

**KOFA HIGH SCHOOL SOCIAL SCIENCES DEPARTMENT**

**AP ECONOMICS**

**STUDY GUIDE # 20 - GLOBAL TRADE & DEVELOPMENT**



---

**CHAPTER LEARNING OBJECTIVES**

- 1. STUDENTS WILL BE ABLE TO EXPLAIN WHY NATIONS NEED TO TRADE**
- 2. STUDENTS WILL BE ABLE TO EXPLAIN WHY NATIONS LOOK TO SPECIALIZE AND WHAT THE DIFFERENCES ARE BETWEEN HAVING COMPARATIVE AND ABSOLUTE ADVANTAGES**
- 3. STUDENTS WILL BE ABLE TO ILLUSTRATE BY EXAMPLE WHY IT IS BETTER TO HAVE A COMPARATIVE ADVANTAGE OVER AN ABSOLUTE ADVANTAGE**
- 4. STUDENTS WILL BE ABLE TO IDENTIFY THE TYPES AND EXPLAIN THE EFFECTS OF TRADE BARRIERS**
- 5. STUDENTS WILL BE ABLE TO EXPLAIN THE ARGUMENTS FOR PROTECTIONISM**
- 6. STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN EXAMPLES OF POOR TRADE DECISIONS MADE BY THE UNITED STATES IN THE 1900s**
- 7. STUDENTS WILL BE ABLE TO DEFINE AND EXPLAIN HOW TRADE IS MEASURED**
- 8. STUDENTS WILL BE ABLE TO DEFINE AND EXPLAIN THE DIFFERENCES BETWEEN A STRONG AND WEAK CURRENCY**
- 9. STUDENTS WILL BE ABLE TO EXPLAIN THE PURPOSE BEHIND THE EXCHANGE RATE AND ILLUSTRATE HOW TO DO CURRENCY CONVERSIONS**
- 10. STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE REASONS WHY THE UNITED STATES DOMINATES WORLD TRADE**
- 11. STUDENTS WILL BE ABLE TO DEFINE, EXPLAIN, AND CONTRAST THE FIXED RATE AND FLEXIBLE RATE CURRENCY EXCHANGE SYSTEMS**
- 12. STUDENTS WILL BE ABLE TO DEFINE THE FOREIGN EXCHANGE MARKET**

13. **STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE IMPACT OF THE MAJOR LEGISLATION IN THE 1900s THAT PROMOTED GLOBAL TRADE**
14. **STUDENTS WILL BE ABLE TO EXPLAIN THE ADVANTAGES OF THE EXPANSION OF GLOBAL CORPORATIONS**
15. **STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE ADVANTAGES OF FREE TRADE AND FREE TRADE ZONES**
16. **STUDENTS WILL BE ABLE TO EXPLAIN WHY THERE IS NEED FOR GLOBAL DEVELOPMENT**
17. **STUDENTS WILL BE ABLE TO DEFINE AND EXPLAIN THE CLASSIFICATION OF NATIONS WITH REGARD TO GLOBAL DEVELOPMENT**
18. **STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE MEASUREMENTS USED TO DETERMINE A NATION'S STANDARD OF LIVING**
19. **STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE CHALLENGES THAT WE FACE IN GLOBAL DEVELOPMENT**
20. **STUDENTS WILL BE ABLE TO DEFINE AND EXPLAIN METHODS FOR FINANCING GLOBAL DEVELOPMENT**
21. **STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE ROLE OF THE LEADING ORGANIZATIONS PROMOTING GLOBAL DEVELOPMENT**

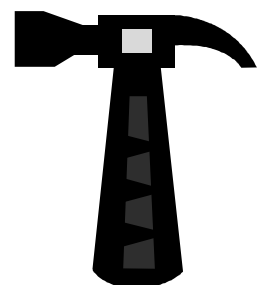
**WHAT ARE THE 4 REASONS WHY NATIONS TRADE ?**

- 1.
- 2.
- 3.
- 4.



**WHY DO NATIONS LOOK TO SPECIALIZE ?**

1. **TO OBTAIN A “ COMPARATIVE ADVANTAGE ” -**



2. ***THIS IS TRUE EVEN IF A COUNTRY HAS AN “ ABSOLUTE ADVANTAGE ” -***

***YOU WILL SEE TWO TYPES OF EXAMPLES > INPUT AND OUTPUT***

\*\*\*\*\*

***DR. HOLDEN’S VIDEO > COMPARATIVE ADVANTAGE OUTPUT EXAMPLE :***

***LABOR HOURS NEEDED TO MAKE***

	<b><i>ONE CAR</i></b>	<b><i>ONE TON OF CHEESE</i></b>
<b><i>UNITED KINGDOM</i></b>		
<b><i>CHINA</i></b>		

***WHICH COUNTRY HAS AN ABSOLUTE ADVANTAGE IN CARS ?***

***WHICH COUNTRY HAS AN ABSOLUTE ADVANTAGE IN CHEESE ?***

***WHICH COUNTRY HAS A COMPARATIVE ADVANTAGE IN CARS ?***

***WHICH COUNTRY HAS A COMPARATIVE ADVANTAGE IN CHEESE ?***

***WHAT SHOULD EACH COUNTRY SPECIALIZE IN AND DO WITH IT ?***

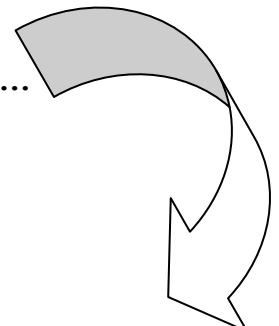
\*\*\*\*\*

***TIP !! CONVERT INPUT EXAMPLES INTO OUTPUT EXAMPLES***

***UNITED STATES AND BRAZIL FISH / SHRIMP OUTPUT EXAMPLE :***

<b><i>COUNTRY</i></b>	<b><i>TONS OF FISH PRODUCED PER HOUR</i></b>	<b><i>TONS OF SHRIMP PRODUCED PER HOUR</i></b>
<b><i>UNITED STATES</i></b>	<b><i>60</i></b>	<b><i>25</i></b>
<b><i>BRAZIL</i></b>	<b><i>45</i></b>	<b><i>40</i></b>

***FIGURE OUT THE OPPORTUNITY COSTS .....***



<i>COUNTRY</i>	<i>OPPORTUNITY COST OF FISH</i>	<i>OPPORTUNITY COST OF SHRIMP</i>
<i>UNITED STATES</i>	<i>5/12 (0.42) PEARS</i>	<i>12/5 (2.4) FISH</i>
<i>BRAZIL</i>	<i>8/9 (0.89) PEARS</i>	<i>9/8 (1.125) FISH</i>

*WHAT COUNTRY HAS AN ABSOLUTE ADVANTAGE ?*

*WHAT IS THE COMPARATIVE ADVANTAGE FOR EACH COUNTRY ?*

*SPAIN AND PORTUGAL APPLES / PEAR INPUT EXAMPLE :*

<i>COUNTRY</i>	<i>ACRES REQUIRED TO PRODUCE ONE BUSHEL OF APPLES</i>	<i>ACRES REQUIRED TO PRODUCE ONE BUSHEL OF PEARS</i>
<i>SPAIN</i>	<i>5</i>	<i>2</i>
<i>PORTUGAL</i>	<i>6</i>	<i>3</i>

*WHAT IS THE FIRST THING YOU SHOULD DO WITH AN INPUT PROBLEM ?*

<i>COUNTRY</i>	<i>OPPORTUNITY COST OF APPLES</i>	<i>OPPORTUNITY COST OF PEARS</i>
<i>SPAIN</i>	<i>5/2 (2.5) PEARS</i>	<i>2/5 (0.40) APPLES</i>
<i>PORTUGAL</i>	<i>6/3 (2) PEARS</i>	<i>3/6 (0.50) APPLES</i>

*WHAT COUNTRIES HAVE ABSOLUTE ADVANTAGES ?*

*WHAT ARE THE COMPARATIVE ADVANTAGES ?*

**WHAT ARE SOME EXAMPLES OF NATIONS THAT HAVE A COMPARATIVE ADVANTAGE ?**

- 1.
- 2.
- 3.
- 4.



**WHAT ARE 3 ARGUMENTS FOR “ PROTECTIONISM ” ?**

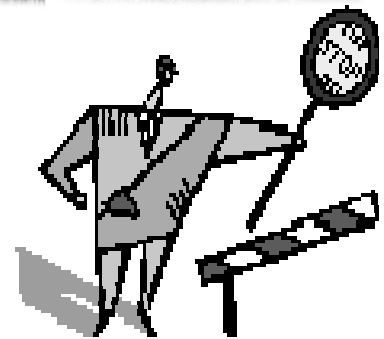
- 1.
- 2.
- 3.



**WHAT ARE “ TRADE BARRIERS ” ?**

**WHAT ARE 5 TYPES OF TRADE BARRIERS ?**

1. “ IMPORT ” -  
“ IMPORT QUOTA ” -
2. “ VOLUNTARY EXPORT RESTRAINT ” -  
“ EXPORT ” -
3. “ TARIFF ” -



\*\*\*\*\*

**DR. HOLDEN'S VIDEO > TARIFFS AND PROTECTIONISM**

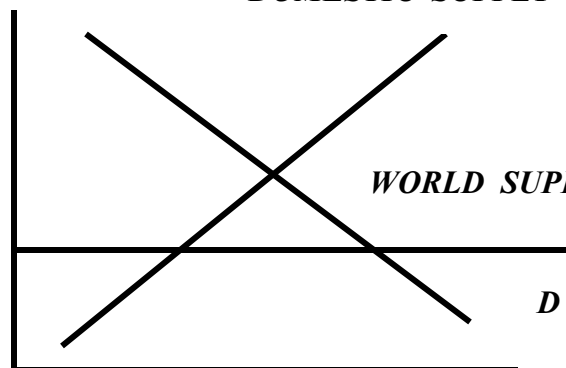
**“ CONSUMER SURPLUS ” -**

PL

**DOMESTIC SUPPLY**

**WORLD SUPPLY**

D



**TRUE OR FALSE , A TARIFF HURTS DOMESTIC CUSTOMERS ?**

\*\*\*\*\*

4.

5.

**WHAT ARE THE 4 EFFECTS OF TRADE BARRIERS ?**

1.

2.

3.

4.

**WHAT ARE 4 NOTEABLE BAD TRADE POLICY DECISIONS OF THE PAST 70 YEARS ?**

1. “ SMOOT - HAWLEY TARIFF OF 1930 ” -

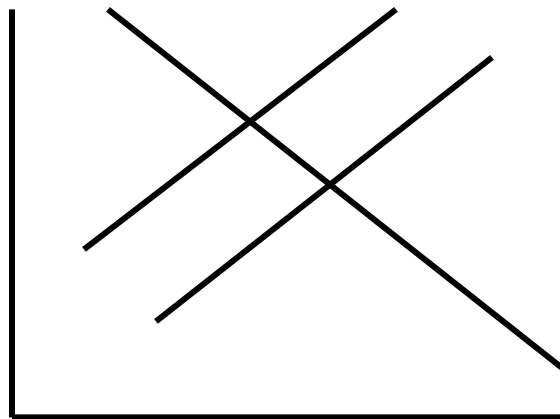
2. “ CHICKEN TARIFF OF 1963 ” -

3. “ PASTA TARIFF OF 1985 ” -

4. “ BEEF WAR OF 1999 ” -

**SAMPLE AP EXAM QUESTION :**

**DEMONSTRATE WHAT WILL HAPPEN TO THE DOMESTIC PRICE ,  
PRODUCTION , AND THE AMOUNT OF IMPORTS IF AN IMPORT QUOTA IS  
REMOVED ?**

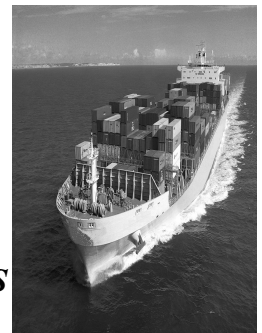


**HOW TRADE IS MEASURED > THE FLOW OF GOODS > THREE CONCEPTS :**

**“ BALANCE OF TRADE ” ?**

**“ TRADE SURPLUS ” -**

**“ TRADE DEFICIT ” -**



**WHO ARE THE FASTEST GROWING IMPORTERS AND EXPORTERS**

**EXPORTERS**

**IMPORTERS**

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

**WHAT ARE THE 3 FACTS THAT TELL THE TALE OF THE UNITED STATES DOMINANCE OF GLOBAL TRADE ?**

- 1.
- 2.
- 3.



**WHAT ARE THE TOP 5 IMPORT AND EXPORT CATEGORIES FOR THE UNITED STATES ?**

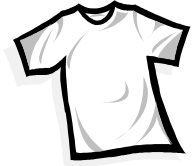
**IMPORT**

**EXPORT**

- 1.
- 2.



- 3.
- 4.
- 5.



\*\*\*\*\*  
**VIDEO > SOME QUICK GLOBAL TRADE FACTS :**

1. **BY 2050 CHINA'S ECONOMY WILL BE \_\_\_\_\_ THAT OF THE UNITED STATES**
2. **THE WORLD IS MOVING BEYOND AMERICA . THIS IS HAPPENING NOT BECAUSE THE UNITED STATES IS IN \_\_\_\_\_ , BUT BECAUSE THE REST OF THE WORLD IS \_\_\_\_\_ AND HAVE BECOME GOOD AT \_\_\_\_\_**
3. **\_\_\_\_\_ COUNTRIES ARE GROWING FASTER THAN THE UNITED STATES**
4. **TRUE OR FALSE , FOREIGN INVESTMENT IN THE UNITED STATES IS CREATING THOUSANDS OF JOB IN THE UNITED STATES**

\*\*\*\*\*  
**HOW TRADE IS MEASURED > THE FLOW OF CAPITAL > 3 CONCEPTS :**

**CONCEPT # 1 > “ CURRENT ACCOUNT ” -**

- 1.
- 2.



\*\*\*\*\*  
**DR. HOLDEN VIDEO > BALANCE OF PAYMENTS AND THE STRUCTURE OF THE CURRENT ACCOUNT**

**THE BALANCE OF PAYMENTS IS INCLUSIVE OF TWO ACCOUNTS :**

- 1.
- 2.

**THE CURRENT ACCOUNT IS MADE UP OF FOUR COMPONENTS MEASURING THE MONEY FLOW :**

1. **TRADE OF** \_\_\_\_\_ 
 / INFLOW  
 \ OUTFLOW
  
2. **TRADE OF** \_\_\_\_\_ 
 / INFLOW  
 — OUTFLOW
  
3. **PROFIT AND INCOME** 
 / CREDIT  
 \ DEBIT
  
4. **CURRENT TRANSFERS ( FEES )** 
 / CREDIT  
 \ DEBIT

**GENERALLY, A NEGATIVE CURRENT ACCOUNT IS BAD NEWS FOR COUNTRY FOR TWO REASONS , IT IMPLIES THAT :**

1. \_\_\_\_\_
2. \_\_\_\_\_

**THE CURRENT ACCOUNT STATUS IS EXPRESSED AS A PERCENT OF \_\_\_\_\_**

\*\*\*\*\*

**CONCEPT # 2 > “NET CAPITAL OUTFLOW ( NCO )” -**

**THE 2 EXAMPLES OF INCREASING AMERICAN “NCO ”**

1. “ DIRECT FOREIGN INVESTMENT ” -
  
2. “ FOREIGN PORTFOLIO INVESTMENT ” -



**THREE VARIABLES THAT CAN HAVE A DRAMATIC EFFECT ON “NCO ” ?**

1. \_\_\_\_\_
  
2. \_\_\_\_\_
  
3. \_\_\_\_\_

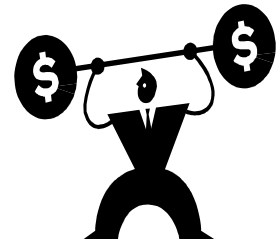
**CONCEPT # 3 > THE “FOREIGN EXCHANGE RATE” -**

**WHAT DOES IT MEAN TO HAVE A “STRONG OR WEAK DOLLAR ”? ARE THERE ANY ADVANTAGES GAINED, OR DISADVANTAGES SUFFERED FROM EITHER ? FILL IN THE CHART BELOW :**

**“ STRONG DOLLAR ” -**

**“ WEAK DOLLAR ” -**

- 1.
- 2.
- 3.



**HOW DO YOU CALCULATE THE EXCHANGE RATE ?**

**HOW THE CURRENCY EXCHANGE MARKETS ARE MANAGED :**

**WHAT IS THE “ FOREIGN EXCHANGE MARKET ” AND ITS PURPOSE ?**

**THE CHARACTERISTICS OF THE OLD “ FIXED RATE EXCHANGE SYSTEM ” :**

- 1.
- 2.
- 3.
- 4.



**“ FLEXIBLE RATE SYSTEM ” -**

**NAME THREE REASONS WHY ONE NATION WOULD WANT ANOTHERS CURRENCY ?**

- 1.
- 2.
- 3.

**EXAMPLE OF HOW THE FOREIGN EXCHANGE MARKET IS AFFECTED BY SUPPLY AND DEMAND > A UNITED STATES CUSTOMER WANTS TO BUY PENS IN GERMANY**

1. **THE UNITED STATES DOLLAR SUPPLY DECREASES DOMESTICALLY , BUT INCREASES IN THE FOREIGN MARKET**
2. **THE DEMAND FOR EUROS INCREASES**



**TWO VERY IMPORTANT AP MACRO EXAM TIPS !!**

- 1.
- 2.

\*\*\*\*\*  
**DR. HOLDEN VIDEO > CURRENT ACCOUNT DEFICITS AND EXCHANGE RATES - WHY A DEPRECIATING CURRENCY MIGHT BE BOTH A CONSEQUENCE AND A CURE FOR CURRENT ACCOUNT DEFICITS**

1. **FUNDAMENTALLY A CURRENT ACCOUNT DEFICIT IS TELLS US THAT A**

COUNTRY IS \_\_\_\_\_ MORE FOREIGN GOODS THAN IT IS

- \_\_\_\_\_
2. AS A CURRENT ACCOUNT DEFICIT LEADS TO A DEPRECIATION OF A CURRENCY , THE DEPRECIATION ITSELF WOULD LEAD TO A \_\_\_\_\_ OF THE CURRENT ACCOUNT , BUT .....
  3. THE CONDITION CALLED THE “ MARSHALL LERNER CONDITION ” - STATES THAT THE CURRENT ACCOUNT DEFICIT REDUCTION WOULD ONLY OCCUR IF THE COMBINED \_\_\_\_\_ OF THE DEMAND FOR BOTH THE EXPORTS AND IMPORTS ADD UP TO MORE THAN \_\_\_\_\_ , IN OTHER WORDS , THEY COLLECTIVELY WOULD BE CONSIDERED \_\_\_\_\_ ( TYPE OF DEMAND )
  4. WHAT IS THE GENERAL THEORY AS TO WHY THE DEPRECIATION OF THE UNITED STATES DOLLAR HAS NOT REDUCED THE UNITED STATES CURRENT ACCOUNT DEFICIT ?

\*\*\*\*\*  
TRENDS IN GLOBAL TRADE :

THE TREND IN GLOBAL TRADE HAS BEEN TOWARD FREE TRADE > 5 KEY DEVELOPMENTS OVER THE PAST 70 YEARS ?

“ FREE TRADE ” -

1. “ RECIPROCAL TRADE AGREEMENT ACT OF 1934 ” FACTS :
  - 1.
  2. “ MOST FAVORED NATION TRADE STATUS ” -
2. “ 1948 GATT - GENERAL AGREEMENT ON TARIFFS AND TRADE ” -

3. **“WORLD TRADE ORGANIZATION ”** -



4.

5.

**WHAT 3 BENEFITS ARE ENJOYED BY GLOBAL CORPORATIONS THAT OPEN OPERATIONS IN FOREIGN COUNTRIES ?**

1.

2.

3.

**NAME 5 EXAMPLES OF FREE TRADE ZONES :**



1.

4.

2.

5.

3.

**WHAT ARE THE 5 KEY FACTS REGARDING “NAFTA” ?**

1.

2.

3.

4.

5.

1.

2.

**HAS NAFTA BEEN A GOOD AGREEMENT / ASSOCIATION TO PARTICIPATE IN ?  
WHAT DATA SUPPORTS THIS ?**



**NAFTA Secretariat**  
**Secrétariat de l'ALÉNA**  
**Secretariado del TLCAN**



**WHAT ARE THE 7 OBSERVATION POINTS IN EVALUATING / MEASURING THE LEVEL OF A NATION'S DEVELOPMENT ?**

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.

**WHAT ARE THE 5 CHALLENGES TO THE DEVELOPMENT OF NATIONS ?**

- 1.
- 2.
- 3.
- 4.
- 5.

**WHAT ARE THE 2 WAYS THAT DEVELOPMENT IS FINANCED ?**

**1. DIRECT FOREIGN INVESTMENT**

- 1.
- 2.

**2. FOREIGN AID -**

**WHAT ARE THE 3 MOST PROMINENT DEVELOPMENT ORGANIZATIONS AND WHAT ARE THEIR ROLES ?**



**1. " WORLD BANK " -**

- 1.

2.

2. “ UNITED NATIONS DEVELOPMENT PROGRAM (UNDP) ” -

3. “ INTERNATIONAL MONETARY FUND ” -

