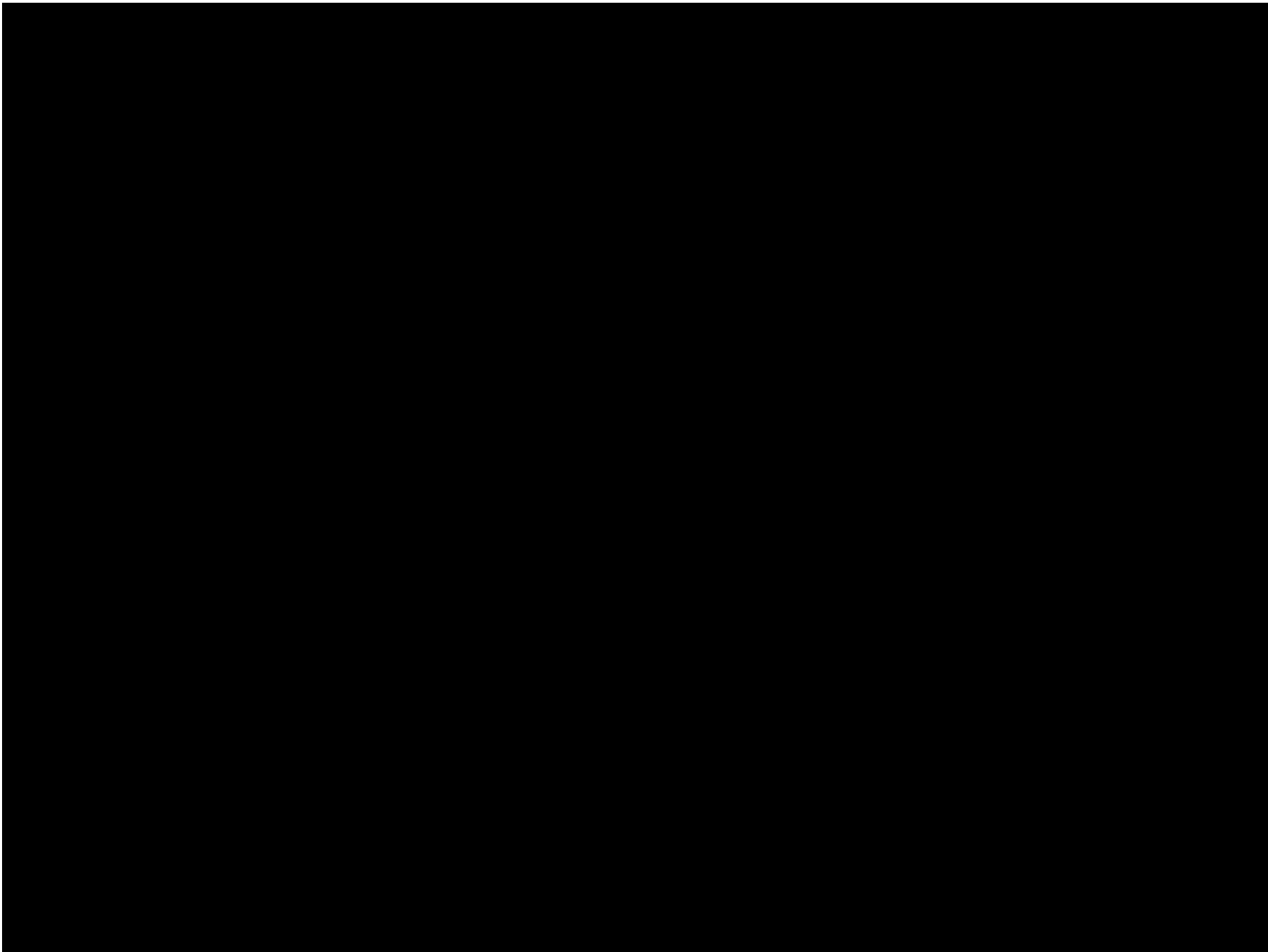


Should Norway shift their efforts into coffee production?

Should Chile focus on livestock?

lithium

Should Panama fill in the canal in order to create arable land for banana trees?



Today's learning objective:

By the end of class, I will be able to identify and describe the reasons for trade along with the monetary policy effects of trade.

Today's language objective:

Exports

Imports

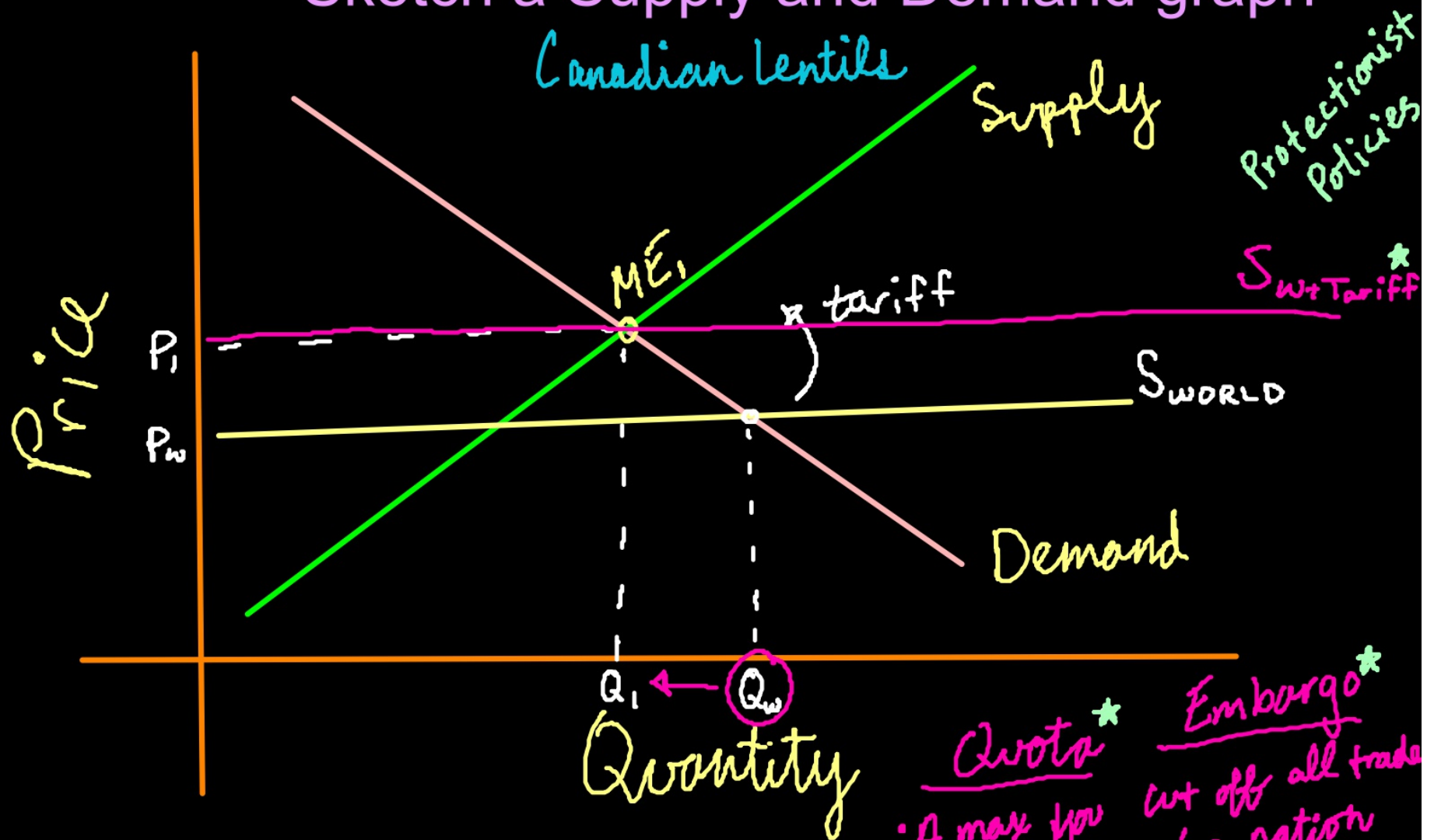
Net Exports = $E - I$

Tariffs; Quotas; Embargoes

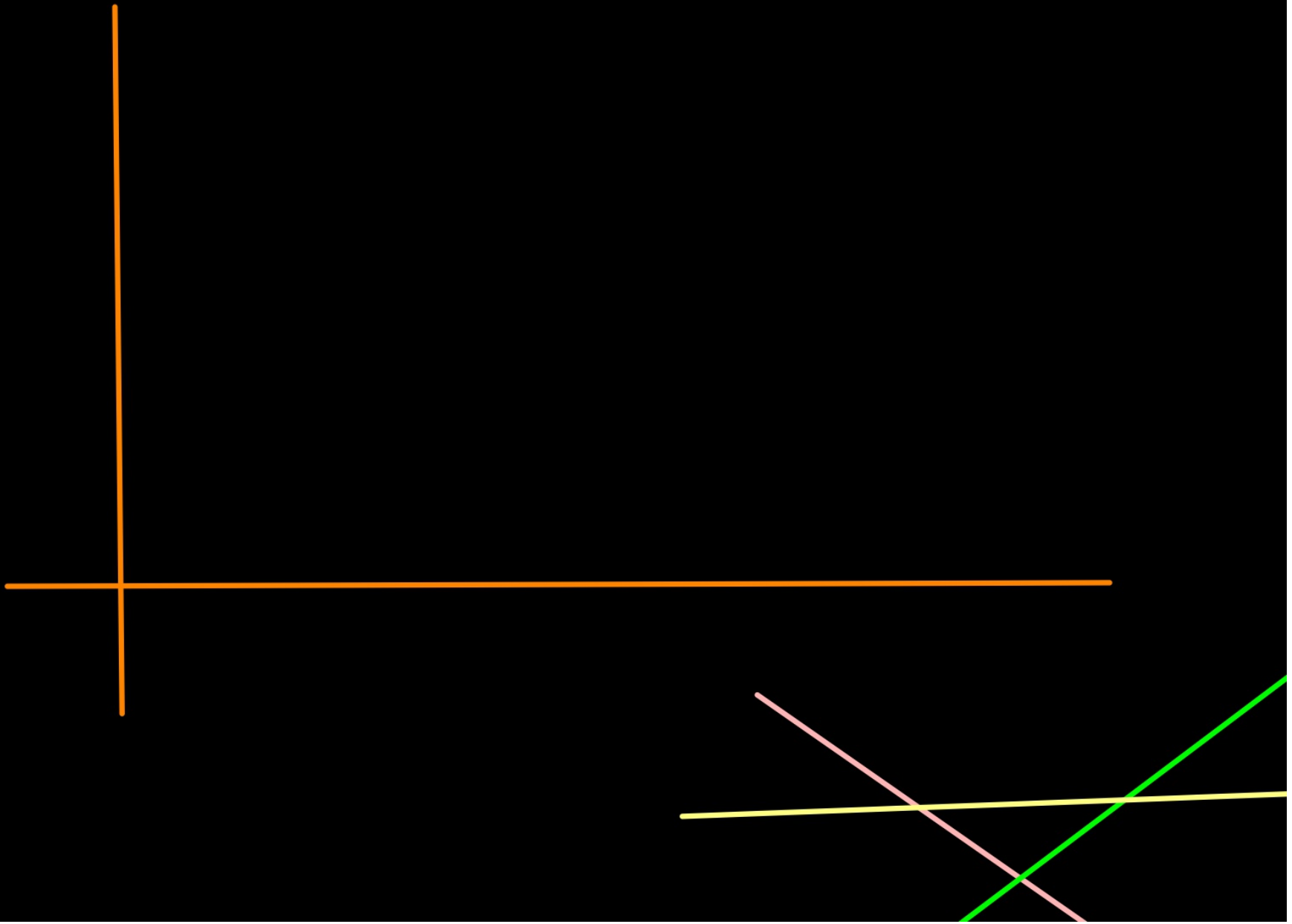
Core competency & comparative advantage

FX: *foreign exchange*

Sketch a Supply and Demand graph



Sketch a Supply and Demand graph



Game Theory of Protectionism

best
for
humanity

$\frac{nT}{7}$	$\frac{nT}{7}$	T	$\frac{nT}{7}$
$\frac{nT}{7}$	T	$\frac{nT}{7}$	T

Tariff

No Tariff

Nash Equilib

highest
prices

If a country has absolute advantages across multiple products, what is its incentive to trade?

	✓ Cars	✓ Potatoes
Ireland	2 mm	50 mm
Costa Rica	1 mm	10 mm

trade is still important

comparative advantages

- Costa Rica - cars
- Ireland - potatoes

Labor hours (for producing 1 unit)	Cars	Bikes B
Country A	10 <i>x 1.25</i>	5 <i>x 2.5</i>
Country B	8	2

Group work

Jobs

If these countries decided to develop protectionist policies, would specialization be an option?

No

If these countries each have 100,000 labor hours and they needed to dedicate 50% of their time to each good, how much would be produced in total?

	Cars	Bikes	
A	5000	10000	$\approx 15\text{ k}$
B	6250	25000	$\approx 31.25\text{ k}$
			<hr/> $46,250\text{ output}$

If the countries decided to specialize on their core competencies and eliminate the protectionist policies, which product would they choose and why?

Bikes - B

Cars - A

Assuming these countries have 100,000 labor hours, how many ~~cars~~ goods are produced in total?

B
Bikes - 50k

A
Cars - 10k

60k

Monetary Policy effect on Trade

Who can enact Monetary Policy?

→ Fed

What are the 3 actions to be taken?

- 1) Buy/sell bonds
- 2) Change RR
- 3) Change Discount Rate

Expansionary Monetary Policy effect on Trade

- 1) Buy bonds
- 2) Lower RR
- 3) Lower Discount Rate

$$GDP = C + I + G + X$$

(C, I, G, X are crossed out in red)
Export

↑ inflation
↑ more money

value of \$ ↓
value of FX ↑

Contractionary Monetary Policy effect on Trade