Unit 7 Notes

International Economics

Developed Nations

- High standards of living
- Economies based more on industry than agriculture
- 35 nations out of 190
  - USA, Canada, European Nations, Japan, Australia, New Zealand

Developing Nations

- Little industrial development
- Low standards of living
- 155 out of 190 nations

Developing Nations

- Economic Characteristics
  - Low GDP (per capita)
    - USA (Developed): $45,800
    - China (Developing): $7,400
  - Agricultural Economy
    - Subsistence agriculture
      - Farm only for family; no exporting
  - Poor Health Conditions
    - High infant mortality rate

Developing Nations

- Low Literacy Rate
  - Few schools, children work instead of going to school
- Rapid Population Growth
- Weak property rights
  - Laws protecting an individual's rights to own land and property are not strong
    - Citizens have no incentive to improve property

Outsourcing

<u>Outsourcing</u> - The practice of contracting with foreign companies to produce goods that will be sold by the domestic firm.

Work is usually outsourced from companies in *developed* nations to factories in *developing* nations.

Outsourcing and Sweatshops

Sweatshop - a factory where workers are employed at low wages for long hours and under poor working conditions.

Outsourced jobs are often completed in sweatshops.

Which type of unemployment does outsourcing create in the developed nation?

Answer:

Outsourcing and Sweatshops

Developed Nation (United States)

- Pro -
- Con -

Developing Nation (Bangladesh)

- Pro -
- Con -

Outsourcing and Sweatshops

Developed Nation (ex. United States)

- Pro - Cheap prices on imported goods
- Con - Loss of jobs

Developing Nation (ex. Bangladesh)

- Pro - Jobs with better wages
- Con - Poor working conditions initially

Why Countries Trade

- Nations differ in the type and amount of factors of production they have available.
  - U.S. has skilled labor
  - Japan lacks land for farming
  - Saudi Arabia has an abundance of oil

Specialization

Specialization - Countries should produce goods for which they are best suited.

- Saudi Arabia exports oil and imports cars.
- Japan exports cars and imports food.

The more countries specialize and trade, the more their standard of living grows.

Using money as a *medium of exchange* makes trade easier.

Barriers to Trade

- Protective Tariff - Tax on imports used to make imports more expensive
  - Tariffs protect domestic producers
- Embargo - complete restriction on the import or export of goods coming from or going to another country
  - U.S. has an embargo on trade with Cuba because the U.S. government does not agree with Castro’s political policies.

Absolute Advantage

Absolute Advantage - The ability of one country to produce more of a good than another country using the same or fewer resources.

	Italy	Saudi Arabia
Heads of Lettuce Produced per Acre	5,000	1,000

Which country has an absolute advantage in producing lettuce? ________________

Comparative Advantage

Comparative Advantage - The ability of a country to produce a good at a lower opportunity cost than another country.

Students' Output Per Hour		
	Math Problems	Typed Pages
You	20	4
BFF	30	10
Who has a comparative advantage in typing pages?		

Comparative Advantage

Comparative Advantage - The ability of a country to produce a good at a lower opportunity cost than another country.

Students' Output Per Hour			
	Math Problems	Typed Pages	Opportunity Cost of Producing One Typed Page
You	20	4	5 math problems
BFF	30	10	3 math problems
Who has a comparative advantage in typing pages? ________________			

Comparative Advantage

Countries should specialize in producing the goods that have the lowest opportunity cost.

Which country should specialize in making airplanes?

Productivity Per Month			
	Airplanes	Shirts	Opportunity Cost Of Making One Airplane
Bangladesh	5	1,000	
USA	100	5,000	

Comparative Advantage

Countries should specialize in producing the goods that have the lowest opportunity cost.

Which country should specialize in making airplanes?

Productivity Per Month			
	Airplanes	Shirts	Opportunity Cost Of Making One Airplane
Bangladesh	5	1,000	200 shirts
USA	100	5,000	50 shirts

Comparative Advantage

Countries should specialize in producing the goods that the lowest opportunity cost.

Which country should specialize in making shirts? ________

Productivity Per Month			
	Airplanes	Shirts	Opportunity Cost Of Making 1,000 Shirts
Bangladesh	5	1,000	
USA	100	5,000	

Comparative Advantage

Countries should specialize in producing the goods that the lowest opportunity cost.

Which country should specialize in making shirts? ________

Productivity Per Month			
	Airplanes	Shirts	Opportunity Cost Of Making 1,000 Shirts
Bangladesh	5	1,000	5 airplanes
USA	100	5,000	20 airplanes

Balance of Trade

Balance of Trade - The value of a nation's imports subtracted from the value of its exports.

Balance of Trade = Exports - Imports

Trade Surplus - When a country's exports are greater than its imports.

Trade Deficit - When a country's imports are greater than its exports.

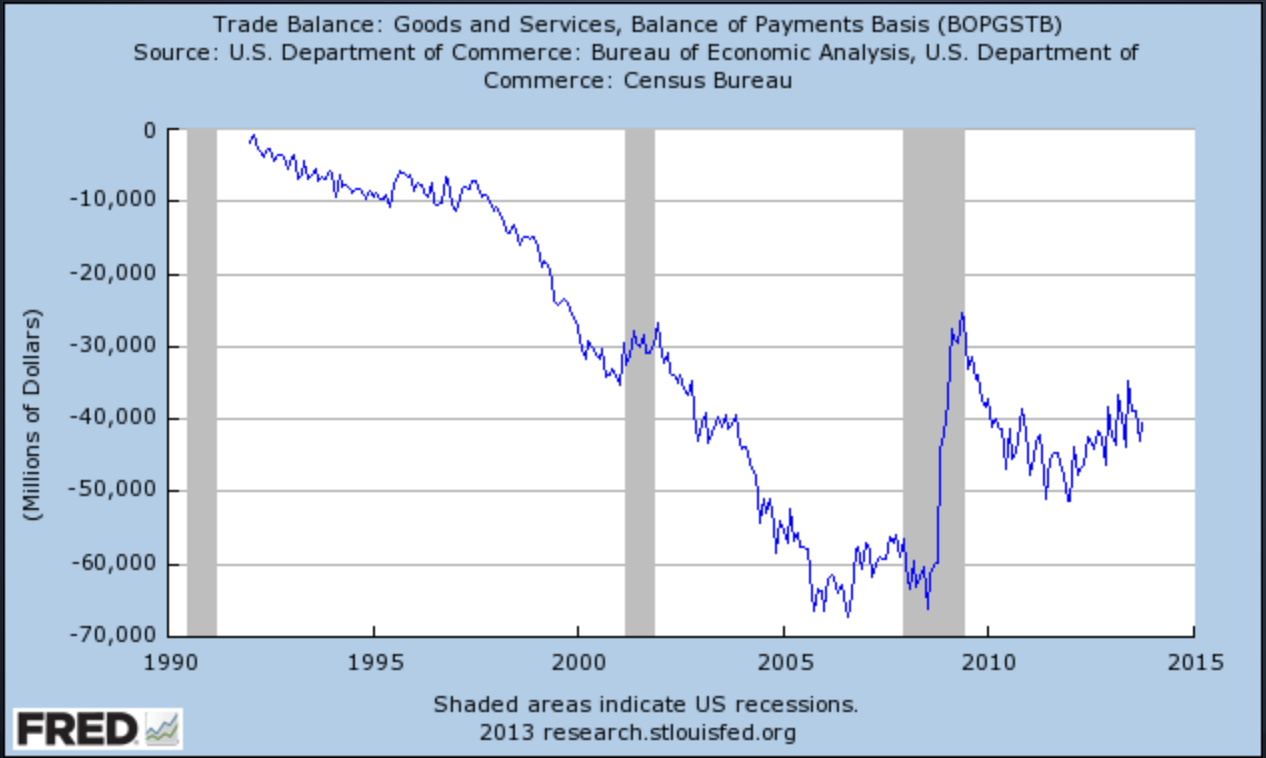
Balance of Trade

The United States is currently running a trade deficit.

In 2012, USA’s balance of trade was -$540 billion.

The value of the US dollar in comparison to the currency of other countries has an effect on the balance of trade.

Balance of Trade



Exchange Rates

Exchange Rate - The amount of a foreign currency one US Dollar will purchase.

Example 1 USD = 0.74 Euro

If a meal in a French restaurant costs 120 US Dollars, how many Euros does it cost?

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$$1/0.74 = 120/x$$

Cross multiply

120 USD *0.74 = 88.8 Euros

Exchange Rates

Rick quit his job at an apple pie factory in the United States. He now works in Canada at a maple syrup factory, where he earns 18 Canadian dollars per hour. How much would that wage be worth in US Dollars?

1 USD = 1.06 Canadian dollars.

Exchange Rates

Rick quit his job at an apple pie factory in the United States. He now works in Canada in a maple syrup factory, where he earns 18 Canadian dollars per hour. How much would that wage be worth in US Dollars?

1 USD = 1.06 Canadian dollars.

$1/1.06 = x/18$

Cross multiply

= 16.98 US dollars.

The Value of the US Dollar

Appreciation of the US Dollar - When one dollar buys more of a foreign currency than it did previously.

This is described as a “strong” dollar.

Depreciation of the US Dollar - When one dollar buys less of a foreign currency than it did previously.

This is described as a “weak” dollar.

The Value of the US Dollar

As the US dollar appreciates…

Foreign goods become cheaper…imports increase…trade deficit ______

As the US dollar depreciates…

Foreign goods become more expensive, imports decrease…trade deficit ______

The Value of the US Dollar

A US company buys materials from Germany every year. The materials cost 1000 Euro. When the US dollar <u>appreciates</u>, the imported materials become cheaper.

Year	Exchange Rate		Price in Euro	Price in Dollars
2011	1 USD =	2 Euro	1000 Euro	$500
2012	1 USD =	3 Euro	1000 Euro	$333

December 8, 2013

With a partner, create an exchange rate scenario similar to the ones we discussed in class today. Use one of the exchange rates provided.

After you have written the scenario, show how to solve it. Circle the correct answer.

Turn your work in when you have finished. Continue to work on your Unit 7 Learning Guide, which is due tomorrow.

Exchange Rates

One US Dollar =
0.73 Euro
2.32 Brazilian Real
61.13 Indian Rupee
6.07 Chinese Yuan
3.75 Saudi Riyal
103.05 Japanese Yen

The Chinese Economy

Pre-1979:

- China was purely a *command economy.*
- Economy was based primarily on farming.
  - Government set quotas for farmers to meet.
- Citizens had very few economic or political freedoms.

The Chinese Economy

Post-1979:

- Government subsidized factories to produce low-cost goods for exporting.
- Farmers were allowed to keep what they farmed in excess of quota.
- Government opened borders to foreign companies that wanted to do business in China.
- Economy begins long period of rapid growth.

The Chinese Economy

Today:

- China is the world's # 1 exporter. (USA # 2)
- China is # 2 in GDP. (USA # 1)
- Annual GDP Growth has averaged 10%+ per year for the last 20 years.
- 600 million people lifted out of poverty in the last 20 years.
- Pollution is a big problem.

December 10, 2013

1. Read the “Eyes on China” article and answer the questions on the accompanying worksheet. Turn it in when you are finished.

2. Finish your Unit 7 Learning Guide and turn it in when you are finished.