Analyze the international trade and finance speech

Finance

Macroeconomics consists of the large scale economic factors such as interest rates and national productivity. International trade, financeand exchange rates are a large part of this study. Today, we will dive into the basic definitions and descriptions of simple terms and concepts as they relate to macroeconomics. “ The trade balance is the difference between a country’s exports and imports” (Colander, 2010).

When a country is exporting more than they are importing a surplus is created, so there is more production than consumption. The opposite is true for a trade deficit. A country that imports more than it exports is running in a deficit; consumption is more than production. An example of a product in the United States with a surplus is oil. Seven years ago the U. S. imported about two-thirds of their oil consumption. By 2014 it is expected that the U. S. will only import 6 billion barrels of crude oil per day; this is about one-third of what the country uses and by 2020 U. S. il production will exceed Saudi Arabia’s (Phillips, 2010). The problem is that the oil produced in the U. S. is high-quality crude and the oil imported is heavy, sour oil. Since the refineries are currently equipped to refine the heavier oil the U. S. has a surplus of the high-quality crude. One would expect lower oil prices with the surplus, but as the current gas prices reflect this is not the case. While the process and the politics involved have many components not discussed here the crux of the situation is that a surplus of an import can cause business and domestic consumers to suffer.

Gross Domestic Product (GDP) is the value of all goods and services produced in one country during a one year period. GDP is made up of consumption of goods (expected to last three or more years such asfoodand clothing), services, government expenditures (schools, upkeep of roads, and military expenses), residential and non-residential spending, and business inventories. The equation is all of the items listed less ay imports to other countries. International trade influences the GDP by expanding markets with imported goods and services that are either not available in the U. S. or are less expensive if imported. Some of the goods imported are coffee, bananas, oil, and automobiles from Germany and Japan. The imports of these goods increase the economic GDP, but also allow the U. S. to export products to other countries. A result of this economic expansion and diversity of goods and services is competitive pricing and an increase in the market competition among producers providing domestic consumers with less expensive products. A major advantage of trading is the ability of certain producers to concentrate or specialize in certain goods.

A disadvantage would be the government imposition of restrictions and limitations to protect the domestic production and market. Governments have imposed taxes on trading transactions which increases the cost of importation. Many governments also restrict or limit the import of goods and service to their country. These impositions are known as a tariff or quota. Tariffs are taxes governments place on international traded goods – generally imports (Colander, 2010). They are most commonly used to restrict international trade and promote domestically produced goods.

Quotas are put in place for the same reason but rather than taxing imports the quantities of product are limited. Tariffs affect trade patterns, but they also create revenue for the government often offsetting the loss of consumer surplus (" Impact of Trade Tariff Cuts: Long-Series Historical

Evidence", 2013). The exchange rates are “ the price of one country’s currency in terms of another’s currency” (Colander, 2010). To understand the determination of an exchange rate one needs to think of currency as just another good (Colander, 2010).

Consumers demand other’s countries’ currencies to buy goods and assets in that country. Foreign exchange rates are determined by supply and demand of goods. An example to understand how the demand-supply balance moves is to examine the dollar vs. rupee exchange. The dollar/rupee exchange rate will depend on how the demand-supply balance moves. When the demand for U. S. dollars in India rises and supply does not rise correspondingly, each dollar will cost more rupees to buy.

Exchange rates are in a constant state of fluctuation because of the countless activities of the foreign exchange market. China currently supplies the U. S. and many other countries with goods. It would be difficult to discontinue because “ buying from China is in fact buying American” (Chen, 2011). Chen, 2011 reported that America imported $374 billion of goods and services from China in 2010 and exported $115 billion to China. This created a trade deficit of $260 billion. But if calculations are based on alue-added contributions by the two countries, America actually has a trade surplus of $70 billion. One should think about the jobs that are created from the importing of goods from China rather than the jobs it is taking away. Apple employs thousands of associates in America to sell iPhones, Target employees over 350, 000 American workers who sell Chinese imports, and thousands of UPS and FedEx workers deliver Dell computers, Hasbro toys, and Nike shoes to American families (Chen, 2011).

Thank you for your time and I hope the information provided gives a high level understanding of international trade and finance as it relates to the current state of the U. S. macro economy.

References

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