**Unit 4 International Economics Study Guide**

1. **What is the difference between absolute advantage and comparative advantage?**

**Absolute advantage – Given the exact same resources, country A can produce more of a good than country B.**

**Comparative advantage - Given the exact same resources, country B produces good X at a lower opportunity cost.**

1. **When would countries trade with one another? When each country has a comparative advantage over the other one in different products that they both want.**
2. **Be able to calculate and determine comparative advantage between countries**

**Remember “other goes over”**

1. **Define- trade, trade surplus, and trade deficit. –**

**Trade – When you exchange goods with other countries**

**Trade Surplus – When exports are greater than imports**

**Trade Deficit – When imports are greater than exports**

1. **Define the following trade barriers** 
   1. **Tariffs - Tax or duty on imported or exported goods.**
   2. **Quotas - Limiting the number or monetary value of a good that can enter a country.**
   3. **Embargoes - Complete ban on trade with a country. Can’t bring certain goods into a country.**
   4. **Standards - Minimum qualifications for a good to come into that country.**
   5. **Subsidies - Government payment to a particular domestic industry.**
2. **Know the benefits and costs to each of the trade barriers, and why a country would use each one. Use graphic organizer to study.**
3. **Describe the purpose of trading blocs such as EU, NAFTA, and ASEAN.**

**Purpose:** reducing or eliminating trade barriers, increasing specialization and efficiency in production, lowering prices, allowing free movements of workers within the bloc, establishing a common currency, and/or coordinating infrastructure projects to facilitate efficient trade among members

**EU – European Union- 28 countries- 19 use the Euro- 26 have border free movement**

**NAFTA – North American Free Trade association**

**ASEAN – Association of Southeast Asian Nations - 10 southeast Asian countries, don’t have a common currency or border-free travel.**

1. **What are the benefits and cost of free trade?**

* **Benefits of free trade –** Free trade **increases competition**, which reduces costs for buyers and improves quality of goods.
* Free trade allows for **domestic goods to be sold all over** the world and protects export industries.
* Free trade allows the country to **exercise comparative advantage through specialization.**
* **Cost of free trade -** To protect infant industries – markets in need of time to develop before competing against foreign rivals
* 2. To protect national security
* 3. To Protect domestic employment
* 4. To protect workers in developing countries from unfair labor practices
* 5. To protect the environment in developing countries

1. **Define exchange rates- Refers to the price of one country’s currency expressed in terms of another country’s currency.**
2. **Be able to define exchange rates in regard to appreciation and depreciation of currency –**

**Appreciates – there’s an increase of that country’s currency compared to another country’s currency.**

**Depreciates- there’s a decrease of that country’s currency compared to another country’s currency.**

1. **Explain which groups win and which groups lose when exchange rates change –**

**Appreciates – if U.S. dollar goes up in value compared to the Euro you can buy more stuff , it’s good for domestic consumers because you can buy more European goods, you can get more Euros in return for the U.S. dollar. It’s bad for domestic producers because foreign consumers will not buy as much so exports will fall**

**Depreciates – If U.S. dollar goes down in value compared to foreign currency it is bad for domestic consumers, because you can buy less goods because they will be too expensive and imports will fall. It’s good for domestic producers because foreign consumers will buy more and exports will rise.**

1. **Determine if a currency is weaker or stronger compared to another.**

**Remember: give 1, get more than 1 = strong**

**Give 1, get less than 1 = weak**

1. **Be able to convert currencies into other currencies. ( i.e. $500 USD= \_\_\_EU)**
2. **Be able to read and understand a currency conversion chart.**
3. **How do exchange rates impact imports and exports?**

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**In addition to the study guide, make sure that you review all notes, classwork, LTA and videos on the blog for more review.**

**As always, email or send a remind message if you have any questions.**