ICLICKER – REEF POLLING

1) Michael is better than Jack at fishing AND at gathering coconuts.
But according to David Ricardo,
Michael can gain by specializing and trading with Jack as long as

A. Jack has absolute advantage at either catching fish or gathering coconuts.

B. Jack has comparative advantage at either catching fish or gathering coconuts.

C. Michael offers some of his resources to Jack to make Jack more productive.

🔍 Question: Assume France can produce 4 bicycles or 4 tons of grapes and Germany can produce 2 bicycles or 4 tons of grapes. Which country has the comparative advantage in producing grapes?

a. France. France only gives up 1 bicycle for each ton of grapes.
b. Germany. Germany only gives up ½ a bicycle for each ton of grapes.
c. France. France can produce more bicycles.
d. Neither country has the comparative advantage in grape production.

FRANCE

- 4 TONS GRAPES = 4 BICYCLES
- 1 TON GRAPES = 1 BICYLCE

GERMANY

- 4 TONS GRAPES = 2 BICYCLES
- 2 TON GRAPES = 1 BICYCLE
- OR
- 1 TON GRAPES = ½ BICYCLE

IV. International Trade, p. 42

- Imports
- Exports

Additional Arguments in Favor of Trade

p.43 in packet

(last 9 pages of ch. 9 in textbook)

- 1) Increased variety of goods
- 2) Lower costs through economies of scale
- 3) Increased competition
- 4) Enhanced flow of ideas

ARGUMENTS IN FAVOR OF TRADE RESTRICTIONS OR ARGUMENTS AGAINST INTERNATIONAL TRADE, p. 43

- 1) U.S. Job loss
- 2) National security
- 3) Infant-Industry
- 4) Unfair-Competition
- 5) Protection-as-a-Bargaining Chip
- 6) Foreign workforce abuse – sweat shop labor
- 7) Damage to environment

Barriers to Trade
(TRADE RESTRICTIONS)
(PROTECTIONIST TRADE POLICY) p. 44

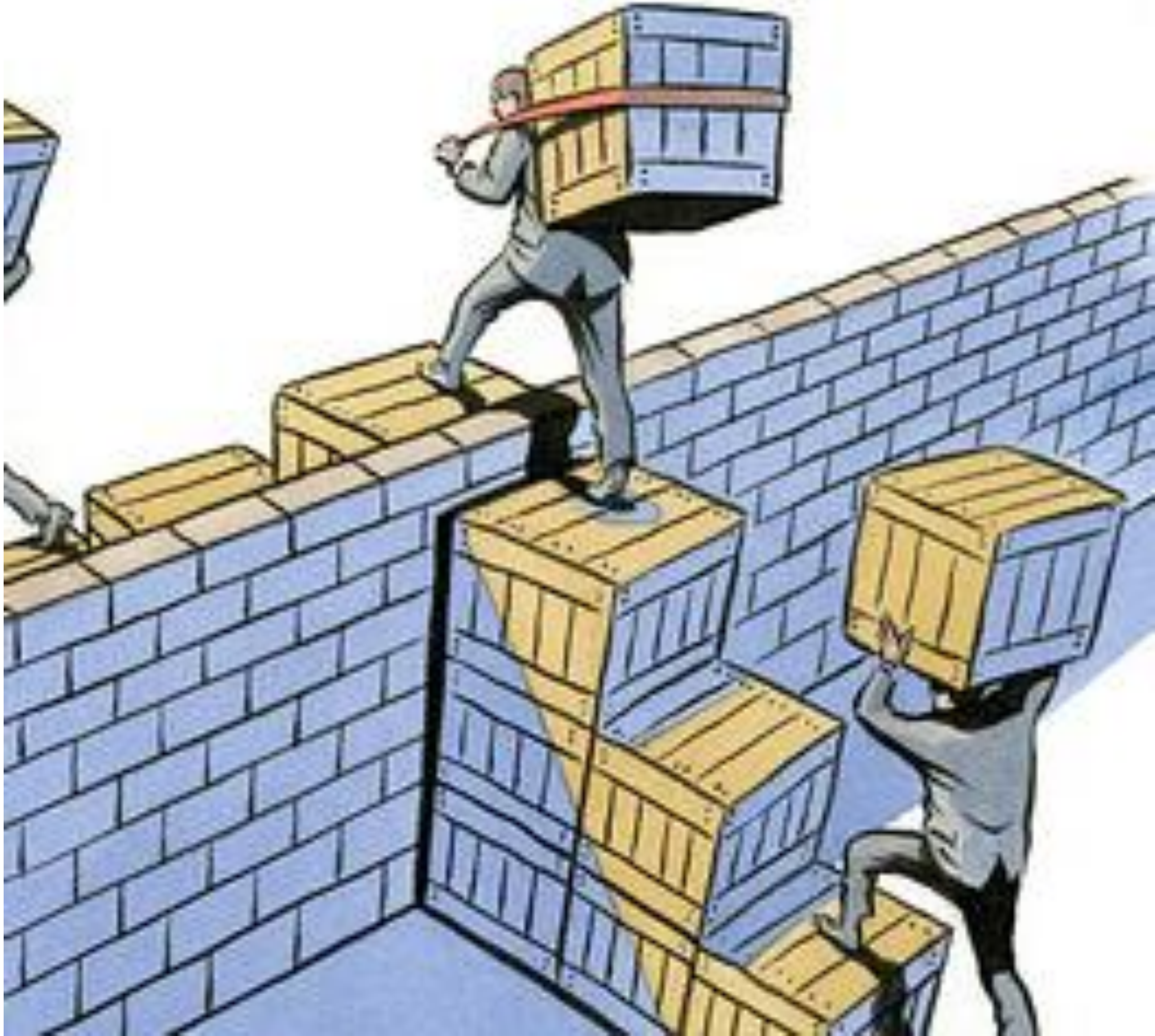
- Tariff – a tax on an imported good (increases price of import)
- Trade Quota – limit on the amount of an imported good
- Embargo – ban on the imported good
- Product standards
- Subsidies to domestic producers

Other Terms

- Trade Surplus (value of exports > imports)
- Trade Deficit (value of imports > exports)
- Trade War
- Executive Order

- Trade Agreements
- NAFTA: North American Free Trade Agreement (reduces trade restrictions between Canada, Mexico, and the US)

- WTO: World Trade Organization (promotes trade and economic development by reducing trade restrictions)



Impetus for Trump Administration Trade Restrictions

- National security
- Protect essential domestic producers

  (State-owned enterprise in China – subsidized)
- Other countries stealing US technology – and requirements to share trade secrets
- Protecting US jobs
- Concerns about running a trade deficit

Headline- The New York Times

“Trump Hits China With Tariffs on $200 Billion in Goods, Escalating Trade War” Sept. 2018

Trade wars: Tariffs on bourbon, Harleys and blue jeans (and orange juice)

"How the world plans to retaliate against Trump and Republicans on trade"

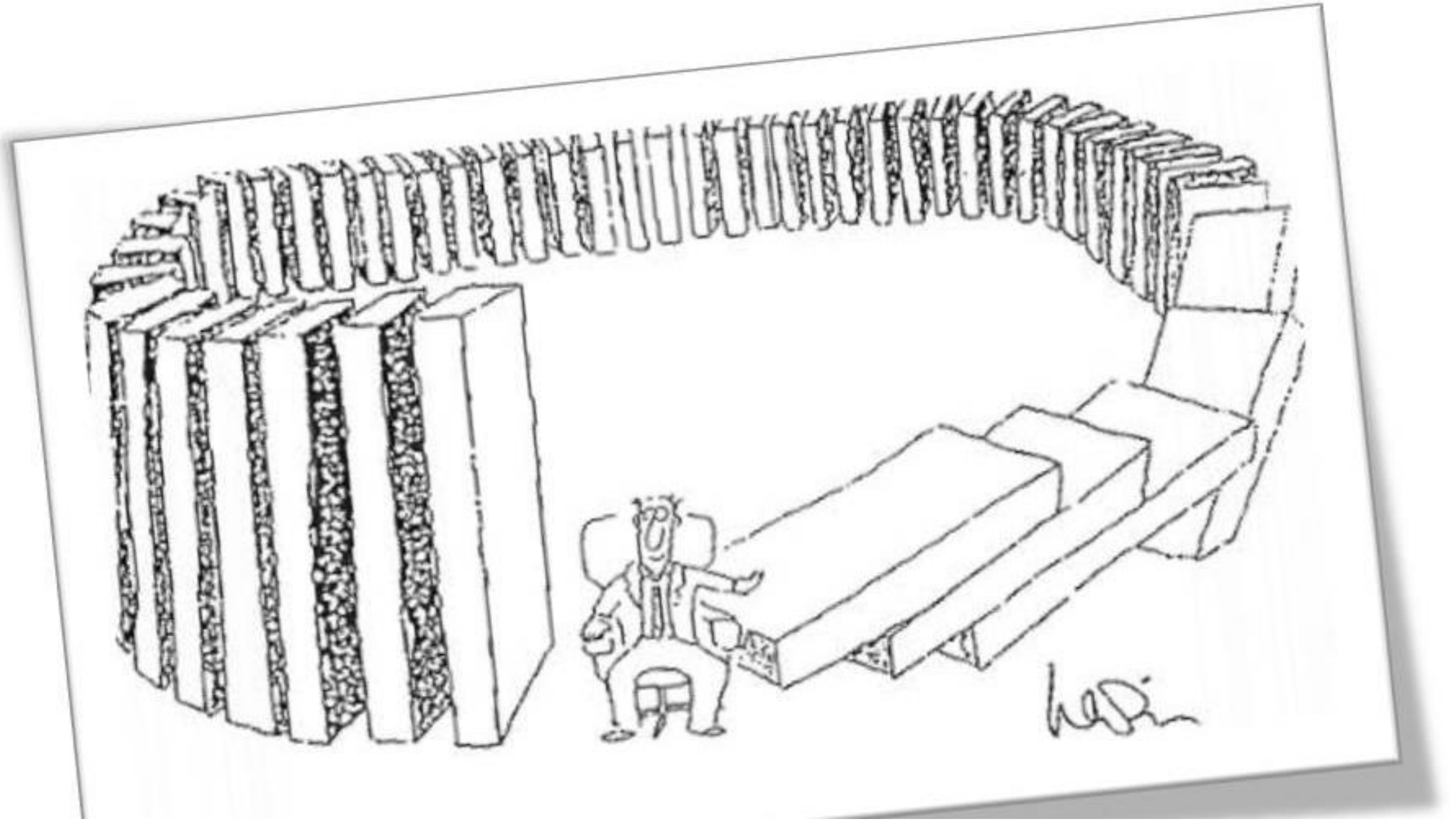
Tariffs Affecting Kentucky

TARIFFS ON BOURBON

In addition to orange juice and Harley Davidson motorcycles, bourbon has been hit with a 25% tariff in retaliation for the tariffs the U.S. imposed on steel and aluminum imports. In this case, the E.U. was looking to make a statement just as much political as economic.

TARIFFS ON SOY BEANS

"China has responded to the Trump Administration imposing a 25% tariff on around $34 billion dollars of Chinese product at the beginning of July by imposing a new tariff on pork and soybeans."



Unintended Consequences of Trade Restrictions

- Higher input costs for domestic producers
- Follow up subsidies to domestic producers affected by foreign trade restrictions
- Movement of US companies
- Higher product prices
- Secondary job loss
- More SMUGGLING

Microeconomic Impact VS Macroeconomic Impact of Trade War

I. Introduction

- **DEMAND - (consumer)**

- **SUPPLY - (producer)**

- **<u>Market:</u> a group of buyers and sellers of a particular good or service.**

- **<u>Competitive market:</u> A market in which there are many buyers and many sellers so that each has a negligible impact on the market price.**

WHY STUDY MARKETS?

“Gun Control Debate may be Driving Higher Sales”

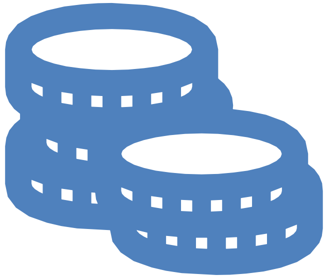
“Gas Prices on the Rise”

“EpiPen Prices out of Control?”

“Trump Imposes Additional $200 Billion in Tariffs on China”

“Applications on the rise at the University of Colorado”

II. Demand, p.52



<u>Quantity demanded</u>:

the amount of a good that households want to consume given their income and prices in a given time period. <u>(willing and able)</u>

p. 55

LAW OF DEMAND As the price of a good increases, the quantity demanded falls, (ceteris paribus)

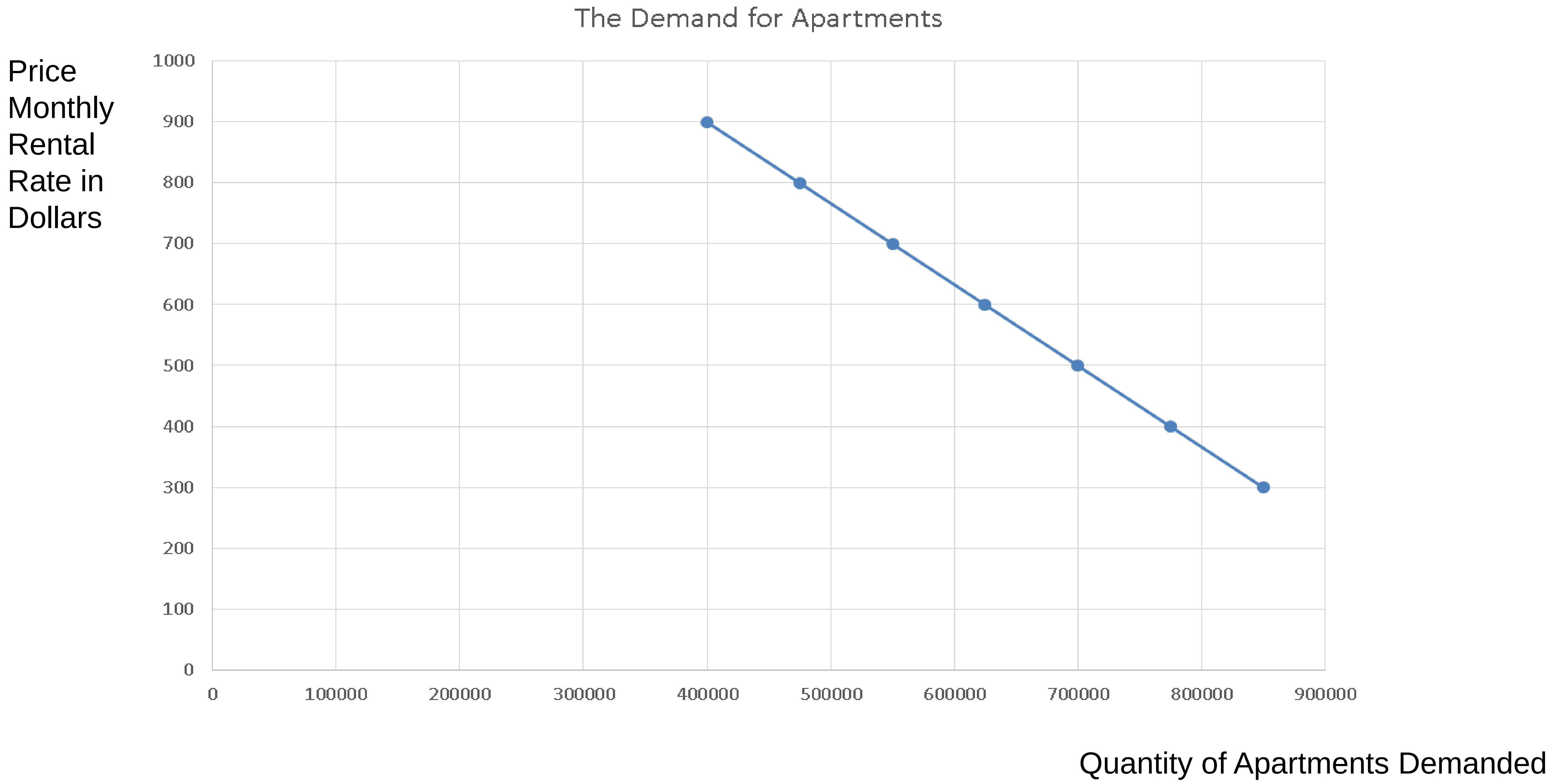
Ceteris Paribus - holding all else constant

Deriving Demand
from
THRESHOLD VALUES

Demand Schedule: shows the relationship between the price level and the quantity demanded., p. 53

Price: Monthly rent per apartment	Quantity: Apartments per month
$900	400,000
$800	475,000
$700	550,000
$600	625,000
$500	700,000
$400	775,000
$300	850,000

The Demand Curve, p. 53



Economist pick up lines….

- With you – the law of diminishing marginal benefit does not apply.