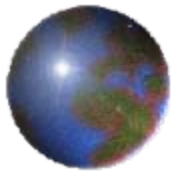


DIFFICULT CONCEPTS IN INTERNATIONAL TRADE & FINANCE

SALLY ADAMSON – DUNCANVILLE, TX
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AP ECONOMICS CONFERENCE

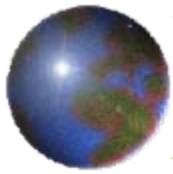
RICHMOND, VA
NOV. 2-4, 2008



INTERNATIONAL TRADE & FINANCE

- 10-15 % of Macro Exam
- Includes:
 - Balance of Trade
 - Current Account
 - Capital Account
 - Foreign Exchange Market
 - Demand & Supply of Foreign Exchange
 - Exchange Rate – determination
 - Currency appreciation & depreciation
 - Net Exports & Capital Flows
 - Links to Financial and Goods Markets

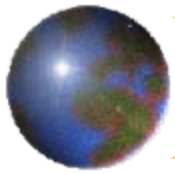
www.collegeboard.com



INTERNATIONAL TRADE & FINANCE

- 15-20% of Micro Exam
- Includes:
 - Opportunity Costs & Production Possibilities
 - Specialization & Comparative Advantage
 - Supply and Demand

www.collegeboard.com



INTERNATIONAL TRADE & FINANCE

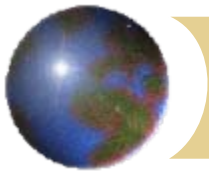
- 2005 Release Multiple Choice Macro Exam:
11 questions (of 60)
- 2005 Release Multiple choice Micro Exam:
8 questions (or 60)
- 2008 College Board Practice Macro Exam:
9 Multiple Choice & 1 FRQ questions
- 2008 College Board Practice Micro Exam:
8 Multiple Choice questions
- 2008 Macro Exam had 2 FRQ
- 2007 Macro Exam - included in long FRQ
- 2006 Macro Exam - included in long FRQ

- THESE CONCEPTS ARE IMPORTANT ON THE EXAM

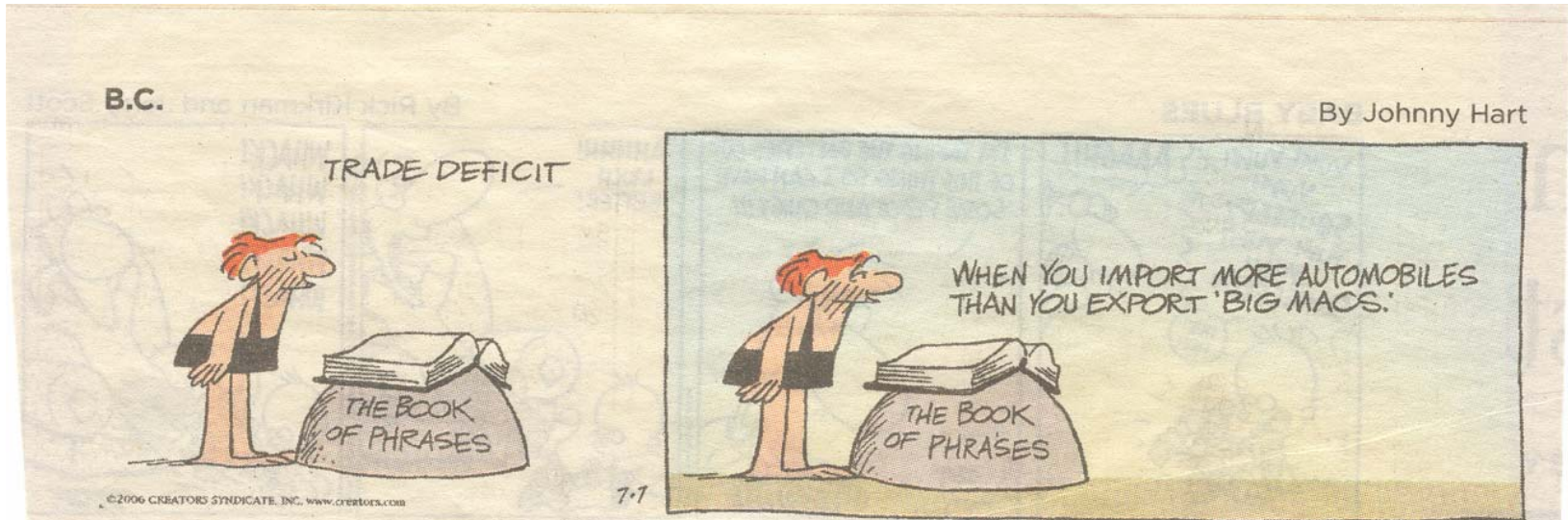


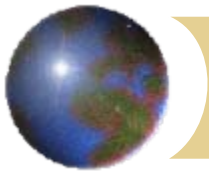
Balance of Trade

- Difference between exports and imports
(ideal is to have equal amounts; more exports = trade surplus; more imports = trade deficit)
- Surplus sounds good; deficit sounds bad; but this is not always true
- U.S. has had a negative trade balance since 1981 – economists do not agree on whether this is a serious problem



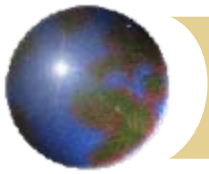
U.S. Trade Deficit for over 20 yrs





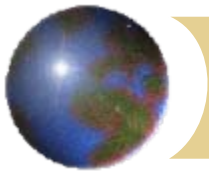
Balance of Trade

- Balance of payments is based on:
- Credits (value of things sold abroad):
 - Goods & services
 - U.S. securities (Treasury bonds or stocks)
 - Factories or businesses in the U.S.
 - Interest owed to U.S. citizens for investments abroad



Balance of Trade

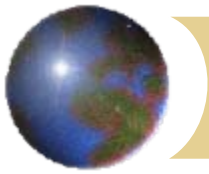
- Debits (value of things bought from firms abroad)
 - Goods and services
 - Foreign securities (stocks in foreign businesses)
 - Factories or businesses abroad
 - Interest paid to foreign citizens on their investments here



Balance of Payments Account

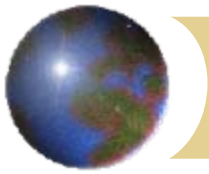
from Focus Globalization NCEE 2006

- There are two main accounts – Current Accounts (CA) & Financial Accounts (FA) –also called the Capital Account (CA)
- If an account is positive it is said to have a surplus; if negative = a deficit
- **The overall account must be balanced (or total zero)**
CA + FA = zero



Balance of Payments Account

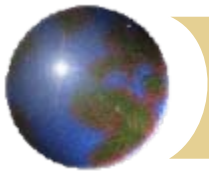
- Current Account (CA) trade in goods & services:
 - Exports of goods & services + (plus)
 - Imports of goods & services - (minus)
- Financial Account (FA)-Capital Account summarizes trade in assets
 - U.S. assets owned by foreigners + (plus)
 - Foreign assets owned by U.S. - (minus)



1999 Changes to BOT Categories

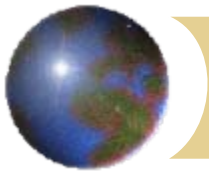
- Old Current Account became 2 accounts: the **“New Current Account”** –G & S; Income pmts & receipts
- and the **“New Capital Account”** – account to record capital transfers (ex: assets a migrant brings when moving here or debt forgiveness)

It is a small account for U.S., but more important for other nations.



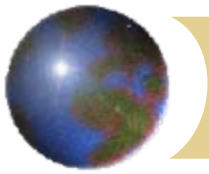
1999 Changes to BOT Categories

- Old Capital Account is now the **“New Financial Account”** = TRADE IN ASSETS
- 2008 Macro AP Exam had FRQ using the terms: “Capital & Current Accounts” which was confusing to students (either because they had not learned BOT or learned the new terms & didn’t know the old ones!)



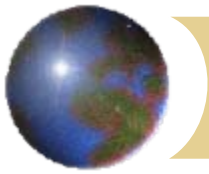
Foreign Exchange Rates

- Exchange rate – price of one currency in terms of another (multiply foreign price by exchange rate to get U.S. price)
- Fixed rate – rate of exchange stays the same; in past basis was gold
- Flexible rate (floating) – based on supply and demand for each currency



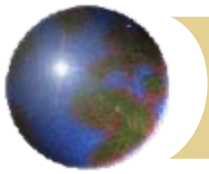
Foreign Exchange Rates

- Flexible rates – began in 1971 when U.S. went off the gold standard
- U.S. imports increased and foreigners were gaining U.S. dollars & exchanging them for U.S. gold
- Foreign exchange market - WHEREVER one currency is exchanged for another

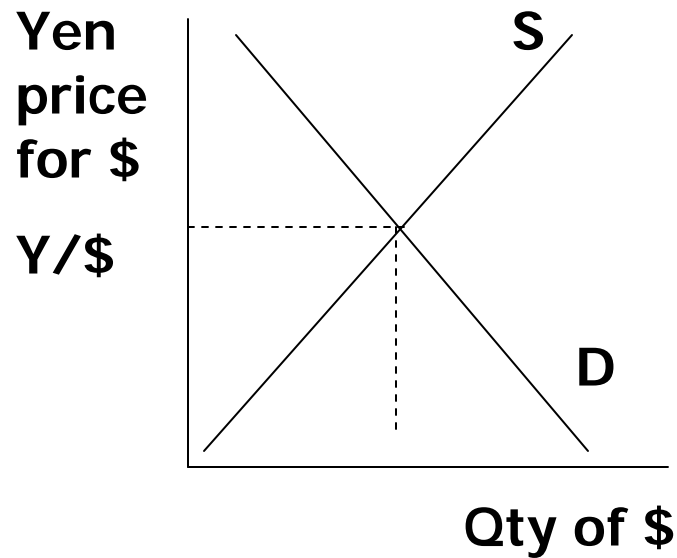
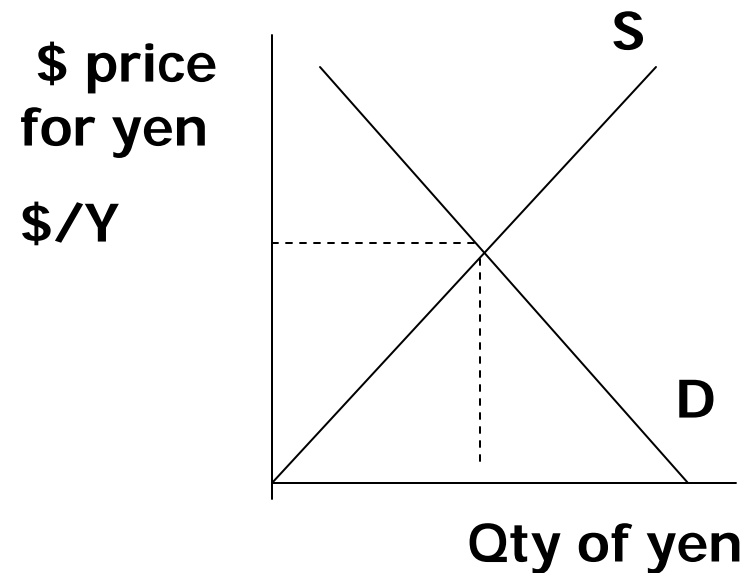


Foreign Exchange

- **Appreciation** (strong dollar) – dollar buys more of another currency & results in less expensive imports and more expensive exports (SID)
- **Depreciation** (weak dollar) – dollar buys less of another currency & results in more expensive imports and less expensive exports (WES)

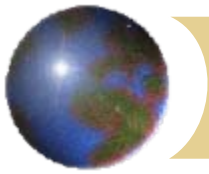


Foreign Exchange



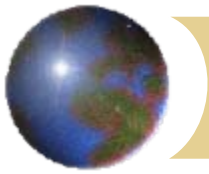
Supply of yen from Japanese importers who must exchange them for \$\$ to buy U.S. goods

Demand for yen by U.S. importers who need them to buy Japanese goods



Foreign Exchange

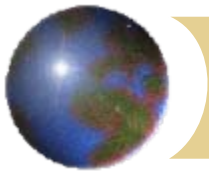
- Causes of S & D change - shifts (leads to exchange rate change):
 - **Incomes** go up or down (can buy more or less of foreign goods)
 - **Tastes**
 - **Relative price level** (inflation in one nation makes foreign goods cheaper)
 - **Real Interest Rates** (want to earn on financial assets abroad if rates are higher)



TEACHING IDEAS

in packet

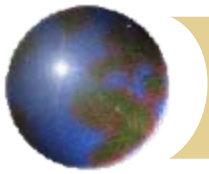
- Explanation of BOT from NY Federal Reserve Bank
- “Imbalance of Payments” Unit 6
Macroeconomics - Lesson 3 Activity 52
- “Exchange Rates” Unit 6
Macroeconomics - Lesson 3 Activity 53
- FTE Lesson Activity for demonstrating exchange rates



TEACHING IDEAS

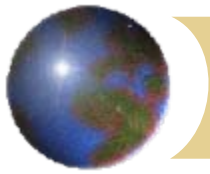
in packet

- Focus Globalization (NCEE 2006)
 - Lesson 12 "Trade, Investment & the Balance of Payments"
 - Includes visuals for concepts instruction, role play of firms & consumers in Spain & in U.S. trading through a bank & a Current & Financial Account chart to complete after transactions are made



TEACHING IDEAS in packet

- “Trading Around, How to Keep Count”
 - ❑ Teacher Directed Student activity to visualize trading of exports/imports & assets
 - ❑ Divide students into two groups/nations
 - ❑ Designate students to make trades by giving them “instruction cards”
 - ❑ Students make the trades one at a time
 - ❑ Designated “recorder” completes the Balance of Payments poster after each trade



TEACHING IDEAS

in packet

✚ Resources

- ✚ *Focus Globalization* (NCEE) 2006
- ✚ *AP Economics Teacher Resource Manual* 3rd ed. (NCEE)
- ✚ Foundation for Teaching Economics (www.fte.org)
- ✚ Bureau of Economic Analysis (www.bea.gov)
- ✚ Federal Reserve Bank of NY – *FEDPOINTS*
(www.newyorkfed.org/aboutthefed/fedpoint/fed40.html)