

**Overview**

No nation can be totally self-sufficient. A need exists for trade among nations for the goods and services as well as the resources needed to survive and grow in the global economy. Sometimes, trade is restricted and free trade can be controversial. People and nations would not voluntarily trade with another nation unless they both gained from this exchange. As a result of this decision to trade, more goods and services can be produced efficiently and resources can be used more effectively.

## Essential Content

**Reasons for the Development of International Trade**

* People exchange goods and services because they expect to be better off after the exchange.
* Free trade increases global material standards of living.
* Imports are foreign goods and services purchased from sellers in other countries.
* Exports are homemade goods and services sold to buyers in other countries.
* A nation's imports are paid for with its exports.
* Absolute advantage is when a nation can produce a specific good with greater efficiency than its partner in trade.
* Comparative advantage is found by finding where the greatest absolute advantage occurs for each country.
* Specialization offers a country the chance to become efficient in making specific goods and services and trading them to other countries for goods and services that that country cannot supply as easily to it citizens.

**International Trade is Voluntary and Creates Wealth**

* Countries choose which resources, goods, or services to trade and with whom to trade them.
* Voluntary exchange or trade occurs only when all participating nations expect to gain.
* The expected gain may take the form of goods and services; resources; financial growth; or increased social, economic, and political contacts and exchanges.

**Barriers and Friction Limiting Free Trade**

* May be used to protect domestic industries and jobs from foreign competition in the marketplace.
* May take the form of embargoes, import quotas, and voluntary restrictions and tariffs.
* Free trade is international trade not limited by or subject to governmental regulations.
* Protectionism is the use by a country of protective measures to limit foreign trade and favor domestic industries and businesses.
  + Key Concepts:
  + National Security
  + Fairness
  + Infant Industries
  + Job Protection

## Background

Trade has occurred for thousands of years, from within a local area or city, across all continents and involving many, if not all peoples on earth. Lord Macaulay in 1824 said, "Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular." So if trade has been so common, how can it be unpopular? How can a government get involved with free trade when it is unsupported by many individuals, groups, or nations?

The influence of global trade on Americans is without question. From the clothes we buy to the cars we drive, the majority of Americans prefer imported goods. There are both benefits and consequences to this growing dependence on imported goods.

* Are there particular nations from which we receive many of our products?
* Are some products coming from particular regions of the world?
* What nations send the most exports to the United States?
* What types of products are most commonly used by students and others?

## Essential Question #1

How does international trade influence the lives of American citizens within an increasingly global economy?

## Background

A basic assumption in economics is the one that suggests that people are motivated by the desire to improve their situations. A method that both people and nations use to fulfill this desire is trade, specifically international trade.

However, all nations, like all people, are not equally blessed with the resources necessary to meet the wants and needs of the specific situation. So, trade is an option to acquire what is lacking, while exchanging what is abundant for what is scarce or desired highly. The ability to produce all we need is limited, the ability to want more is not. Since all nations differ in their resource allocation, it is no surprise that they also differ in their ability to make a variety of goods and services as well.

#### Application to Real Life

* What **absolute advantage** do you have over other students who have never studied economics?
* Might you want to trade your information with others who have information in other areas? For, example, might you need information in math and science from others who have "specialized" in these subjects?
* What would be the advantages and disadvantages of forming a "homework" club in which each group would exchange expertise in doing assigned homework? Would these same advantages and disadvantages apply to trade among nations? Define absolute and comparative advantage in each situation.

## Essential Question #2

Why is international trade important to a nation's economy?

## Background

Countries are said to conduct free trade when international trade is not limited by their governments. Economics and political factors are some of the factors that sometimes lead countries to restrict international trade. Commonly used trade barriers include embargoes, import quotas, tariffs, and voluntary trade restrictions.

Governments control, limit, or restrict trade in order to protect the economic interests of their citizens as well as to prevent trade partners from getting an unfair advantage in the market at the expense of their own industries.

* What are the advantages and disadvantages of restricting trade in order to protect our own economic interests?
* What are the various types of trade barriers that governments use to restrict trade?

## Essential Question #3

What factors sometimes lead nations to restrict and limit free international trade?