

10/17 notes

how does trade work?

- Countries only trade with each other because people want the goods that the other countries have
- Some demand things and others produce these things
- The point of trade is to consume
 - People are consumers
- None of these consumer goods are made in one place
- People cannot consume without trade
- You have to have some kind of world trade to satisfy our need to consume
- We are all giving each other something we want because of the invisible hand of the free market
- If you cut off all trade we wither
 - You can't cut off all trade completely
- The more a governmental hand tries to interfere with the hand of the market, the worse off we'll be
- Mao's china and Soviet Union said they would do it all by themselves and they both failed
 - Mao- "there will be one authority in people's lives to tell them what they want and what they need in their lives"
- Economists
 - never seem to be able to agree with each other
 - They also state the obvious
 - They also are known for giving bad advice
 - But almost all of them agree that free trade is always better than protection
- Autarky- cut yourself off from the world and don't trade with anyone
- Protection is always costlier than trading
- Specialization allows people to do what they do best
 - If these countries cut off their borders, these companies wouldn't be able to do what they do best
- Comparative advantage- what a nation can do best- no matter how poor, every nation has something they do best
- 1776- adam smith publishes *the wealth of nations*- how all nations can become more prosperous- they can do this by being more open to trade
 - why limit yourself to just London consumers- make all the world your consumers and that will make our nation wealthier
- david ricardo- theory of advantage- Englishman- influenced by smith- born later-
 - 19th century- the world becomes a more productive place when nations trade with each other
 - each nation can then specialize in what it does best, its comparative advantage
- when countries open borders up to foreign suppliers it increases competition
- protecting a country against competition causes prices go up

- competition causes lower prices and better quality

- No demand= No trade
- The point of trade is to consume not make, you can't consume without trade.
- Firms will produce you to have trade to satisfy our need to consume.
- We are all giving each other something we want- because of the invisible hand.
- If you cut off trade completely we wither at the vine
- The more the government interferes with the invisible hand- the worse off our economy will be.
- Countries that cut themselves off from the rest of the world
 - o Mao said that there would be one authority that commands what people want in their lives.
 - o **The point of trade is not to produce; it is to consume**
 - o The governments decide the people's needs and wants- therefore the invisible hand is non-existent.
- Nations produce specific items because the people in the nations want to produce these things.
- Economists are usually accused of:
 - o Not being able to agree with each other
 - o Always like to state the obvious
 - o Known for giving bad advice
- All economists agree that free trade is always better than protection

Autarky: when countries cut themselves off from other countries (Soviets, Mao's China)

- Protection is always costlier than trade
- Trade allows people to do what they do best
- Comparative Advantage: doing well, what you do best
- Every nation in the world has a comparative advantage in doing what they do best
- If consumers have a need, then nations can specialize in that only if they allow free trade.
- In 1776, Adam Smith publishes the wealth of nations. The argument he makes is that for nations to be more prosperous then they must trade. Competition makes you better at what you do
- The point of trade is to get consumers
- Sooner or later merchants won't need protections
- David Ricardo gave impetus to the theory of comparative advantage
- He wrote in the early 1800's
- If both workforces are split evenly between
- The east is relatively more efficient at growing wheat
- The company that is responsible for making product X, if they are good they will excel and if they are bad they will not.
- Countries will be better off if each country specializes in its comparative advantage

- Specialization increases world output/productivity
- Countries are going to have to negotiate terms of trade
- The price will be determined on how satisfied the customers are with the product
- The difference between a pair of jeans and a computer is that a computer requires more knowledge
- Over time people start to figure out what a good price is for that product
- Manufacturing in the United States is more complex than in the past
- Free trade makes the world more productive
- When countries open themselves up it increases competition
- When there is no competition companies will hike up prices
- Trade is very dynamic