MACROECONOMICS 201
Spring 2020
NOTES 14
INTERNATIONAL TRADE

Reading Assignments:

Principles of Economics: Chapters 33 & 34
Madariaga: 32, 33, 35, 101.

Introduction:

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According to the U.S. Department of Commerce, The U.S. imported about $621 billion dollars more in goods and services than it exported in 2018 about 3% of GDP. This may seem like a lot, but in 2006,, the adverse trade balance was almost 6 % of GDP. This is living beyond our means. One reason for the decline in the adverse trade balance has been the increasing domestic production of energy (oil and natural gas). This negative trade balance is financed by **incurring a debt to other countries**. Incidently, total exports from the U.S. were about $2.5 trillion, in 2018, about 12% of total GDP, a very significant percentage. Three preliminary thoughts:

- Although happily consuming goods made in other countries with borrowed money, most Americans complain about this growing debt to other countries (which presumably must some day be repaid, or inflated away).
- ***Most*** people, including ***most*** economists, would agree that trade should eventually be balanced in the sense that the value of imports should roughly equal the value of exports.
- Moreover, most economists would also agree that trade is ***essential*** to the economic prosperity of all countries. For example, where would we be in the United States if we could not import fuel, copper, rubber, and many other items critical to our economy. Certainly, our economy and our standard of living, would be significantly lower. .

1. Do consumers in all countries benefit from international trade?

They **could**, ***provided*** trade is ***not*** encumbered by tariffs, quotas, unrealistic exchange rates, etc. When people ***specialize*** in the production of goods and services in which they have the greatest relative productivity, and then trade for goods and services from other countries , then all countries will usually enjoy more goods and services than if each country tried to produce everything themselves. We can illustrate the likely advantages of trade by using a ***very*** simple hypothetical example of wheat and cloth. Assume that a worker in the U.S. can produce either 8 units of wheat or 4 units of cloth per day while the corresponding numbers for a worker in India are 4 and 3 (see table below). For simplicity, we assume that these are the only goods produced. ***Nota bene*** that in absolute terms (what the text terms ***absolute advantage***), the U.S. worker produces more of ***either*** type of good when measured on a per day basis. How then can ***both*** nations benefit from trade?

	Cloth per day	wheat per day
U.S.	4	8
India	3	4

We assume that people in both countries ***must*** consume both wheat and cloth. To further simply the

example, assume that there are just two workers in each country. This may seem vastly oversimplified, but the conclusion that we will draw is valid for the effects of trade between countries ***when*** the components of trade are determined by free markets.

What happens in the absence of trade in our simplified example? Assume that in the absence of trade between India and the U.S., one worker in each country will be employed to produce wheat and one will be employed to produce cloth. Given this scenario, the U.S. will produce 8 units of wheat and 4 of cloth, twelve units of output overall. India will produce 4 units of wheat and 3 units of cloth or 7 overall. The ***combined*** output of both countries is 19 units of goods.

What happens with trade? Now, assume that the U.S. concentrates on producing wheat and India concentrates on cloth. By using both employees to produce wheat, the U.S. will produce 16 units of wheat, and by using both workers to produce cloth, India will produce 6 units of cloth. By each country producing the product in which it has a comparative advantage, the total combined production of both countries is 22 units of goods, considerably greater than if they do not specialize. ***If*** they can find a way to trade and share the 3 additional units of output, both countries can be made better off by concentrating on the goods in which they have the greatest comparative productivity.

2. What is comparative advantage?

The ability of all countries to benefit from trade, regardless of how superior one country is at producing goods may come as a surprise. To understand why this happens, we have to understand the principle of ***comparative advantage*** as applied to international trade?[1] This is one of the most difficult concepts in economics for beginning (and even advanced) students to comprehend, although like everything else, it becomes easy if you spend a few hours (maybe a little more) thinking about it.

We will use our previous very simple model. Suppose wheat was used as money in each country. In the absence of trade, it costs the U.S. 2 units of wheat for each unit of cloth produced while it cost India only 1 and 1/3 units of wheat for each unit of cloth produced. Clearly it would pay the U.S. to concentrate on wheat production and trade with India for cloth since a unit of wheat would buy more cloth in India that in the U.S. Think of it in terms of tradeoffs, or opportunity cost. The U.S. must give up 2 units of wheat for each unit of cloth produced domestically while India must give up only 1 and 1/3 units of wheat produced so it pays for the U.S. to go to India and trade wheat for cloth (since it must give up only 1 and 1/3 units of wheat to buy cloth in India), rather than produce cloth domestically (which costs two units of wheat).

Cost of cloth in terms of wheat
i.e., how much wheat must be given up to produce a unit of cloth

U.S.		India	
2	(8/4)	1 1/3	(4/3)

Now suppose cloth is used as money. In the absence of trade, it costs the U.S. one half unit of cloth for each unit of wheat produced (since it would have to give up two units of wheat for each unit of cloth). It costs India 3/4 units of cloth for each unit of wheat produced (since it would have to give up three units of cloth to produce 4 units of wheat). It wold pay India to concentrate on producing

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[1] You recall, I hope, that early in the course we discussed comparative advantage in terms of people working/specializing at the jobs at which they make the most money, and then purchasing goods and services from others who could produce these purchased goods at far less cost than most people could produce them. Discussing comparative advantage between countries it is more difficult to visualize.

cloth and to trade with the U.S. for wheat since India can obtain more wheat in the U.S. for each unit of cloth produced than it can obtain in India. Again, think in terms of tradeoffs and opportunity cost. The U.S. must give up only one half unit of cloth for each unit of wheat produced while India must give up 3/4 of a unit of cloth for each unit of wheat produced. It pays India to go to the U.S. and use cloth to purchase wheat rather than produce wheat domestically. Think. I always have to.

Cost of wheat in terms of cloth
i.e., how much cloth must be given up to produce a unit of wheat

U.S.	India
½ (4/8)	3/4 (3/4)

In sum, the U.S. will benefit by concentrating on producing wheat and trading with India for cloth since the price of cloth in India will be less than if produced in the U.S. And it will pay India to concentrate on producing cloth and trading with the U.S. for wheat since the price of wheat will be less in the U.S. than it would be if produced in India.

Despite the fact that , the U.S. has an ***absolute*** advantage in terms of production per person day in producing either type of good (in this hypothetical example), it clearly increases overall output if each nation concentrates on producing the items in which it is most comparatively efficient (i.e., has the lowest opportunity cost) and then trades for the goods it doesn't produce. Issues of which nation is the most productive on an absolute scale are irrelevant. This is one of the hardest concepts in economics to master (along with the magical creation of money by the commercial banking system and possibly the spending multiplier), largely because comparative advantage is usually taught in terms of ratios. The text has an excellent, although more complicated, description of the principle of "comparative advantage." Also, look at the youtube links on the web site.

In the real world, of course, hundreds of types of goods will be traded between India and the U.S. Inevitably, since costs (amount of resources used) of production of different items differ between the two countries, there are bound to be some opportunity costs that favor the U.S. and some that favor India, ***regardless of wage*** levels in either country. Unfortunately, in the real world, there are barriers, such as tariffs, which prevent the benefits such a happy outcome in terms of total output.

3. The problem with the principle of comparative advantage. How can trade get started?

The above discussion of comparative advantage is the usual way in which economists describe the virtues of free trade, i.e., how it can make everybody better off. ***But traders***, the people who actually buy and sell commodities and services are concerned **only** with the monetary costs of purchasing the goods, and the price they can sell them for, not any esoteric notions of opportunity cost and tradeoffs.

What is needed for trade to take place is a ***price*** at which Americans and Indians can ***exchange*** dollars and rupees with ***mutual*** benefit. Many people intuitively believe that labor in India and China is cheap so that prices are low and Americans industry cannot compete with these low labor prices. Let us arbitrarily, ***and just for fun,*** make three assumptions that are absurd, but which are not inconsistent with how many Americans think of foreign trade.

- first, assume that the exchange rate is 10 for 1, i.e., it costs Americans $1 to purchase 10 rupees.

- Second, assume that workers in India get 1 rupee for each day of work, while workers in the U.S. get $1 for each day of work so that, in real terms, wages in India are one tenth of wages in the U.S. - really cheap labor.

- Third, to add a little realism to this model (and probably needless complication), assume prices in the two countries equal the cost of labor per unit produced ***plus*** a 25% margin for profit and other expenses.

This admittedly unrealistic example will describe, in ***accurate*** terms, the processes which determine foreign trade, ***which would have to be modified somewhat if*** trade is restricted in some way or other - (e.g., tariffs, quotas, etc), but the basic principle is unchanged.

Under these three assumptions, prices per unit in the two countries are as follows: These figures are calculated as the price of a days labor plus profit and expenses, divided by the product of that days labor.

	India	U.S.
Wheat	r1.25/4 = r.3125	$1.25/8 = $.1563
Cloth	r1.25/3 = r.417	$1.25/4 $.325

Now, what would you expect would happen. An American can buy one unit of wheat in the U.S. for $.1563, or he or she can send the $.1563 to India and exchange it for 1.563 rupees (at an exchange rate of 10 for 1), and purchase 5 units of wheat. Similarly, an American can buy one unit of cloth in the U.S. for $.325, or send the $.325 to India, exchange it for r3.25 rupees, and purchase 7.8 units of cloth. U.S. traders, thinking to maximize profits, would stop all purchases of wheat and cloth made in the U.S. and buy entirely from India.

Now ask yourself, why would Indian producers/traders keep selling dirt cheap goods to the U.S. and receive funny looking pieces of paper and/or bank statements

showing growing deposits of U.S. dollars. Clearly, India exporters, if they continue to export, will accumulate increasing amounts of dollars which they cannot spend in the U.S., because prices are too high relative to prices in India, and cannot use to pay their employees (they need rupees). They would get more real (physical) product for their rupees by buying India made goods with their rupees, rather than selling them to Americans at the absurd exchange rate. What is likely to happen?

They will quickly become skeptical of the desirability of accumulating large amounts of dollars. They will *not* continue to be willing to give up 10 rupees for one dollar. So, they will begin to offer fewer rupees (less than 10) per dollar. They will continue to continue to reduce the number of rupees they offer per dollar until the rupees they trade will buy enough dollars to make it worthwhile to buy U.S. goods, otherwise what good are the dollars they hold (and they are smart people). This would occur only when the rupee rose in value to about $.50 (instead of $.10) and the exchange rate was about 2 rupees for one dollar. At that exchange rate, it would pay Indians to buy U.S. wheat and Americans to buy Indian cloth.

Note, this adjustment in the market exchange rate for dollars and rupees occurs ***irrespective of wage rates in India***. The following points need emphasis:

- ***If there is free trade,*** **low wages in India have little to do with whether trade will take place.** This is determined by the **exchange rate.** ***The lower the exchange rate***, i.e., the less one country must pay to buy another countries currency, the more desirable it is to buy in that country.

- It can be shown mathematically that with thousands of products, all countries, regardless of their level of economic development, ***or the wages they pay to workers***, will have a comparative advantage ***in some products***.

4. How do these currency exchanges take place?

In our simple example, we established a model in which India traders would directly exchange rupees for dollars at a ridiculous exchange rate. In the real world, currency exchanges are both more complicated, and yet simpler. Let us take a simple example. A few banks maintain accounts in multiple currencies. Imagine a bank that maintains accounts in both dollars and rupees. Now suppose an Indian merchant wishes to buy U.S. goods, and needs dollars. He/she could simply go to the bank and offer to exchange rupees for dollars. Similarly, an U.S. merchant who wished to purchase Indian goods could go to the bank and exchange dollars for rupees. At any point in time, merchants in both countries are carrying on trade and exchanging their currency for the other countries' currencies.

If Indian merchants wished to purchase more dollars than U.S. merchants wished to exchange for rupees, then the demand for dollars would exceed the supply and the price of dollars in terms of rupees would rise, i.e., it would take more rupees to buy dollars (the rupee would be devalued). This would cause some Indian merchants to reduce their demand for dollars and reduce purchases by Indians of U.S. goods. At the same time, If U.S. merchants could get more rupees for their dollars, this would make Indian goods cheaper and encourage the U.S. to import more from India.

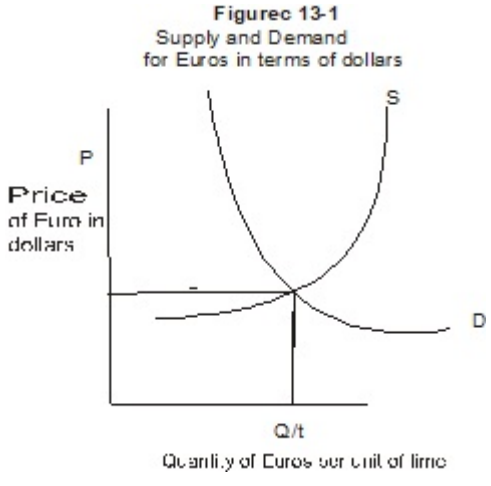
Conversely, If U.S. merchants wished to purchase more rupees than Indian merchants wished to supply (at the existing exchange rate), then supply and demand would cause the price of rupees to rise, i.e., U.S. merchants would have to pay more dollars for rupees (the dollar would be devalued). This would have the opposite effect than described in the preceding paragraph. Indian goods would be a little more costly to U.S. merchants and less would be imported into the U.S. Conversely, Indian merchants, who could then get more dollars for their rupees would import more from the U.S.

Eventually, ***if*** the supply and demand for the two currencies is allowed to operate on the free market, an exchange rate would be established in which the supply of rupees would equal the demand for rupees and the supply of dollars would equal the demand for dollars (roughly). We would spend as much in India as they would spend in the U.S., and net job creation effects should be approximately equal, each country would specialize in producing what it has a comparative advantage in, and, as shown above, both countries would have more goods and services to consume, unless the countries were foolish enough to interfere with free trade by establishing tariffs ,quota, et,.

At any point in time, this process of buying and selling currencies in order to expedite trade between countries, is taking place for all currencies, e.g., pesos for yen, euros for pounds, etc. The rate at which these currencies can be traded, one for the other, is called the ***exchange rate***. When the exchange rate is determined by market forces, it is termed a ***floating exchange rate***. Some countries, e.g., China, try to maintain a ***fixed exchange rate*** where the government sets the exchange rates. We will discuss this below.

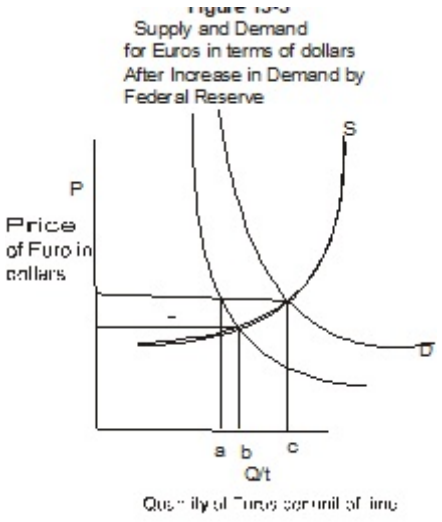
Of course, the buying and selling of currencies is a little more complex than the simple bank model described above, but the basic principles are the same.

Another fact should be noted. There are hundreds of different currencies around the world. Some are considered much more stable than others, and are widely acceptable to private firms and all countries. At one point after WWII, the U.S. dollar was widely accepted and many merchants and central banks in other countries maintained substantial reserves of U.S. dollars which they could exchange for almost any other currency. When money attains this status, it becomes an international reserve currency, which is widely used in international commerce, as we mentioned in the section on money policy (notes 10). Since the end of WWII, the British pound has regained its status as a reserve currency, along with the euro and yen. China has achieved this status for the renmimbi. These currencies form the basis by which most payments between countries and large companies is made.



5. How do you convert U.S. money into the money of another nation?

Basically, the exchange rate is simply the price which you must pay to obtain currency of another nation, just like you can buy ice cream cones, you can buy Euros, Pounds, Yen, etc. Often, you must do this before you buy goods from another country, although some merchants in other countries will take payment in dollars (or some other reserve currency) because it is so widely accepted. On occasion, they will accept the currency of other countries, even it is not a reserve currency. For example, some stores in New York will accept Canadian currency, and some stores in Texas will accept pesos.



Consider the Euro. Currently it costs about $1.11 to buy a Euro. In 1990, the Euro was worth only about $.84. Travel through Europe will cost you about 31% more now than in 1990. Don't feel bad. Several years ago it would have cost you $1.35 to buy a Euro. The cheaper the Euro, the more we purchase from

Europe and vice versa.

The price of the Euro in terms of dollars is determined by the supply and demand for Euros, just as other goods. We can show this with a simple graph (figure 13-1). observed above, when exchange rates are established by free market supply and demand pressures, it is termed a "free floating" exchange rate.

But sometimes countries wish to support the value of their currency. Suppose the U. S. Government wished to strengthen the U.S. dollar in terms of the Euro. It could do this by having the Federal Reserve buy Euros, effectively moving the demand curve in figure 13-3 to the right driving up the price of Euros in terms of dollars. The Federal Reserve would own more Euros (c-b), but private buyers would face a higher price and buy fewer Euros (b-a) reducing our purchases of goods valued in Euros. How can this be afforded? Remember the Federal Reserve (notes 10) can just print up the needed money.

6. What is the effect on employment of expanding trade between countries?

Clearly, the number of jobs will expand in the industries that are exporting goods. In our above example, it would be cloth production in India and wheat production in the U.S. This, of course, makes both countries happy.

Of course, both countries would see a contraction of jobs in the industries where imported goods are replacing domestically produced goods. In our above example, it would be wheat production in India and cloth production in the U.S. In principal, most of these workers would (hopefully) then find jobs in industries where trade is expanding (at a higher wage???).

Moreover, since the combined output in the two countries is larger after trade than before, ***it would be possible to pay workers in both countries more than they were earning before***, although some displaced workers may not, because of age, obsolete skills, etc. be able to find jobs that paid as much as they received before trade was expanded.

In the long run, restricting trade ***penalizes consumers*** by forcing them to buy higher priced domestically produced goods, and penalizes workers by preventing the creation of higher paying jobs that should arise in export industries. Restricting trade benefits some producers and employees in the protected industries, but the benefits to these workers are always less than the value of the changes in the value of goods and services that increased trade makes possible for average consumers and workers.

In some cases, the negative effects of ***restricting*** trade can be severe. In underdeveloped countries, for example, it often forces workers into inefficient industries which means that there are fewer revenues for improving skills, public investment, and, in consequence, raising GDP.

It is important to note that while the effects of restricting trade on domestic prices is immediate, the full beneficial effects of expanding trade on increased production and lower prices often require several years while domestic exporting producers gear up their production capabilities.

7. If trade is so beneficial, why is there so much opposition to liberalizing trade?

When restrictions to trade are removed, there are inevitably short-run hardships. Some workers will lose their jobs and be forced to shift to other work. These shifts take time. Some workers, who lose job seniority, and who lack the requisite skills, may face permanent harm and may never regain their former income or living standard. For example, as Americans have increasingly purchased automobiles made in other countries, domestic automobile manufacturers have had to cut back production, and U.S. workers have lost what once were well-paying jobs. It is often argued that liberalizing trade should be conducted over a period of years so that factories and workers have time to adjust, e.g., perhaps employment in the affected industries

could decline by attrition rather than firing workers.

In addition, the principal costs of restricting trade are borne by consumers who must pay higher prices. However, there are many such consumers, each paying a usually small increase in price and it is difficult to form consumer groups to lobby for liberalizing trade. Conversely, the people who incur the largest negative effects tend to be a much smaller number of employees and producers who are likely to vigorously oppose liberalizing trade when it adversely affects their enterprises (consider the negative attitude of many worker unions toward liberal trade policies (e.g., lower tariffs).

8**. Does free trade of *goods necessarily* lead to higher overall production?**

Actually, no. And this leads us into one of the most controversial issues involving free trade. It is rarely discussed in a survey class, but needs to be understood if you are to make sense of many of the controversies that are going on. Conventional theoretical descriptions of the benefits of free trade are based on comparisons of different amounts of products that could be produced using the physical resources in different countries. But as previously noted, people who buy imported goods are not concerned with the amount of capital, labor, and other resources needed to produce the goods, but with the price they must pay for these goods or services.

If the prices of some goods are forced up because of aggressive wage demands by some workers in one country relative to another country, this can actually cause the combined production of the two countries to decline even though both countries are free to trade with each other without tariffs or other restrictions.

We will illustrate this possibility by altering the simple example used above. Suppose U.S. wheat workers negotiated a contract which tripled their salary to $3 per day. The cost of a U.S. produced unit of wheat would rise to from $.15 to $.47. Indian traders would no longer find it advantageous to purchase wheat from the U.S. In fact, it would be advantageous for Indian traders to sell wheat to the U.S. at $.47 per unit and buy cloth from the U.S. at $.32 per unit. See below. What was the least expensive good produced in the U.S., has now become the more expensive.

	Costs Per Unit
Commodity	U.S
Wheat	$ .47
Cloth	$.32

This is the reverse of what happened when workers in both occupations were paid the same in both industries in each country (an implicit assumption of the comparative advantage model is that it compares marginal physical products only - described at the beginning of this set of notes). In this new scenario, i.e., workers in the wheat industry are paid substantially higher wages than workers producing cloth. But, in consequence, U.S. workers would lose their high-paying jobs producing wheat and gradually move to lower paying jobs producing cloth since this is now what the U.S. would export.

In effect, in the previous example, the very high wages of wheat workers just reverses comparative advantage in the production of wheat and cloth. If this occurs, then in our example, the combined output of both countries would fall to only 16 units, (India would produce wheat and the U.S. would produce cotton) since both countries would specialize in producing what they do least efficiently, which is considerably less than the than the 22 units when wages were uniform within a country and each country produced what it could produce most efficiently. Thus, if one group of workers achieves unusually high wages, this can actually result in a reduction in average living standards in both countries, although the high wage workers, initially hoping to benefit, would probably vigorously oppose any reduction in tariffs or wages.

Does this circumstance ever actually occur? Of course. Consider U.S. automobile workers. Back in the 1960's, the wages of automobile workers in the U.S. were far above the national average, while the wages of automobile workers in Japan were closer to the national average in Japan. Japanese cars could be sold for noticeably less than U.S. cars, one factor contributing to the growth of the Japanese automobile industry. This was a major cause of the near collapse of automobile production in the U.S. in 2008. One consequence was that the high wages and benefits (negotiated by the UAW in earlier years) have been negotiated downward considerably in recent years in order to assure retention of jobs in the automobile industry. .

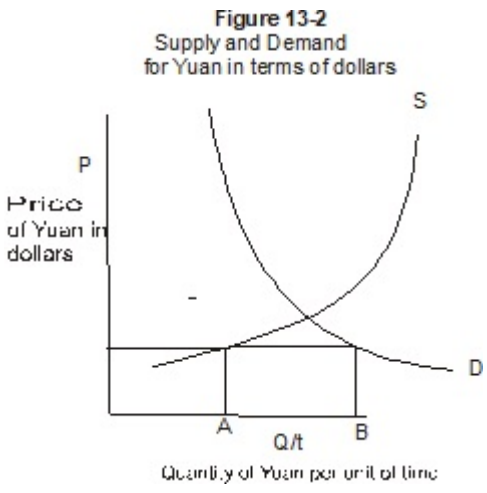
Consider the following description of changes at General Motors in 2008 (cited from the internet)..

The current veteran UAW member at GM today has an average base wage of $28.12 an hour, but the cost of benefits, including pension and future retiree health care costs, nearly triples the cost to GM to $78.21, according to the Center for Automotive Research.

By comparison, new hires will be paid between $14 and $16.23 an hour. And even as they start to accumulate raises tied to seniority, the far less lucrative benefit package will limit GM's cost for those employees to $25.65 an hour. In consequence the automobile industry staged a partial recovery in the U.S.

9. Other factors reducing productivity in countries as a result of international trade restrictions:

A. The same thing happens if Congress places a tariff on imports of a product in order to protect domestic jobs. Producers in other countries may no longer find it advantageous from a cost standpoint to sell some products to the U.S. due to the higher prices that must be charged because of the tariff. The net effect would be that some Americans would be paying a high price to domestic producers who would make high profits and have contented workers to whom they could afford to pay higher wages, albeit at the expense of U.S. consumers. Well, at least this would be true for workers who keep their jobs in the high tariff industries. The overall effect would be a worldwide reduction in efficiency.



B. Suppose a country tries to set the exchange rate by government action instead of letting it be set by the free market. When a country does not allow the exchange rate to float, e.g., China, the adverse consequences are shown in figure 13-2. For many years, the free market equilibrium price of yuan would have been above what the Chinese government wished the price to be. In consequence, China ***pegged*** (i.e., set) the exchange rate of dollars for yuan below the equilibrium rate. The Chinese bank buys the excess of dollars (B - A) generated by the pegged rate in order to keep the price of yuan in terms of dollars cheap and made it cheaper, in terms of dollars to purchase Chinese goods. Clearly this leads to a great surplus of dollars under Chinese government control. It also led to dissatisfaction in the U.S. and diplomatic efforts to encourage China to make the Chinese yuan more expensive so that it takes more dollars to buy the yuan and consequently would raise the price for Chinese exports to the U.S., which would reduce our purchases from China (which wouldn't make China or Walmart very happy), lowering the trade deficit, and incidently, reducing consumption by U.S. consumers (which would probably cause people to complain about inflation).

Pegging the exchange rate below a market equilibrium rate has the same effect as imposing a tariff on exporting goods into China. . The Chinese gave up more yuan to purchase dollars to buy imported goods raising the prices of the goods they might import from the U.S. This reduces Chinese purchases of goods from

the U.S.

What does China do with the large amount of dollars that it accumulates (which are left in U.S. banks). Up to now, it has invested them in the purchase of U.S. government securities. In effect, the Chinese subsidized our standard of living by selling us cheap goods, and then lending money to the U.S. government so that Americans can have lower tax rates which helps them buy cheap Chinese made goods. It helped the U.S. government lower tax rates without causing inflation and to finance the wars in Iraq and Afghanistan (and increased our national debt substantially). If the Chinese had spent those dollars for goods in the U.S., it would have pushed the AD curve (remember our AD/AS curves) to the right causing upward pressure on domestic prices (and increasing job growth in the U.S. We would also probably see increased interest rates as the U.S. Treasury would have had to pay higher interest rates to borrow sufficient funds to cover the Federal deficit (unless the Fed decided to print money, increasing reserves, and loanable funds and putting downward pressure on interest rates and almost certainly creating inflationary pressures).

Why does the Chinese subsidize the U.S. consumer, Mostly, it appears it is because they wished to stimulate the development of certain types of modern industry in China by selling Chinese goods at low cost. Will this continue? Probably not. In fact, change is occurring as the Chinese have gradually allowed the price of the yuan to rise (so that Americans buy fewer Yuan and Chinese made goods). Perhaps the Chinese are worried about possible U.S. inflation, which reduces the real value of the enormous, over 1.1 trillion, dollar holdings of U.S. securities that China holds.

What would China do if they no longer wish to hold their dollars/bonds? Well, one possibility is that they must find someone who wants to buy the dollars/bonds that they hold. In order to sell their dollars/bonds. They will almost certainly need to lower the price of the dollars/bonds they hold causing a substantial loss to the Chinese. If the Chinese wish to stop accumulating dollars, they will almost certainly have to increase the value of the Yuan in terms of other currencies, which lowers Chinese exports and should increase Chinese imports and will probably terrorize Americans who may have to choose between higher taxes, or higher interest rates, or lower Federal spending in order to control the Federal deficit (and probably inflation). Still another possibility is that the Chinese could use part of their holdings to purchase U.S. assets, e.g., real estate or thriving companies which they appear to be doing and which does not always make Americans happy..

What else could the Chinese do? A very simple minded idea would be to raise the wages of Chinese workers so that they could afford to buy more of the good things that they produce instead of toiling at cheap rates for the rest of the world. In fact, this also seems to be happening as poverty in China has decreased dramatically since WWII. China has been a major success story, dramatically reducing the poverty that existed after World War II.

10**. Do low-wage countries take jobs from the U.S. or other high-wage countries?**

Not really. In the first place, as is shown by the above discussion, the prices of goods are determined, in the main, not by wage rates, but by the exchange rate. Wages (and loss of jobs) only become important in industries with exceptionally high wages which, in consequence, lose their comparative advantage, (If they ever had one).

In most cases, the primary reason that countries export goods is to obtain currency in order to pay for imported goods. Now, suppose the value of imports is equal to that of exports. Other countries buy as much from us as they sell to us. In the process, jobs are created in the U. S. based on the products that other countries buy and jobs are lost in the U.S. based on the products they sell to us. One can have different opinions on this, but it is basically the free market process on an international scale. People in less efficient industries lose jobs and move, hopefully, to more efficient industries. As far as Americans are concerned, the effect is the same as if jobs are lost because a U. S. firm loses out in competition to another U.S. firm. ***The bottom line is that it makes no more sense to protect U.S. jobs from foreign competition than from***

domestic competition as long as the world has free and fair markets.

11 **Why do comparative advantages exist - i.e., why can some countries produce goods at a lower relative cost tan others?**

Inevitably, as earlier noted, all countries will have a comparative advantage in the production of some goods or services and trade between them can, almost always, be mutually profitable. That all countries will have some comparative advantages is inescapable since the relative costs of producing one good relative to another will vary among countries for many reasons. Some of the reasons are as follows:

A. Factor abundance. For example, few countries can match the low cost by which oil can be extracted in the Middle East. As another example, some crops will only grow well in particular areas, e.g., coffee is efficiently grown only in tropical areas, cotton in very hot regions, and there are many other obvious examples. It may cost these countries a great deal in terms of the factor they have in abundance, say the quantity of oil they can produce, to try and produce another good, say beef, while the U.S must give up much less beef to buy needed oil than it would have to give up to produce equivalent energy domestically (but this is rapidly changing in the U.S. as a result of new energy discoveries and new technology).

Some countries have large, unskilled or semiskilled workforces. In these cases, the difference in the relative wages of unskilled and skilled labor should be larger than in countries where the proportion of unskilled workers is lower. In consequence, countries with many unskilled workers should have a comparative advantage in industries which are labor intensive and low skill because wages and the costs of production will be low. For example, the production of textiles began in the New England States in the U.S. but then moved to the southern states to take advantage of lower wages, to the dismay of the New Englanders. Textile manufacturing then moved to Mexico, then to India, then to China and now to other countries in Southeast Asia. Each of these countries won out in the textile industry because a large low-paid labor force meant that they could produce much larger amounts of goods requiring unskilled labor relative to their production of goods requiring large amounts of capital and skilled workers, which presumably they would buy from more developed countries.

B. Advanced technology . Many underdeveloped countries could not match the low prices of developed countries after WWII that were made possible by advanced manufacturing processes, so they traded raw materials for processed goods. This advantage of developed countries appears to by rapidly disappearing, e.g., consider where are most TVs, computers, sewing machines, etc. produced. Citizens in any country in the world can learn to utilize advanced technologies, given enough time and training. There is currently an increase in the living standards of many formerly impoverished economies due to rising productivity, not, as currently (and foolishly) believed at the expense of U.S, worker. Instead it should be described as a catching up to U.S. workers and eventually will benefit workers in all countries.

C. Human skills (this is almost like, and entwined with, the advanced technology reason). After WWII, the U.S. had a clear, almost dominating, advantage compared to most countries, in technical skills and U.S. workers could produce heavy machinery and other goods at far less cost than most other countries. This also was a transitory advantage. Other countries and regions began to catch up and may even be surpassing the U.S. For example, the provision of technical assistance to U.S. users for computer hardware and computer software, is shifting to Asian countries. We should realize that people in any country in the world can learn technical skills as well as people in any other country. High levels of medical skills in India combined with a much lower cost has encouraged some Americans, needing expensive medical procedures, to travel to India for these procedures.

Have you noticed how many American firms try to import skilled foreign workers.

D. Product Life cycle. Whatever country is first in developing a new technology or product will have an initial advantage in exporting that item, e.g., small cars from Germany, then Japan. Such advantages

are important, but again, the effects are transitory as other countries copy the technology.

E. Preferences. There will always be people who prefer branded foreign products, e.g., German beer, Cuban Cigars, French wine.

F. Etc. Etc. Etc.

t 12**. If international trade is so good, why do so many people try to restrict it?**

By now, it should be apparent that international trade can increase the national output of all countries by allowing them to specialize in the items in which they have a comparative advantage. But whatever economists might argue, nations have historically tended to restrict international trade rather than encouraging it. However, as we will see below, this has been changing since WWII (at least up until the recent presidential election in the U.S.). Remember that although almost everyone benefits from international trade in the long-run, in the short run there will almost always be some winners and some losers when there are changes in imports and exports. Usually the gain to the winners will be greater than the loss to the losers which is generally the case when the terms of trade are liberalized. However, the people in danger of losing their jobs, or companies facing a reduction in profits, are typically a defined, vocal, small minority who resist efforts to enhance trade. The gainers are consumers who are diffuse and often do not understand how they benefit from free trade (until they are threatened with the loss of, or increased price, of some good that they cherish e.g., gasoline). Almost always, the loudest voices you hear come from the immediate losers.

The major reasons why some people will support measures that adversely affect international trade are the following.

A. Revenue: All governments need revenues. Charging taxes (i.e., tariffs) on imports is one way of doing so. For many years after its founding, the U.S. depended primarily on tariffs on imports for revenue at the Federal level. Some underdeveloped countries find it administratively easier and less costly to tax imports than levy an income or sales tax, and almost certainly politically advantageous.

WHO IS HURT? Workers in countries that find that the market for their goods is reduced due to higher costs. Consumers in the countries levying the tariff/tax since they must pay more.

B. Fear of losing jobs. We have frequently referred to this problem. Workers in industries likely to have the demand for their products reduced if foreign imports are allowed, tend to be hostile to foreign imports, e.g.,the movement of IT (information technology) jobs to other countries. Unions have usually been averse to lowering (or eliminating) tariffs on imports.

WHO IS HURT? Domestic consumers who must pay higher prices for goods (This is equivalent to a tax on consumers to pay the higher wages of domestic workers in the protected industries). Also, workers in other countries that find that the market for their goods is reduced.

C. Fear of losing sales: American producers have frequently lobbied to restrict foreign imports on the grounds that it would adversely affect their markets. We could certainly purchase imported sugar, beef, many vegetables, and textiles, for example, at lower costs than currently must be paid were it not for restrictions on imports.

WHO IS HURT? Consumers who must pay higher prices for goods (This is equivalent to a tax on consumers to subsidize the profits of the owners and the wages of workers in the protected industries). Moreover workers in countries that find that the market for their goods is reduced are also harmed.

As an aside, there has been major controversy over **outsourcing of US jobs, particularly**

information technology (IT) jobs. Again, it is the fear of loss of U.S. jobs. However, in the long run, the money paid to workers in other countries should come back to purchase U.S. made goods. In addition, U.S. citizens will obtain less expensive goods/ services, and perhaps greater convenience (e.g., technical assistance can be offered 24 hours a day by wide awake workers halfway around the world)**.** In this sense, outsourcing is no different from any other item in foreign trade. People who lose jobs object to having these goods/services produced elsewhere, while the people who buy the products may or may not approve, but they rarely complain about lower prices or greater convenience.

The problem is a temporary one, hopefully, for those individuals who lose their jobs, but is no different from the same problems of job loss suffered by people who lose jobs because of domestic competition. The real issue is what we should do to find jobs for those individuals who lose jobs, including those who have a hard time finding jobs because of limited skills, age, etc. In reality, in a market system, it is impossible to hold ***all*** workers harmless from the effects of domestic ***or*** international competition for their entire lives.

D. Unfair production methods: Both producers and workers (and usually the public in general) urge restricting or prohibiting the import of goods that are produced by means considered unfair or unacceptable, e.g., factories that cause pollution, products made with child labor, products made with prison labor, products that receive a large public subsidy. Question, should we restrict imports from firms that pollute, even if these imported goods are less expensive.

WHO IS HURT? Should be obvious.

E. National Defense: It has frequently been argued that our national defense should not depend upon products, e.g., rifles, tanks, bullets, etc. produced in other countries that we may lose access to in time of war. Of course we are currently dependent on other countries for many goods vital to national defense, particularly for fuel (which is becoming less true as the U.S. increases the production of oil).

WHO IS HURT? Good question.

F. Infant industries : This is the classic argument for restricting trade. Clearly, established large firms usually have a significant advantage over new small firms. Almost all countries, at some time or other, have argued that their ***developing*** firms need protection until they become mature enough to become competitive. Problems with this rationale: 1) This is a reasonable argument only if the country does not wish corporations and individuals ***from other countries*** to invest in production facilities in the country. With the growth of large multinational firms with capital to invest and looking for places to invest it, this infant industries argument would seem to be less important currently than in earlier times. In fact, many countries encourage foreign investment as a quick way to improve the ability of their countries to increase production of goods and services with advanced technology and increased capital. Countries that do not welcome foreign investment are probably hindering their economic growth. 2) Another problem with this argument is that the protected establishments usually resist losing these protections, even after many years.

G. Sudden surges in imports: When imports of particular goods rise in large amounts, this can cause a large loss of domestic sales and many displaced workers. These industries often seek protection for a limited period of years to allow the labor force to slowly attrition down. It actually makes some sense, although in practice, the industries affected have usually not attritioned down and have often sought further extensions of the protectionist policies, e.g., Europe and other countries have sought protection against the importation of low cost textiles.

WHO IS HURT BY PROTECTING THESE INDUSTRIES? Consumers who must pay higher prices for goods.

H. Harmful Products, such as mad cow disease.

WHO IS HURT? Nobody

I. Political considerations: As examples, our embargo on Cuba, our embargo on Iranian oil.

WHO IS HURT? Consumers in this country and producers in the embargoed countries.

J. Product Dumping: Product dumping occurs when manufacturers export a product to another country at a price either below the price charged in its home market or below its cost of production. This is considered unfair competition and may be subject to an anti-dumping tariff. Product dumping is a well known monopoly tactic to eliminate competition so that the monopolist can later raise prices without fear of competition once competition is forced out. However, product dumping is not common. Few firms willingly sell at prices below their costs. Producers sometimes have a large surplus of goods that they cannot sell at the current market price, perhaps because another competitor comes out with a superior product, or consumer tastes change. Manufacturers may then sell below their cost in order to minimize losses which is perfectly reasonable in a market economy.
Start

13. What are methods of restricting trade.

When industries seek protection from foreign competition, they, in effect, are asking that U.S. consumers pay higher prices so that they can charge higher prices which enables them to make higher profits, pay higher wages, or both. Workers in these industries are considerably advantaged, if they remain employed, compared to workers in other industries who may be working on equally skilled jobs, but get paid considerably less. Consider public school teachers, mostly women, who are usually greatly underpaid.

You should know the following terms.

A. Tariffs*:** These are taxes on imports or exports which increase their prices and reduce sales. In the U.S., the Constitution specifically **prohibits tariffs on exports, but not on imports**. The problem is that tariffs on imports invite, in fact almost assure, retaliation by the affected countries and in the end, ***almost everyone loses. Tariffs, of course, raise prices for consumers in order to protect workers and profits in protected industries.
GRAPH

B. Quotas: These limit the quantities of selected goods that can be imported. They have been used extensively. For decades international trade in textiles was subject to discriminatory quantitative restrictions put in place to protect domestic textile industries, particularly in the US, EU, Canada, and Norway**.**
GRAPH

C. Export and manufacturing subsidies: Export subsidies lower the prices of selected exports, making them more competitive with goods in other countries. This has the same effect as manufacturing subsidies of particular goods, e.g., European subsidies of the supersonic transport and airbus. This has the effect of partially subsidizing consumers in the countries to which goods are exported to, and harming workers and producers of these items in those countries. NEGATIVE TARIFFS
GRAPH

***D. Government restrictions*:** The Jones Act and related statutes requires that vessels used to transport cargo and passengers between U.S. ports be owned by U.S. citizens, built in U.S. shipyards, and manned by U.S. citizen crews. This sometimes forces U.S. producers to utilize high cost U.S. carriers which raises their costs and ultimate consumer prices.

E. Health and Safety Standards: Goods are sometimes restricted if they pose a health or safety threat. As examples, restrictions on imports of beef from cows in countries with mad cow disease, concern about pollution (particularly in Mexico, which is right across the Rio Grande), adulterated food, etc..

e?

In my opinion, international trade should be:

a. Free, so that each country is enabled to produce those goods that it is most effective at producing;

b. Fair, so that countries should not try to gain an advantage by polluting the air or environment, utilizing convict labor, or some other egregious method of gaining an advantage;

c. Balanced, so that countries spend as much in other countries as other countries spend in that country. This is more controversial. Why penalize a country that is willing to subsidize other countries? You can answer this for yourself.

.9. How have countries tried to foster trade among nations?

A. Bretton Woods Agreement: Prior to WWII, there was a general climate that was not conducive to international trade. Countries sought to maintain an export advantage through restricting imports (e.g., imposing tariffs). Fortunately, it was recognized (in view of the high retaliatory tariffs that developed during the great depression) that that it would be preferable to develop and maintain stable exchange rates that did not favor the export trade of any one nation, i.e., that encouraged balanced trade among countries.

In 1944, delegates from 44 nations met in Bretton Woods, New Hampshire and developed a method of **fixed exchange rates** such that each nation's currency was supposed to be exchangeable into other currencies at a ***fixed/pegged*** rate. The rate was expressed in terms of gold, i.e., each currency could be redeemed by a fixed quantity of gold. The U.S. dollar *at the time* was also defined in terms of gold, and the U.S. dollar become the common denominator so that the price of currencies (the exchange rate) in almost all countries was based on the dollar, i.e., how many dollars it would take to buy the currency of other countries. The U.S. dollar became t***he reserve currency*** of the world and most countries desired to maintain significant reserves of dollars. They could use these dollars to buy from almost any other country, unlike the currencies of many other nations which could be used only in limited areas. Of course, they had to earn those dollars by selling more goods to the U.S. than they bought. This amounted to a large subsidy for the U.S. consumers who basically received goods without giving up much of value except a few notations on bank statements.

Unfortunately, ***fixed exchange rates proved not to be viable*** in a dynamic and changing world. Lacking the ability to fluctuate, they could ***not*** be used to balance imports and exports when exports exceeded imports or vice versa, causing one country to begin accumulating the currency of another. In consequence, in 1973, the major industrial countries moved to ***floating*** exchange rates where exchange rates are based on the supply and demand for the different currencies. Not all countries have done so, but many have. Floating exchange rates enable great flexibility in the way that countries manage their monetary policy since any imbalance in the balance of payments would, in principle, be adjusted by market determined changes in the exchange rate. If, for example, one country was importing more than it was exporting, other countries would begin demanding more of that country's currency in exchange for their own, depreciating that nation's currency, making imports to that country more expensive, and exports from that country less expensive. Note that countries in the Eurozone sector of the European Union do not have this option which has caused many of the problems faced by some of the countries (e.g., Greece, Portugal, Ireland). Since these countries have a common currency, the major way (not quite the only way) to make the products of a country less expensive (and encourage exports and increase aggregate demand) is to lower wages, usually a very difficult, almost impossible task.

B. World Trade Organization: Today, the World Trade Association meets periodically to discuss and hopefully lower existing tariffs and other trade barriers. Many trade disputes are appealed to the World Trade Organization.

C. ***Free Trade Areas and Customs Unions*:** Free Trade Areas and Customs Unions are similar and, until recently, rapidly growing in popularity. They eliminate, or at least significantly reduce, trade barriers among member countries. They differ primarily in that FTAs allow each separate country to set its own trade policies toward ***nonmembers, e.g.,*** NAFTA, while CUs, e.g. the EU, try to maintain a common import/export policy.

Agreements among countries to enhance trade are becoming increasingly important. Among the more important for you to remember are:

I. The European Union (EU): *The European Union (EU) is an intergovernmental and supranational union of 27 democratic member states from the European continent. The European Union was established under that name in 1992 by the Treaty on European Union (the Maastricht Treaty). However, many aspects of the Union existed before that date through a series of predecessor relationships, dating back to 1951.*

The Union nowadays has a common single market consisting of a customs union, a single currency, managed by the European Central Bank (so far adopted by 15 **(sic - now 19)** *of the 27 member states)*[2]*, a Common Agricultural Policy, a common trade policy, a Common Fisheries Policy, and a Common Foreign and Security Policy. The Schengen Agreement abolished Passport control at many the EU's internal borders. Customs checks were also abolished at the EU's internal borders, creating a single space of mobility for EU citizens to live, travel, work and* invest**. (The above two sentences were copied from the internet. Note that Great Britain has not yet formally withdrawn from the European Union.)**

Despite many complaints from special groups within each country, the European Union prospered, at least until recent years. However, significant problems remain and slow economic growth continues due to self serving interests, both within countries and between member countries. One also wonders if the free movement of people in the European community will be further compromised by the massive influx of refugees currently taking place. These topics needs to be addressed in another class. The European Union is less than a union similar to the U.S. which can make a national policy And more a close confederation of independent countries, who make most of their own policies, e.g., concerning inflation, employment, etc.

ii. North American Free Trade Association (NAFTA): *The North American Free Trade Agreement, known usually as NAFTA, is a free trade agreement among Canada, the United States, and Mexico. NAFTA went into effect on January 1, 1994. NAFTA called for immediately eliminating duties on half of all U.S. goods shipped to Mexico and gradually phasing out other tariffs over a period of about 14 years. Restrictions were to be removed from many categories, including motor vehicles and automotive parts, computers, textiles, and agriculture. The treaty also protected intellectual property rights (patents, copyrights, and trademarks) and outlined the removal of restrictions on investment among the three countries. Provisions regarding worker and environmental protection were added later as a result of supplemental agreements signed in 1993.* ***(The above copied from the internet).*** As yet, not all tariffs have been phased out. Unlike the European Union, the flow of people across the borders of NAFTA countries is restricted, in theory but not very well controlled.

At present many people would regard NAFTA as a success. *Americans conduct more than $3 billion per day worth of trade with Canada and Mexico. Withdrawing from NAFTA would severely disrupt integrated North American supply chains that depend on zero tariffs and predictable trade laws.* (Copied from the internet)

I presume you have all heard threats about the U.S. withdrawing from NAFTA . The following is

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[2]Several other countries also use the Euro even though they are not members of the European Union.

copied from the internet. *On September 30, 2018, it was announced that the United States, Mexico, and Canada had come to an agreement to replace NAFTA with the United States–Mexico–Canada Agreement (USMC). The USMC is the result of the renegotiation of NAFTA that the member states undertook from 2017 to 2018, though NAFTA will remain in force until the USMC is ratified by its members*. President Trump has signed the treaty. Although the new version of the treaty is very similar to the original NAFTA, most of the changes that have been made appear to improve the original treaty.

iii. Central American Free Trade Association (CAFTA): The Dominican Republic–Central America Free Trade Agreement, more commonly known as DR-CAFTA, is a free trade agreement that encompasses the United States and the Central American countries of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic.

The goal of the agreement is the creation of a free trade zone, similar to the North American Free Trade Agreement (NAFTA, Now the USMCA)). Hopefully, this will spur (but is far from what is needed) economic growth in Central America., a necessity if immigration among countries is to be controlled

iv. United States-Korea Free Trade Agreement: The United States and the Republic of Korea signed the United States-Korea Free Trade Agreement on June 30, 2007. Congress approved the agreement on October 12, 2011, and Korea's National Assembly approved it on November 22, 2011. It became effective March 15, 2012.

There are numerous other FTAs and CUs around the world. International free trade is almost certain to become increasing important in future years (well, I hope so). One of the most important proposals was the Trans-Pacific Partnership (TPP). This was.....***. a proposed regional free-trade agreement. As of 2016 twelve countries throughout the Asia-Pacific region have participated in negotiations on the TPP: Australia, Brunei , Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.*** Unfortunately, President Trump has withdrawn the U.S. from this agreement. However, the other 11 countries have signed the agreement and hopefully, the region will become even more of an economic powerhouse, even without the United States.

v. Aafric Continental Free Trade Area (AfCFTA): The following is copied from the internet.

The African Continental Free Trade Area (AfCFTA)[8] is a free trade area which as of 2018 includes 28 countries.[1][9] [10][11] It was created by the African Continental Free Trade Agreement among 54 of the 55 African Union nations.[12] The free-trade area is the largest in the world in terms of the number of participating countries since the formation of the World Trade Organization.[13]

The agreement was brokered by the African Union (AU) and was signed on by 44 of its 55 member states in Kigali, Rwanda on March 21, 2018.[14][15] The agreement initially requires members to remove tariffs from 90% of goods, allowing free access to commodities, goods, and services across the continent.[14] The United Nations Economic Commission for Africa estimates that the agreement will boost intra-African trade by 52 percent by 2022.[16] The proposal was set to come into force 30 days after ratification by 22 of the signatory states.[14] On April 2, 2019, The Gambia became the 22nd state to ratify the agreement,[17] and on April 29 the Saharawi Republic made the 22nd deposit of instruments of ratification; the agreement went into force on May 30 and entered its operational phase following a summit on July 7, 2019.[18]

The general objectives of the agreement are to[19]:

create a single market, deepening the economic integration of the continent
establish a liberalised market through multiple rounds of negotiations
aid the movement of capital and people, facilitating investment

move towards the establishment of a future continental customs union
achieve sustainable and inclusive socio-economic development, gender equality and structural transformations within member states
enhance competitiveness of member states within Africa and in the global market
encourage industrial development through diversification and regional value chain development, agricultural development and food security
resolve challenges of multiple and overlapping memberships

Perhaps Africa will generate a new set of "tiger" economies.

Final comment: Despite the hardships that these arrangements may initially cause some people as freer trade begins, and existing production patterns are altered, it must be kept in mind that eventually the benefits should far exceed the hardships. However, for vague reasons, both U.S. political parties seemed hostile to the TPP. It appears that mainland China may happily step in and replace the United States.

Review questions

1. Why do you think that China is willing to incur a large trade surplus with the U.S. when their own populations would almost certainly enjoy consuming more of goods they produce?

2. What do you think would happen to U.S. living standards if every state in the U.S. was permitted to levy a tariff on, or prevent the importation of, goods and services from other states?

3. Is restricting trade ever beneficial to anyone? If so, to whom and why?

4 Given that people who buy goods are concerned almost exclusively with price and quality, which is the most important variable in determining the price of foreign goods, low wages, or the exchange rate?

5. What is the infant industries argument for restricting imports of goods?

6. If the U.S. had a significant inflation relative to the rest of the world, what is likely to occur to the exchange rate of the dollar?

7. Do you think international trade leads to higher living standards for all countries in the long run? Can international trade cause disruption in the short run? Can you justify some restriction of trade? Why do you think a politician might oppose some international trade, even if it benefits everyone in the long run?

8. What do the initials NAFTA stand for? What does NAFTA accomplish? What do the initials CAFTA stand for?

9. What is meant by "flexible exchange rates" and what problem do they avoid in international trade? What are "fixed" or "pegged" exchange rates?

10. Is the standard of living higher in the U.S. because of international trade? Briefly explain you answer.

11. What are **tariffs** and what are **quotas** and how do they restrict international trade?

12.. If imports of cheap overseas beef are restricted, who, in the U.S. benefits and who loses by the restriction?

13. If, because of low wage rates in India, some information technology jobs are transferred to India (e.g., telephone technical assistance, software development), is it possible that some jobs in India are then transferred

to the U.S? Do you think that a country is likely to keep selling goods/service to the U.S. indefinitely without expecting to buy back items made in the U.S?

14. Why is comparative advantage more important than prevailing wage rates in determining whether and what types of international trade take place?

15. How can an industry lose its comparative advantage, even though it maintains a higher level of productivity than another country in that industry?

16. What is the current price, in terms of dollars, of a British pounds (look this up on the internet)?

17. Explain why a country, although generally poor, will inevitably have a comparative advantage in some product lines over more productive countries?

18. Should we be willing to import goods, made with child labor, or prisoner labor, or that were produced using methods that contribute to global warming or pollution?

19. Are import quotas ever justifiable and, if so, under what circumstances?

20. Should the U.S. try to stop the outsourcing of jobs, and if so, why?