

International Trade

Backpackers in the wilderness like to think they are “leaving the world behind,” but, like Atlas, they carry the world on their shoulders. Much of their equipment is imported—knives from Switzerland, rain gear from South Korea, cameras from Japan, aluminum pots from England, sleeping bags from China, and compasses from Finland. Moreover, they may have driven to the trailheads in Japanese-made Toyotas or German-made BMWs, sipping coffee from Brazil or snacking on bananas from Honduras.

International trade and the global economy affect all of us daily, whether we are hiking in the wilderness, driving our cars, buying groceries, or working at our jobs. We cannot “leave the world behind.” We are enmeshed in a global web of economic relationships, such as trading of goods and services, multinational corporations, cooperative ventures among the world’s firms, and ties among the world’s financial markets.

The focus of this chapter is the trading of goods and services. In the Basic Concepts unit on the AP Macro Economics Course Outline, the course begins with the topic of comparative and absolute advantage. You may wish to follow the author’s suggestion and use this chapter at the beginning of your AP Macro course. The last unit, The Open Economy: International Trade and Finance on the AP Macroeconomics Course Outline would be covered in Chapter 39, with the topics of the U.S. balance of payments, exchange rates, and U.S. trade deficits. AP instructors should skip Chapter 39W on the Web site, as the topic of the economics of developing nations is not addressed on the AP Macroeconomics Course Outline.

*Note to Instructors: If you prefer to cover international trade early in your course, you can assign this chapter at the end of either Part 1 or Part 2. This chapter builds on the introductory ideas of opportunity costs, supply and demand analysis, and economic efficiency but does not require an understanding of either market failures or government failures.