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Applied Economics

SENIOR
HIGH
SCHOOL

International Trade

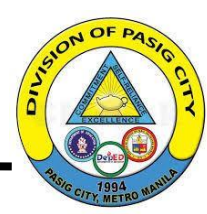
Self-Learning
Module

7

Quarter 4



ACCOUNTANCY, BUSINESS AND MANAGEMENT



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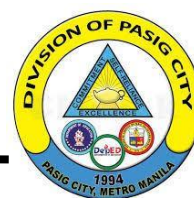
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Introductory Message

For the facilitator:

Welcome to the Senior High School – Applied Economics Self Learning Module on International Trade!

This Self-Learning Module was collaboratively designed, developed and reviewed by educators from the Schools Division Office of Pasig City headed by its Officer-in-Charge Schools Division Superintendent, Ma. Evalou Concepcion A. Agustin, in partnership with the City Government of Pasig through its mayor, Honorable Victor Ma. Regis N. Sotto. The writers utilized the standards set by the K to 12 Curriculum using the Most Essential Learning Competencies (MELC) in developing this instructional resource.

This learning material hopes to engage the learners in guided and independent learning activities at their own pace and time. Further, this also aims to help learners acquire the needed 21st century skills especially the 5 Cs, namely: Communication, Collaboration, Creativity, Critical Thinking, and Character while taking into consideration their needs and circumstances.

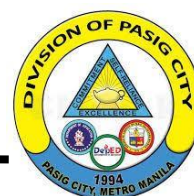
In addition to the material in the main text, you will also see this box in the body of the module:



Notes to the Teacher

This contains helpful tips or strategies that will help you in guiding the learners.

As a facilitator you are expected to orient the learners on how to use this module. You also need to keep track of the learners' progress while allowing them to manage their own learning. Moreover, you are expected to encourage and assist the learners as they do the tasks included in the module.



For the learner:

Welcome to the Applied Economics Self Learning Module on International Trade!

This module was designed to provide you with fun and meaningful opportunities for guided and independent learning at your own pace and time. You will be enabled to process the contents of the learning material while being an active learner.

This module has the following parts and corresponding icons:



Expectations - This points to the set of knowledge and skills that you will learn after completing the module.



Pretest - This measures your prior knowledge about the lesson at hand.



Recap - This part of the module provides a review of concepts and skills that you already know about a previous lesson.



Lesson - This section discusses the topic in the module.



Activities - This is a set of activities that you need to perform.



Wrap-Up - This section summarizes the concepts and application of the lesson.



Valuing - This part integrates a desirable moral value in the lesson.



Posttest - This measures how much you have learned from the entire module.



EXPECTATIONS

After going through this module, you are expected to:

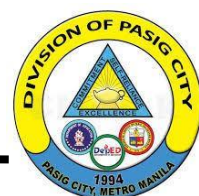
1. define international trade;
2. understand the importance of international trade on the economy; and
3. apply business principles, tools, and techniques in the exports and import business.



PRETEST

Directions: Choose the letter of the best answer and write it on a separate sheet of paper.

1. It refers to the ability of the economy to produce goods and services at a lower opportunity cost compared to trade partners.
 - A. Opportunity Cost
 - B. Comparative Advantage
 - C. Economies of Scale
 - D. International Trade
2. It is the exchange of goods and services between countries.
 - A. Comparative Advantage
 - B. Economies of Scale
 - C. International Trade
 - D. Opportunity Cost
3. He popularized the law of comparative advantage.
 - A. Adam Smith
 - B. Leonel Robbins
 - C. Thomas Malthus
 - D. David Ricardo

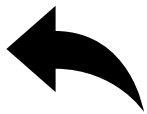


4. The top gainer in the Philippine Exports in June 2020.

- A. Metal Components
- B. Mineral
- C. Chemical
- D. Coconut Oil

5. The top gainer in the Philippine Imports in June 2020.

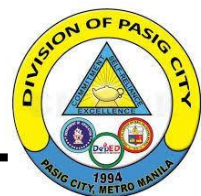
- A. Cereals
- B. Transport Equipment
- C. Food and Live Animals
- D. Mineral Fuels



RECAP

Directions: Enumerate and discuss the types of services.

1. _____.
2. _____.
3. _____.





LESSON

International Trade

If you walk in a supermarket and find products of China, the United States, Thailand, Malaysia, South Korea, you're experiencing the effects of international trade. *International trade* is the exchange of goods and services between countries. International trade allows countries to expand their business in the global arena.

International trade is the key to the rise of the global economy where supply and demand, and so with the prices, are affected by global events. Political change in Asia, for example, could increase the cost of labor, thereby increasing the manufacturing costs for an American sneaker company based in the Philippines would increase the price charged at the local mall. A decrease in the cost of labor, on the other hand, would result in paying less for the new shoes. A product that is sold to the global market is called *export*, and a product that is bought from the global market is called *import*. Imports and exports are accounted for in the country's current account in the balance of payments.

Comparative Advantage

Comparative advantage refers to the ability of the economy to produce goods and services at a lower opportunity cost compared to trade partners. A comparative advantage gives a company the ability to sell goods and services at a lower price than its competitors and realize stronger sales margins.

The law of comparative advantage is popularly attributed to an English political economist, David Ricardo in his book "On the Principles of Political Economy and Taxation" in 1817, although it is likely that Ricardo's mentor James Mill originated the analysis.

Global trade allows rich countries to use their resources, whether labor, technology, or capital, more efficiently. Since countries are endowed with different assets and resources, some countries may produce the same goods more efficiently and therefore sell it cheaper than other countries. If a country cannot efficiently produce a good, it can obtain it by trading with another country that can produce more, this is known as *specialization* in international trade.



Let's take a simple example. Country A and Country B both produce cotton sweaters and wine. Country A produces ten sweaters and six bottles of wine a year while Country B produces six sweaters and ten bottles of wine a year. Both can produce a total of 16 units. Country A, however, takes three hours to produce the ten sweaters and two hours to produce the six bottles of wine (total of five hours). Country B, on the other hand, takes one hour to produce ten sweaters and three hours to produce six bottles of wine (a total of four hours).

But these two countries realize that they could produce more by focusing on those products with which they have a comparative advantage. Country A then begins to produce only wine, and Country B produces only cotton sweaters. Each country can now create a specialized output of 20 units per year and trade equal proportions of both products. As such, each country now has access to 20 units of both products.

International Trade in the Philippines

The country's total export sales in June 2020 amounted to USD 5.33 billion, a decrease of 13.3% from the USD 6.15 billion total export generated in June 2019. The annual drop in June 2020 was the fourth month that total exports had consecutive negative growth. In the previous month, the export value fell at an annual rate of 26.9% while in June 2019, it gained at a rate of 3.9%. (Table A)

Table A. Summary of External Trade Performance
June 2020, May 2020 and June 2019

Indicator	June 2020 ^p		May 2020 ^r		June 2019	
	FOB Value (in USD million)	Year-on-Year Growth (in percent)	FOB Value (in USD million)	Year-on-Year Growth (in percent)	FOB Value (in USD million)	Year-on-Year Growth (in percent)
Total external trade	11,965.79	-19.9	10,388.77	-35.3	14,935.51	-2.9
Balance of trade	-1,303.23	-50.6	-1,321.14	-63.8	-2,635.85	-25.8
Exports	5,331.28	-13.3	4,533.82	-26.9	6,149.83	3.9
Imports	6,634.51	-24.5	5,854.95	-40.6	8,785.68	-7.2

p – preliminary, r – revised

Source: Philippine Statistics Authority



Of the top ten major commodity groups in terms of exported value, eight had annual decline which was led by metal components (-30.5%); coconut oil (-29.7%); and machinery and transport equipment (-26.3%). (Tables B)

Table B. Top 10 Philippine Exports to All Trading Partners, June 2020p
Year-on-Year Growth

Gainers		Losers	
Major Commodity Group	Annual Growth Rate (in percent)	Major Commodity Group	Annual Growth Rate (in percent)
1) Other Mineral Products	59.5	1) Metal Components	-30.5
2) Chemicals	3.3	2) Coconut Oil ^{2/}	-29.7
		3) Machinery and Transport Equipment	-26.3
		4) Ignition Wiring Set and Other Wiring Sets Used in Vehicles, Aircrafts and Ships ^{1/}	-25.8
		5) Bananas (Fresh)	-17.4
		6) Other Manufactures	-16.9
		7) Cathodes and Sections of Cathodes, of Refined Copper	-10.4
		8) Electronic Products	-10.4

Growth rates were computed from actual values
^{1/} - consists only of electrical wiring harness for motor vehicles
^{2/} - includes crude and refined
p - preliminary
Source: Philippine Statistics Authority

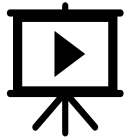
Total imported goods in June 2020, which amounted to USD 6.63 billion, plunged at an annual rate of 24.5%. In the previous month, the decline was faster at 40.6% while in June 2019, imports decreased by 7.2% annually. The decrement of imported goods in June 2020 was due to the decrease in seven out of the top 10 major import commodities which were led by transport equipment (-70.5%); mineral fuels, lubricants, and related materials (-56.9%); and iron and steel (-40.9%).

Table C. Top 10 Philippine Imports from All Trading Partners, June 2020p
Year-on-Year Growth

Gainer		Losers	
Major Commodity Group	Annual Growth Rate (in percent)	Major Commodity Group	Annual Growth Rate (in percent)
1) Cereals and Cereal Preparations	41.3	1) Transport Equipment	-70.5
2) Other Food and Live Animals	13.6	2) Mineral Fuels, Lubricants and Related Materials	-56.9
3) Organic and Inorganic Chemicals	6.8	3) Iron and Steel	-40.9
		4) Miscellaneous Manufactured Articles	-29.4
		5) Industrial Machinery and Equipment	-23.1
		6) Electronic Products ^{1/}	-14.6
		7) Telecommunication Equipment and Electrical Machinery ^{2/}	-11.4

^{1/} - includes consigned and direct importation using the expanded coverage of electronic products
^{2/} - includes telecommunications and sound recording and reproducing apparatus and equipment
p - preliminary
Source: Philippine Statistics Authority





ACTIVITIES

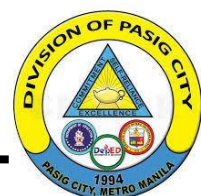
Activity 1: Name It!

Directions: Enumerate the effects of the global pandemic on the international trade and economic performance of the country. Give at least five (5) effects.

1. _____.
2. _____.
3. _____.
4. _____.
5. _____.

Activity 2: Business Tool

Directions: From the effects above, identify the business environment of international trade of the country using any of the business tools (Environmental Scanning, SWOT Analysis, or Porter's Five Forces Model). Use the space provided below or a separate sheet for your answer.





WRAP-UP

To summarize what you have learned in the lesson, answer the following questions:

1. What is international trade?
2. What is the importance of international trade on the economy?



VALUING

Reflect on this!

“Life is full of giving and take. Give thanks and take nothing for granted.”

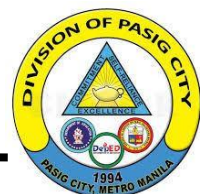
– Anonymous



POSTTEST

Directions: Read each statement carefully. Write **T** if the statement is correct, otherwise write **F**.

- _____ 1. International trade is the exchange of goods and services between countries.
- _____ 2. The law of comparative advantage is popularly attributed to David Ricardo.
- _____ 3. A comparative advantage gives a company the ability to sell goods and services at a lower price than its competitors and realize stronger sales margins.
- _____ 4. The total exports of the Philippines have been improved in June 2020.
- _____ 5. Metal equipment is top gainer in the Philippines Imports in June 2020.





KEY TO CORRECTION

PRETEST	POSTTEST:
1. B	1. T
2. C	2. T
3. D	3. T
4. B	4. F
5. A	5. F

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