

E101 - 7.1 - International Trade

Terms of Trade - The average price of a country's exports compared with the price of its imports.

$$\text{Terms of Trade} = \frac{\text{Average Price of Exports}}{\text{Average Price of Imports}} \times 100$$

Protectionism - The economic policy of protecting domestic producers by restricting the importation of foreign products.

Tariff a tax or duty levied on imports. Currency exchange controls government restrictions limiting the amount of foreign currencies that can be obtained. Voluntary export restriction an agreement by an exporting country or to restrict the amount of its exports to another country.

Five types of trade protection :

- Import
- Quotas
- Tariffs
- Currency exchange controls
- Bureaucratic regulations
- Voluntary export restrictions.

E101 - 7.2 - Exchange Rates & Balance of Payments

Exchange Rate - The rate at which one currency is exchanged for another.

$$1 \text{ Canadian Dollar (In Units of Foreign Currency)} = \frac{1}{\text{Foreign Currency (in Canadian Dollars)}}$$

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Currency Appreciation - The rise in the exchange rate of one currency for another.

Currency Depreciation - The fall in the exchange rate of one currency for another.

Flexible Exchange Rate - A currency exchange rate determined by the market forces of supply and demand and not interfered with by government action.

Fixed Exchange Rate - A currency exchange rate pegged by government and therefore prevented from rising or falling.

Purchasing Power Parity Theory - A theory suggesting that exchange rates will change so as to equate the purchasing power of each currency.

Arbitrage - The process of buying a commodity in one market, where the price is low, and immediately selling it in a second market where the price is higher.

Direct Investment - The purchase of real assets.

Portfolio Investment - The purchase of shares or bonds representing less than 50% of ownership.

When the Canadian dollar appreciates, the effective prices of Canadian imports increase, and total imports are likely to fall.

When the Canadian dollar depreciates, the effective prices of Canadian imports decrease, and total imports are likely to rise.

Demand for foreign currencies = Supply of Canadian dollars.

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When the Canadian dollar depreciates, the effective prices of Canadian exports decrease, and total exports are likely to rise.

When the Canadian dollar appreciates, the effective prices of Canadian exports increase, and total exports are likely to fall.

$$\text{Real Exchange Rate} = \frac{\text{Price Level In Canada}}{\text{Price Level in another Country}} \times 100$$

E101 - 7.3 - Exchange Rates & Balance of Payments

Demand for the Canadian dollar is determined by :

- The level of foreign incomes.
- The price of Canadian products relative to the price of foreign products.
- Foreigners tastes.
- Comparative interest rates.

Arguments in favor of fixed exchange rates :

- They add a degree of certainty to international trade.
- They prevent instability in the export and import industries.
- They discourage currency speculation.
- They appeal to people who tend to equate the exchange rate with national prestige.

Subsidy - A payment by government for the purpose of increasing some particular activity or increasing the output of a particular good.

A government can defend an overvalued exchange rate by :

- Introducing quotas or tariffs.
- Introducing foreign exchange controls.
- Negotiating voluntary export restrictions.
- Creating a recession at home.

Devaluation - The refixing by government of an exchange rate at a lower level.

Dirty Float - An exchange rate that is not officially fixed by government but is managed by the central bank's ongoing intervention in the market.

Balance of Payments - An accounting of a country's international transactions that involves the payment and receipt of foreign currencies.

Current Account - A sub category of the balance of payments that shows the income or expenditure related to exports and imports.

Capital Account - A sub category of the balance of payments that reflects changes in ownership of assets associated with foreign investment.

Official Settlements Account - A sub category of the balance of payments that shows the change in a country's official foreign exchange reserves.

Foreign Factor Income - Income such as wages interest rates or dividends that nationals receive from providing their services to another country.