PFL Academy

Chapter 55 — International Trade and Economic Development

THE CHALLENGE

Check the tags on your clothes. Your shirt is probably from Vietnam, pants from Bangladesh, shoes from China. Your iPhone has parts from 43 countries. This is globalization—and it affects the prices you pay, the jobs available, and your career prospects. Should we trade freely with other countries, or protect American jobs with tariffs?

LEARNING OBJECTIVES

- Explain comparative advantage and why countries trade
- Analyze benefits and costs of international trade
- Understand tariffs, quotas, and trade policies
- Explain how exchange rates affect trade and travel

CORE CONCEPTS

Term	Definition
Comparative Advantage	A country's ability to produce a good at lower opportunity cost than another country; explains why trade benefits both parties
Absolute Advantage	Ability to produce more of a good using the same resources (doesn't mean you should produce everything yourself)
Tariff	Tax on imported goods; protects domestic producers but raises consumer prices
Quota	Limit on the quantity of imports; restricts supply and raises prices
Exchange Rate	Price of one currency in terms of another (e.g., \$1 = €0.92 or \$1 = ¥150)
Trade Deficit	When a country imports more than it exports; the US runs a trade deficit with many countries
Free Trade Agreement	Treaty reducing/eliminating tariffs between countries (e.g., USMCA with Mexico and Canada)

Why Trade Matters to You

Lower Prices: Trade saves the average American household \$10,000-15,000/year through lower prices. Your \$800 iPhone would cost \$2,500 if made entirely in the US. A T-shirt would cost \$50 instead of \$10.

More Choices: Bananas year-round, cars from Germany, electronics from Asia, wines from around the world—all available because of trade.

But Some Jobs Lost: US manufacturing jobs fell from 17.7 million (1990) to 12.8 million (2024). Trade creates winners (consumers, exporters) and losers (displaced workers in import-competing industries).

APPLY IT

Part A: Understanding Comparative Advantage

Scenario: Two Countries

Country A can produce 100 computers or 50 cars per day. Country B can produce 40 computers or 40 cars per day. Country A has absolute advantage in BOTH goods. Should Country A produce everything?

Country	Computers/Day	Cars/Day	Opportunity Cost of 1 Computer	Opportunity Cost of 1 Car
Country A	100	50	_____ cars	_____ computers
Country B	40	40	_____ cars	_____ computers

Hint: Opportunity cost of 1 computer = Cars given up ÷ Computers gained. For Country A: 50÷100 = 0.5 cars

Which country has comparative advantage in computers?

Which country has comparative advantage in cars?

Optimal trade arrangement (who produces what):

Part B: Trade Policy Analysis

Scenario: 25% Tariff on Imported Cars

The government imposes a 25% tariff on all imported cars to protect domestic auto workers. A foreign car that costs $30,000 to import now costs $30,000 + 25% tariff = $37,500.

Complete the analysis:

Stakeholder	Impact (+/-)	Explanation
Car Buyers		
Domestic Auto Workers		
Domestic Car Companies		
Foreign Countries		
Government Revenue		

Potential retaliation from foreign countries:

Your verdict—is this tariff good policy? Why or why not?

Part C: Exchange Rate Impact

Calculate how exchange rates affect prices. Use these rates: $1 = €0.92 (Euro), $1 = ¥150 (Japanese Yen)

Calculation 1: European Travel

Your hotel in Paris costs €120/night. How much is that in dollars?

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€120 ÷ 0.92 = $_________
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If the dollar strengthens to $1 = €1.00, the same hotel costs:

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€120 ÷ 1.00 = $_________
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You save $______ per night with a stronger dollar.

Calculation 2: Japanese Import

You want to buy a Japanese motorcycle listed at ¥600,000.

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Current price: ¥600,000 ÷ 150 = $_________
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If the dollar weakens to $1 = ¥120, the same motorcycle costs:

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¥600,000 ÷ 120 = $_________
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Cost increase: $______ (_____% more)

Calculation 3: US Export

A US company sells software for $500. A European buyer currently pays:

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$500 × 0.92 = €_________
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If dollar strengthens to $1 = €1.00:

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$500 × 1.00 = €_________
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Effect on US exports: When dollar strengthens, US products become _______ expensive for foreigners, so exports _______ (increase/decrease).

CHECK YOUR UNDERSTANDING

1. Which best explains why the US imports clothing from Bangladesh even though we could make it here?

- A) Bangladesh has absolute advantage in clothing production
- B) Bangladesh has comparative advantage (lower opportunity cost) in clothing
- C) US consumers prefer foreign-made clothing

- D) The US lacks the technology to make clothing

2. A tariff on imported steel would BENEFIT which group and HURT which group?

3. The exchange rate changes from \$1 = €0.85 to \$1 = €0.95. What happened to the dollar, and how does this affect American tourists in Europe?

4. Why do economists generally support free trade even though it causes job losses in some industries?

Hint: Consider total benefits vs. concentrated costs, and who gains more.

5. How will globalization affect YOUR career plans? Identify one threat and one opportunity.