**International Trade:**

* All economies, regardless of their size, depend to some extent on other economies and are affected by events outside their borders.
* The “internationalization” or “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_” of the U.S. economy has occurred in the private and public sectors, in input and output markets, and in business firms and households.

**Trade Surpluses and Deficits:**

* When a country exports more than it imports, it runs a *trade \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*.
* A *trade \_\_\_\_\_\_\_\_\_\_\_\_\_\_* is the situation when a country imports more than it exports.

**The Economic Basis for Trade: Comparative Advantage:**

* *Corn Laws* were the tariffs, subsidies, and restrictions enacted by the British Parliament in the early nineteenth century to discourage imports and encourage exports of grain.
* David Ricardo’s *theory of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*, which he used to argue against the corn laws, states that specialization and free trade will benefit all trading partners (real wages will rise), even those that may be absolutely less efficient producers.

**Absolute Advantage versus Comparative Advantage:**

* A country enjoys an *\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_* over another country in the production of a product when it uses fewer resources to produce that product than the other country does.
* A country enjoys a *comparative advantage* in the production of a good when that good can be produced at a lower cost *in terms of other goods*.

**Gains from Mutual Absolute Advantage:**

* New Zealand can produce three times the wheat that Australia can on one acre of land, and Australia can produce three times the cotton.
* We say that the two countries have mutual *absolute advantage*.
* Suppose that each country divides its land to obtain equal units of cotton and wheat production as shown below:
* Suppose that each country divides its land to obtain equal units of cotton and wheat production as shown below:
* An agreement to trade 300 bushels of wheat for 300 bales of cotton would double both wheat and cotton consumption in both countries.

**Gains from Comparative Advantage:**

* Even if a country had a considerable absolute advantage in the production of both goods, Ricardo would argue that *\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and trade are still mutually beneficial*.
* Even if a country had a considerable absolute advantage in the production of both goods, Ricardo would argue that *specialization and trade are still mutually beneficial*.
* The gains from trade in this example can be demonstrated in three stages.
	+ Stage 1: Countries specialize
		- Australia transfers all its land into cotton production. New Zealand cannot completely specialize in wheat production because it needs 300 bales of cotton and will not be able to get enough cotton from Australia (if countries are to consume equal amounts of cotton and wheat).
	+ Stage 2:
		- New Zealand transfers 25 acres out of cotton and into wheat.
	+ Stage 3: Countries trade
* The real cost of producing cotton is the wheat that must be sacrificed to produce it.
* A country has a comparative advantage in cotton production if its opportunity cost, in terms of wheat, is lower than the other country.

**Comparative Advantage Means Lower Opportunity Cost:**

**Terms of Trade:**

* The ratio at which a country can trade domestic products for imported products is the *\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*
* The terms of trade determine how the gains from trade are distributed among trading partners.