## PROTECTIONISM International Trade → exchange of gls between countries/across national boundaries I. Tariffs → taxes on imports → usually ad valorem (%). → gains from international trade → L prices → cheaper foreign raw materials $\rightarrow$ when used to restrict imports $\rightarrow \uparrow$ effective when demand elostic $\rightarrow$ when used to raise revenue $\rightarrow \uparrow$ effective when demand inelastic -> consequences: -> wider range of consumer choice 1. 1000 of consumer surplus -> DWL -> acquiring resources not available domestically 1. loss of consumer surplus - unit 2. more of the gls produced by less efficient domestic firms -> DWL due to imaginization -> economics of scale 3 less good supplied by foreign firms -> increased competition → more efficient allocation of resources → competitive/absolute advantage 4. gover gain import tax revenue -> source of foreign exchange 5. consumers pay higher prices -> DWL due to Before Tariff →↑ interdependence and reduced chance of hostilities 1 prices altic supplied = 00, -> economic growth alic. demonsteril = 00. Imports = Q,Q\_ Domestic Revenue = Q+b price Free Trade -> exchange of gls across national boundaries what port intervention eign Revenue = c+d+e Consimer Surplus = Jtk+f+g+h+i Producer Surplus = a After Tariff Sam Absolute Advantage -> country can produce using four resources than another country ic supplied = 0Q3 1c demonded = 0Q4 ٩ Comparative Advantage → country that can produce at a lower opportunity cost throm another country % tomiff ports = Q3Q4 2 estic forence = a+b+c+f+g P.1 Sworted n Revenue = d VD. el Calculating Opp Cost = product By product A enve = h Tax quantity r Surplus = j+K ь icer surplus = a+f DWL due to inefficiency = g DWL due to 1 prices = i Revenue lost to all = e Product A Product 8 -> B/A Producer DATA A lower value = DATA ß 1 Con up less >D/c Producer DATA C DATA brause 2 2. Subsidies → grant paid by govt to ↑ price competitiveness of domestic firms Import Subsidy After Subsidy price c estic supplied = 0Q3 estic demonded = 0Q1 4. When both PPCs intersect, it means that one country has absolute advantage in the production of one good, and the other country has absolute advantage in the production of the other good. Stom + subsidy ports = 0.3 Q2 5. When both PPCs do not intersect, one country has absolute advantage in the production of both mestic Revenue = atbtc goods. Pe, Foreign Revenue = d 6. When PPCs are parallel, (unlikely in the real world) both countries face the same opp costs for Pe. Gout Spending = c both goods. Neither country has a comparative advantage, there are no gains to be had from specialization and trade so there is no point in these countries trading with each other. ٩. Ы Т Data quantity Limitations of the Theory of Comparative Advantage (Assumptions) 0 -> free trade -> specialisation is always advantageous - + that producers/consumers have perfect information Export #=old (5 & PS Before Subsidy Supplied domestically = 00., Subsid → only 2 countries producing 2 goods → goods traded are identical (no quality differences) PH CS & PS price Sae Exports = Q102 -> technology is fixed - world price + subsidy estic Revenue = Pw × Q2 9 B enne world price ٢... FREE TRADE (IMPORTING) After Subsidy = 0Q3 price 1 -> w/out trade > gele sold / ٩ Exports = 03Qy bought domestically stic Revenue = Pu tsub × Qu n. Gout Spending = b+c+d (not (a) as → w/ trade → q demanded at ND. subsidy only given to exports) ٩ quantity world price -> world price + subsidy -> happens because domestic prod. Ŷ, price ~ ٩ ٢., com sell as much as they want to international markets and earn Sworted -> 0 % supplied domestically Ru + sub *ر*م > 952 imported quantity price 1, 2. 22 m domestic consumers at they can earn from intl. FREE TRADE (exporting) + w/ trade + qs supplied Pw price Pw price e. Pe -> 09, demonsted domestically

+ 25hd exported

2, 2e

3. Quotas → physical limits on quantity of a good th	nat can be imported	Trading Bloc -> group of countries that have joined together + agree to I trade
1. loss of consumer surplus -> DWL	1	between them and for gain other economic benefits
2. more of the gls produced by less efficient day	mestic firms -> DWL due to	→ eg. EU, FTAA (free trade onen of americas), ASEAN (association of SE asian valions)
3. foreign producers sell less but at a 1 price		
		Types of Economic Integration
	at P> Q.Q. = shortage	1. Preferential Trading Agreements
price s.	Laduration duration (C	-> trading bloc that gives special access to cartain products from certain countries
Sater	guantity demanded (0, )	→ usually achieved by eliminating/reducing touriffs
Stotal (down + foreign)	(Vdom)	2 Free Trade Areas
a quota	- puts 1. pressure on the	3. Customs Union
Pe learn	admessic price -> Pw -> Palom	non-manuer countries altempting to import into the union
don Ctotal	pld (S & PS	4. Common Matricets
P d e ka Sunda	New CS & PS	member countries operate as a single marker of common policies on preduct
Nu har i har worker	at new price (Pdom)	-> no trade barriers between member countries
Datam	$imports = q_3 q_4$	5. Economic & Monetary Union
o <u>i g g g g</u> guanning	foreign revenue = f+i	→ NO XR fluctuations → 1 XR uncertainty, stabilises business conditions. A trade
1 3 1 2		-> creditate currency used across a large zone = more statute
		→ business confidence rises as less misic in hooding
		-> interest rates determined by central bank -> countries connot manage own inflation,
4. Administrative Barriers		growth, and employment rates
		→ If one country in union has difficulties -> have to follow zone decisions -> problematic
1. Bureaucratic Barriers -> importing gloods = lengary	+ compress process -> 1. (057 of	tor individual countries -> many argue fiscal Integration also needed as monetary is weak alone.
2 Product Health, Safely, Environmental Standar	rds -> stops entry of substandard	-> cannot alter XRS for individual export/import competitiveness
imports -> protects wellbeing of a population		→ costs of joining are high
		6. Complete Economic Integration
5. Emproper > a consister from - recally from of relition - midurant		Trading Blacs
	Participant Participant	-> freer trade, larger markets, I competition, I efficiency, I choice, I price
		→ firms encouraged to invest → access to larger markets
-> protecting domestic employment (surset/survise, indust	rics)	→ If free movement of labour → ↑ employment opportunities
-> protecting economy from 1 cost labour		→ 1 political cooperation & stability
→ avoid risk of over specialisation (overdependence)		→ efficient trade regotations worldwide
→ to counteract dumping		-> discriminatory action against non-members can damage with mappitations
→ to protect product shaved ands		-> countries will lose a degree of economic & political sourceignty
→ to raise gout revenue → to connects a 2000 laticity		-> to bargaining power
-> can raise domestic prices		. TOTAL GLIVER BIOLS
→ L choice for consumers		
-> 1 competition = inefficiency & 1 innovation		Tende (applying - ) have an exterior to be the start of the shifts of the start
→ i comparative advantage		producer to a low cost producer -> 1 averally trade
-> hindler economic growth		→ eq when new member joins a trading bloc
<b>v</b>		→ 1 efficiency, 1 output, 7 international trade
		Trade Diversion → 1f formation of a trade bloc results in production of gls shifting
Provide to Julian walt		from nation w/ & opp cost to T opp cost
economic integration		between themselves, but maintain on other nations
J		→ eg EV may have tariffs in place against countries w/ compoundtive
Economic Integration -> deliberate ways in which countrie	5 same to merge their economic.	→ allocative efficiency reduced goods traded w/in union
affairs		
-> trade barriers decremee		
→ fiscal + mon etany policy becomes more desely ally	Aues.	
J		
		World Trade Organisation (WTO) - organisation that sets rules for global training
		-> aims + resource arburnes arctiment themself countries
Glassisation → opening up of work trade → T integration of national economics into glabal → often through trade		Non-discrimination
		2 More open trade
Bilateral trade agreements -> trading agreements beha	een two countries	3. meanomolily & Transporency
<b>v</b>		5. More benefits an developing countries
Multilateral Trade - + announces which is brade annual will be complete		6. Protection of the Environment
and allowers to formal to supply thereit	The monthe continues	-> functions
		administer wto trade agreements
		2. be a forum for trade negotiations
		3 handle trade disputes among member countries
		4. monitor national trade policies
		5 provide technical assistance and training for developing countries
		Conference al prince manufalant performance



Floating XR	Current Account Surplus → result of buying less imports than selling alaraad
$\rightarrow$ IRS free to be used to manage domestic economy (D-side policies)	→ in free floating system (usA as example)
→ no need to keep T reserves of foreign currencies + gold	→ deemand, for American exports has rise?
→ current account should self-correct	- using for all the USD in CV mar liebe
- allobal random shocks (covid-10) & speculation may mean current account	→ value se ves will rise (appresiate)
deficit not automatically self-adjust	-> demand for US goods eventually fall as I price competitive
→ may worsen inflation → imported inflation	->rise in ownership of American assets by foreigners
•	-> USA will face more protection som foreign countries
	→ in SR → surplus may be covered by deficit in capital & financial account
	or by gout increasing its reserves by buging currency
Developed An British	→ in LR → countries not happy w/ artificially low XR → 1 protectionism
DALANCE UF PAYMENTS	against USA
••••••••••••••••••••••••••••••••••••••	
Balance of Royments -> record of all transactions between residents of are country	
and mortal over a given period of time (one year)	
Credite → money inflows to an account	Consequences of a CA Deficit
	-> foreign exchange reserves used up to 1 financial account + regain loalance w/ CA
Debits - maney within from an account	-> inflow into financial (capital account -> when money spent abroad not matched flows
india and and and and and and and and and an	back in form of FDI
	> FDI may pose a threat to economic sovereignty > 1 in contridence may mean
L. When T HCCOUNT	foreign invostors shift their assets elsewhere -> 1 supply of currency (depreciation)
b. G-low of the is good (13100) - Surplus = exports > imports	$\rightarrow$ High IR paid to attract FDI to keep XR from depreciating $\rightarrow$ JCJI $\rightarrow$ JAD
o warane of trade in services (invisible) ] arefact = imports > exports	-> when country buys gover bounds (asserts from country w/ cn deficit -> interest paids
Income / Net Investment Incomes - profit, interest, dividends	opp (our -> downgrowing of international credit ratings -> more difficult to borrow in
a. When I how sters - polymons made w) no exchange of g1s	- un like in 1, the - control bank much in use lit in manage AD - 1. 12
- grants, allow, altroam landour sending manual manual	1 AD = inflationary pressure
· lotal barance = an components down up	Contraction of the second s
2. Capital Account	Why/How Do Countries Run a CA Surplus
a capital transfers -> migraints, debt fingiveness, transfers for capital assets	1. Structural Factors (long-term)
b transaction in non-produced and non-financial assets -> land, vights to	→ long-run competitive advantage → ir prices = T demand for exports
national vesus ) parents, copy inghis, shand names	- A in mise of example when demand inclusion - A example revenues
	→ ↑ in productivity & RLD Funding
	2. Cyclical Factors (short-term)
2	-> depreciation of a country's currency = 1 competitiveness
3' triancial Account	→ T in foreign demand on country's main exports
a direct investment - purchase of long term asses (long term invested) ( + bi)	- cyclical improvements in global economy -> + D & 1 prices for exports
0. portfolio investment - stock + gout bond purchases linterest paid back at any	earned abroad
(. reserve assets -> reserves all a count deposits	
and a grant of a grant & lavered & comparison	
6 m 2	
(NEO)	Construction of the function
La BOR much always halves in themes	- it askes received from another is used to volume reserves - and source=
- if BOP is (-) time - eventually the widthional SGD event on furing and	I potential consumption + 1 potential investment
must be spent on singapore goods	$\rightarrow$ in short -run $\rightarrow \uparrow AD$ as $(x - M) \uparrow \rightarrow \uparrow GDP \rightarrow \uparrow employment \rightarrow \uparrow$ infinition
> in reality > 1000s of transactions .: NEO added to ensure they bollance	-> in long-term -> appreciation of currency -> imports charaper -> L inflation -> exports
	more expensive hourning domestic producers -> 1 employment
	providing the reduce their deficits
Current Account Delicit - would all hunter more impacts them sailing atomat	
-) in five floating sustem (ush as example)	
-> demand for American exports has fallen	
-> demand for dollars has fallen because is USD required by foreigners	Magnitude of CA deficit (surplus
→ 1 supply for USO in FX markets	1. John value in contact of GOD (2/a ch (contact))
→ value of USD will fall (depreciate)	-> applied of constant to bard
-> demand for US goods eventually rise as t price competitive	3, 3, 3
→ tan in ownership of American assets by foreigners	
-> in fixed x & system	
$\rightarrow$ in SR $\rightarrow$ deficit may be covered by increases in capital s financial account	
or by govt using up its reserves by selling currency + bonds	
devolved as likely set too high	
advances are summed and the	

Correcting a Persistent CA deficit		
I Expenditive Switching Policy → givt encourage domestic consumes to consume exports instead (protectionism)		
→ SR not LR solution 2. Exchange Rate Policy → currency depreciated /devolued by growt → exports price L →		
expends demand T → imports demand 4 3. Expenditure Reducing Policy → contractionary polices to decrease all spending in an		
→ import consu	mption falls depending on MPM	
fiscal → ↑ taxes + 1 but 1 emol	, gout spending → & AD = cheaper exports ourment	
monetary - + 123 + 1 MS - + 1 costs of borrowing -> 1 C8		
$\downarrow I \rightarrow \downarrow AD \rightarrow \uparrow FDI \rightarrow \uparrow capital flows \rightarrow appreciate currency \rightarrow Imports cheaper \rightarrow cycle$		
4. Expansionary supply side ratios before them contractionary demand as costs > benefits supply-bide policies that 1 competitiveness		
abroad -> specialisation in g1s w/ comparative advantage		
→ promote Le growth + 7 AD → investing in education/healthcare, govt finding for		
RED, investing in transport + infrastructure		
Monstanth Languages Constitutions (AMLCN		
Magnall Laarter Condition (MLC) → why depresidien desaith always t CA position → depression whether t in export revenue > 1 in import expenditure NOT		
Mc there 1 in exports > U in imports → MC tables us have successful a depreciation/devaluation of a currency's XR will be as a new burget of the successful a depreciation.		
→ a fad in x* with restree ca deficit IF PED exports + PED imports > 1 → eq. if exports PED <1→ tq.ef exports demanded < proportionate t in price of		
→ Demand becomes more price elastic over tim	e :. MLC generally met in LR	
J Curve Effect → curve which illustrates (A delicit as XR is depreciated)		
	l In SR	
J Curve	-> contry & coverag value	
	-> takes time for other countries	
3	-> D for exports is price inelastic	
	-> total revenue from exports &	
to time	-> takes time to find new suppliers	
5 nice	→ total import expanditure 1 → CA position worsens	
wetnot	In LR	
	→ PED for × 6 M ↑ → sattafies MLC → ↑ export revenue 6 l import	
	expenditure $\rightarrow$ CA position improves	