also mutually benefits both parties.
 - Checkpoint: How is trade affected by opportunity cost?



Comparative Advantage and Trade

- Trade allows countries to obtain goods for which they might have a high opportunity cost.
 - As a result, one country can use the money it earns from exporting to import other goods and services that it cannot efficiently produce itself.
- The growth of international trade has led to greater economic interdependence.
 - Because countries are interdependent, changes in one country's economy influences other countries.



The United States and Trade

- The United States is the world's second largest exporter, close behind Germany.
 - The United States has a wide range of exports and excels in manufacturing technologically sophisticated goods such as software, chemicals, and medical testing supplies. The United States is also the world's leading exporter of services.
- U.S. imports total nearly \$1.9 trillion, making it the world's top importer.



Effects on Employment

- Trade allows nations to specialize in producing a limited number of goods yet specialization can also change a nation's employment patterns.
 - Once the skills of specialization are no longer needed in a particular nation, workers have a few options:
 - Gain new job skills that are more in demand
 - Move to another location where their existing skills are more in demand
 - Stay where they are and take a job that requires lesser skills
 - Be unemployed



Effects on Employment, cont.

- In the past two decades, international trade has led to significant changes in U.S. employment patterns.
 - Many jobs have gone overseas increasing unemployment in the United States.
 - Businesses and government often provide help to retrain laid-off workers or assist them in relocating.



Effects on Employment, cont.

- Job loss is not the only possible result of trade.
 - If American exports grow, making those products will increase demand for workers who lost jobs because they were on the negative end of comparative advantage but can now try to find work in those growing industries.



Review

- Now that you have learned why nations trade, go back and answer the Chapter Essential Question.
 - Should free trade be encouraged?

