

THE INDEPENDENT INSTITUTE OF EDUCATION

Varsity College

CORPRO SA
CORPORATE PROJECT CONSULTANTS SOUTH AFRICA

**ECONOMICS
(the best subject)**

PRESENTED BY
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**Foreign sector.
Chapter 17**

Learning Unit 4

Learning Outcomes.

Why international trade occurs,
Analyse the impact of an import tariff,
Trade barriers: pro's and cons,
Describe major elements of balance of payments,
Explain how exchange rates are determined in the foreign sector,
Define the terms of trade and explain their significance.



Introduction.

1. Globalisation.
 - Positive trade and
 - Risks
2. Openness or degree of integration into international economy.
3. ZA – open economy.
4. International trade grown since WWII.
 - US, AG & Jpn, Tigers (Korea, Taiwan and Malaysia) now China
5. Composition of trade also changed.
 - Agricultural, Manufactured now advanced products as well as services.



1. Why countries trade.

1. **Self sufficiency** - Adam Smith.
2. **Specialisation** – factors of production (natural resources, capital, labour and entrepreneurship) not evenly distributed.
3. **Absolute advantage** – well suited for specific products.
4. **Comparative (relative) advantage** – opportunity cost.
5. **Sources of comparative advantage.**
 - Technology – more output per unit input.
 - Resource endowments – Heckscher-Ohlin theory – goods that most intensely uses the country's abundant resources.
 - Differences in tastes or demand.



2. Trade Policy.

1. Import tariffs.
 - Protective tariffs vs Revenue tariffs.
 - Specific vs Ad valorem tariffs.
 - Economic impact of import tariffs – p377.
 - Welfare effects of an import tariff – p378.



2. Trade Policy.

2. Other measures.
 - Quantitative restrictions (import quotas).
 - Subsidies.
 - Other non-tariff barriers.
 - Exchange controls.
 - Exchange rate policy.
 - General comments.



2. Trade Barriers.

1. Arguments for:
 - Balance of payments.
 - Dumping.
 - Export subsidies.
 - Infant industries.
 - Employment.
 - Government revenue.
 - National security.



2. Trade Barriers.

1. Arguments against:
 - Retaliation by trade partners.
 - Welfare cost to society.
 - Inefficiency



3. Trade policy in SA.

1. Arguments against:
 - Retaliation by trade partners.
 - Welfare cost to society.
 - Inefficiency



