

# MACRO

## VIII. International Trade

Comparative advantage and gains from trade

Balance of payments

Foreign exchange rates

Trade barriers

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Comparative advantage and gains from trade

Comparative Advantage and Absolute Advantage

Absolute advantage

Comparative advantage

Specialization

Gains from trade

Output vs. Inputs Models

Illustration:

Exports, imports and the world price

If world price > domestic price, nation exports that good  
If world price < domestic price, nation imports that good

Balance of Payments

Current Account

Capital Account

Official Reserves

Foreign Exchange

Currency Markets

Appreciation

Depreciation

## Determinants of Exchange Rates

Consumer tastes

Relative incomes

Relative inflation or price level

Speculation

Monetary policy and exchange rates

## Trade Barriers

Tariffs

Effects of tariffs

Quotas

Negative effects of tariffs and quotas

High prices

Lower consumer surplus

Encourage inefficient domestic production at the expense of efficient foreign production

Creates dead weight loss