University of OEB **Academic Year: 2024/2025**

Department of Economic Sciences

Third Year Licence Monetary and Banking Economics

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Lecture Seven: International Trade

International trade refers to the exchange of goods and services between countries. This economic activity allows nations to access products and resources they may not have or produce efficiently. For example, Japan imports oil from the Middle East because it lacks natural oil resources, while countries in Europe and North America often import coffee from South American nations, where the climate is ideal for coffee cultivation. By engaging in trade, countries can focus on producing goods where they have a comparative advantage, leading to increased efficiency and economic growth.

Trade agreements between countries, such as the North American Free Trade Agreement (NAFTA) or the European Union (EU), aim to reduce tariffs and encourage the free flow of goods across borders. These agreements not only make products cheaper for consumers but also stimulate innovation by increasing competition among businesses. By doing so, countries can benefit from a wider range of products, lower prices, and more competitive markets. However, international trade also faces challenges like trade imbalances, tariffs, and political tensions, which can complicate negotiations and impact global economic stability.

One of the critical benefits of international trade is that it can boost a country's economy by increasing exports. Exporting goods and services generates revenue, creates jobs, and fosters innovation. For instance, countries like Germany and South Korea have built strong economies

by focusing on exporting high-quality manufactured goods such as automobiles and electronics. However, some argue that international trade can harm local industries, especially in developing countries that may struggle to compete with more industrialized nations. There is also concern that over-reliance on exports can make economies vulnerable to global market fluctuations, as seen during the 2008 financial crisis when many export-driven economies suffered significant downturns.

Reading Comprehension

1- Multiple Choice

a) What is one of the main advantages of international trade?

A) Increasing tariffs on imported goods

B) Enhancing access to products that are not efficiently produced domestically

C) Limiting competition between countries

D) Reducing the diversity of products available to consumers

2- True or False

a) International trade helps countries focus on producing goods where they have a comparative advantage.

b) Trade agreements like the EU and NAFTA are designed to increase tariffs and restrict the flow of goods between countries.

c) Countries that rely heavily on exports are always safe from global economic fluctuations.

3- Short Answer

a) Why do countries like Japan need to import oil from other nations?

b) What are some potential challenges that countries may face due to international trade?

c) How can international trade contribute to job creation and economic growth?

Vocabulary

Activity 01: Match each term with the correct definition.

Terms: International Trade, Comparative Advantage, Export, Tariff, Trade Agreement

Definitions:

A) The agreement between countries to reduce trade barriers.

B) Selling goods and services to other countries.

C) The exchange of goods and services between nations.

D) A tax imposed on imported goods.

E) The ability to produce a good more efficiently than other nations.

Activity 02: Complete the sentences using the words provided:

[exports, trade agreements, tariffs, comparative advantage, international trade]

- Countries engage in __________ to access products they do not produce efficiently.
- __________ allow nations to focus on producing goods where they are most efficient.
- __________ are taxes imposed on imported goods to protect local industries.

- By increasing __________, countries can boost their economies and create jobs.
- Organizations like the EU and NAFTA establish __________ to reduce barriers to trade.