

Understanding the Global Economy



Objective

In this lesson, you will

International Trade

International trade is the entire _____ of imports and exports between countries.

Nations _____ the resources they have and _____ the resources they need from other countries



“_____”: when a country focuses production on one type of product to maximize its profits.

For example, Columbia has the _____ to both grow coffee and produce machinery but chooses coffee. It can produce coffee at less cost compared to making machinery. So Columbia "_____" in growing coffee.

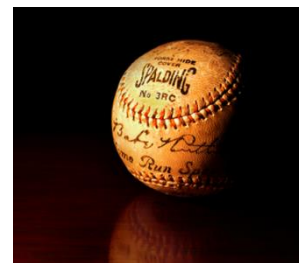


Opportunity _____

- the value of what was given up in order to specialize in something else
- Example: Babe Ruth gave up pitching

Comparative _____

- the value of focusing on a specialization
- Example: Babe Ruth was more useful to his team by specializing in hitting



- ❖ The world economy works _____ when countries specialize in producing certain _____ and _____.

Benefits of International Trade	
More choices	<ul style="list-style-type: none"> • Consumers have a larger _____ of products to choose from. • Country grows faster economically. <ul style="list-style-type: none"> → Growth may reduce _____. → May result in better _____ and environmental standards.
Increased competition	<ul style="list-style-type: none"> • Results in _____ priced, _____ quality products.
More markets	<ul style="list-style-type: none"> • Exporting products to other countries can <u>increase</u> <u>decrease</u> the number of buyers.
Better international relations	<ul style="list-style-type: none"> • Countries maintain _____ relationships with each other to make importing and exporting products <u>easier</u> <u>harder</u>.

Currency in a Global Economy

Each country has its own currency or _____, and uses this currency to _____ with other nations.



Foreign exchange rate: the _____ at which one currency is _____ into another currency.

- Exchange rates are usually given as one _____ of one currency to X units of another currency.
- Currencies are exchanged on the domestic foreign exchange market.
- To ensure stable _____ exchange rates:
 - The European Economic and Monetary Union (EMU), decided to adopt the _____ in place of their individual currencies. The euro is now used by many _____ in Europe.

Converting Currencies



The _____ rate will tell how many U.S. dollars it will cost to purchase another country's product.

Example 1: If the U.S. dollar to Swiss franc exchange rate is 1:2, then:

- one U.S. dollar equals _____ Swiss francs, or one Swiss franc equals _____ U.S. dollars.
- if a watch costs 1,000 Swiss francs, its value in dollars is \$_____.

Example 2: If the foreign exchange rate between the U.S. dollar and the euro is 1 : 0.5, then:

- one U.S. dollar can be converted into _____ euros.
- 10 U.S. dollars would be converted into $10 \times$ _____, or _____ euros.

The rate is based on the international supply and demand for currency.

The Strong Dollar and the Weak Dollar

When the dollar is strong weak, its value rises in relation to another currency, and when it is _____ the dollar's value falls when compared to another currency.

Advantages of a Strong Dollar	<ul style="list-style-type: none"> • U.S. importers can buy and sell goods at a <u>higher</u> <u>lower</u> cost, <u>increasing</u> <u>decreasing</u> demand for their products.
Disadvantages of a Strong Dollar	<ul style="list-style-type: none"> • U.S. exporters may face losses and have to _____ their prices to attract demand for their products, resulting in lower _____.
Advantages of a Weak Dollar	<ul style="list-style-type: none"> • U.S. Exporters benefit from selling more to foreign businesses and nations due to cheaper prices.
Disadvantages of a Weak Dollar	<ul style="list-style-type: none"> • When the dollar is weak, U.S. businesses buy fewer _____ goods. → So _____ suffer from a weak dollar.

Summary

Imagine a foreign county that specializes in coffee production and their country's currency weakens. How would that effect the cost of coffee here in the U.S.?