

LIGHTHOUSE CPA 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**

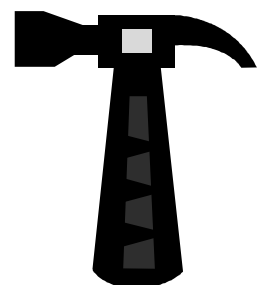
WHAT ARE THE 4 REASONS WHY NATIONS TRADE ?

- 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

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

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 ?

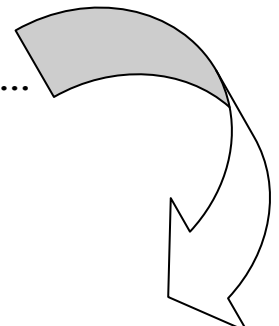
WHAT SHOULD EACH COUNTRY SPECIALIZE IN AND DO WITH IT ?

TIP !! CONVERT INPUT EXAMPLES INTO OUTPUT EXAMPLES

UNITED STATES AND BRAZIL FISH / SHRIMP OUTPUT EXAMPLE :

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

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 ” ?

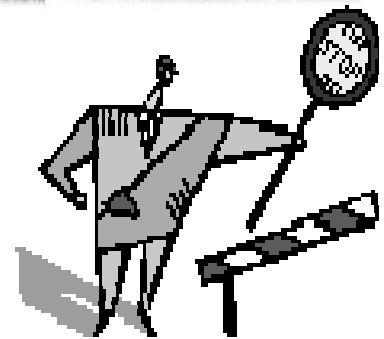
- 1.
- 2.
- 3.



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

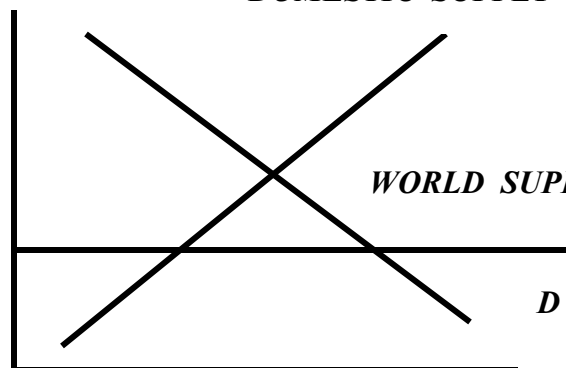
“ CONSUMER SURPLUS ” -

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” -

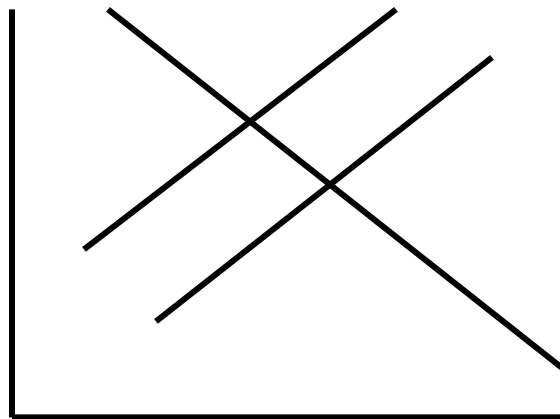
2. “CHICKEN TARIFF OF 1963” -

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 ?**

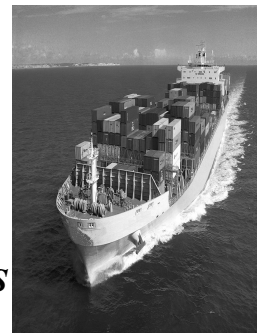


HOW TRADE IS MEASURED > THE FLOW OF GOODS > THREE CONCEPTS :

“ 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 ?

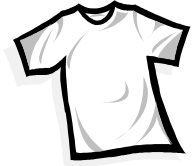
IMPORT

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.

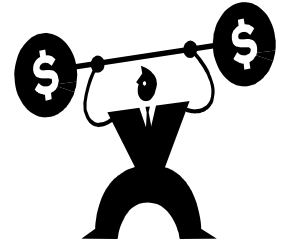
CONCEPT # 3 > THE “FOREIGN EXCHANGE RATE” -

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 ?***

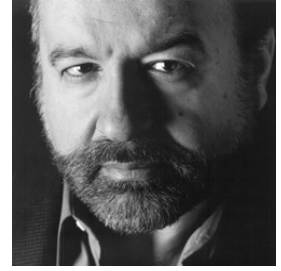


**NAFTA Secretariat
Secrétariat de l'ALÉNA
Secretariado del TLCAN**

GLOBAL DEVELOPMENT :

WHAT ARE THREE REASONS WHY POVERTY AND STARVATION EXIST ?

- 1.
- 2.
- 3.



HOW DO YOU ALLEVIATE POVERTY AND STRAVATION ?

- 1.
- 2.

PROPERTY RIGHTS =

=

TWO REASONS WHY THERE IS A NEED FOR DEVELOPMENT :

- 1.
- 2.

WHAT ARE THE 2 WAYS NATIONS ARE CATEGORIZED - PROVIDE EXAMPLES OF NATIONS IN EACH CATEGORY ?

1. “ DELVELOPED NATIONS ” -
2. “ LESS DEVELOPED NATIONS (LDC s) ” -

HOW DEVELOPMENT IS MEASURED :

“ STANDARD OF LIVING ” -



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 ” -

