Ch 9. International Trade

- **Comparative advantage**: A country produces the good at lower opportunity cost than other countries.
- The equilibrium without trade(A closed economy), Equilibrium price and quantity determined on the domestic market.
  - TS = CS + PS.
- A small open economy
  - If the world price of a good, **P_W >** domestic price without trade **P_D** , domestic country export the good
  - **If P_D > P_W ,** the country imports the good
  - A small economy is a **<u>price taker</u>** in world markets (its actions have no effect on Pw)
- **When a small economy engages in free trade, Pw is the only relevant price.**
  - No seller would accept less than Pw (export available).
  - No buyer would pay more than Pw (Import available).
- **Benefits from trade**
- **Other benefits of international trade**
  - Consumers : Increased variety of goods
  - Producers: lower cost & Economies of scale
  - Reduce market power of domestic firms, Technological advances around the world

- **Why Opposition to trade?**
  - Losses concentrated among a small group of people
  - Gains spread thinly over many people
  - Losers have more incentive to lobby for restrictions on trade
  - Winners from trade can compensate the losers, but difficult

- **Analysis of a Tariff**
  - Free Trade vs. 10$ Tariff
  - Compare TS(Total surplus)
  - TS under Free trade
  - TS with Tariff

- **Deadweight Loss = D + F**
  - D = deadweight loss from the overproduction of shirts
  - F = deadweight loss from the underconsumption of shirts

- **Import Quotas** : Quantitative limit on imports of a good
  - Mostly has the same effect as a tariff
  - Raises price, reduces quantity of imports
  - Reduces buyers' welfare
  - Increases sellers' welfare

- **5 Arguments for Restricting Trade**

  ① Jobs argument

  ② National-security argument

  ③ Infant-industry argument

  ④ Unfair-competition argument

  ⑤ Protection-as-a-bargaining-chip argument