International Trade – Chapter 17 Vocabulary

**Trade barrier –** a means of preventing a foreign product or service from freely entering a nation’s territory.

**Tariff** – a tariff is a tax on an imported good. This increases the price of that good, thereby, decreasing the quantity demanded. A tariff might help a domestic producer stay in business, even though an imported good would (without the tax) be cheaper for domestic consumers.

**Quota or “import quota”** – A quota is similar to a tariff, but instead of taxing the import, a quota limits the amount of a good that is allowed into the country That way, while a foreign good may be cheaper, domestic consumers can only buy so much of it before they have to buy comparable domestic goods instead.

**Embargo** – An embargo on a particular good is like a quota set at zero; a government completely prohibits the import of that item. While there are embargoes on particular goods and services, governments also place trade embargoes on nations that they disagree with, politically or otherwise. These embargoes prohibit trade in goods or services with businesses from the embargoed nation.

**Standards** – Governments employ standards to ensure the safety of imported goods and to make sure that these goods comply with local laws. For example, the use of lead in paint is prohibited in the U.S. due to the toxic effects associated with ingestion of this lead-based paint. However, other nations have no such law or prohibition. Therefore, the U.S. government has various agencies to ensure that imported goods adhere to the national standard that prohibits use of lead in paint. To comply with this standard, foreign firms may have to incur higher production costs in order to use paint with no lead.

**Subsidy** – With a subsidy, the government makes payments to a local supplier to reduce the production costs of the supplier. Lower production costs should allow the local suppler to charge less for his or her goods and services, thereby making the local supplier more competitive to foreign firms offering the same good or service.

**Absolute Advantage** – The ability to produce more of a given product using a given amount of resources.

**Comparative Advantage** – The ability to produce a product most efficiently given all the other products that could be produced.

**Law of comparative advantage** – the idea that a nation is better off when it produces goods and services for which it has a comparative advantage.

**Export** – A good that is sent to another country for sale

**Import** – A good that is brought in from another country for sale

**Customs duty** – a tax on certain items purchased abroad

**Trade war** – a cycle of increasing trade restrictions.

**Protectionism** – the use of trade barriers to protect a nation’s industries from foreign competition.

**Infant industry** – A new industry in a country.

**International Free Trade agreement** – An Agreement that results from cooperation between at least two countries to reduce trade barriers and tariffs and to trade with each other.

**World Trade Organization (WTO**) – a worldwide organization whose goal is freer global trade and lower tariffs.

**Currency appreciation** – an increase in the value of a currency. When currency appreciates relative to other country currencies, it becomes more expensive for other countries to purchase goods and services.

**Currency depreciation** – A decrease in the value of a currency. When currency depreciates relative to other country currencies, it become less expensive for other countries to purchase goods and services.