International trade involves exchanging goods between different countries. Trading occurs on a global level.

Exporting = production and sale of domestic goods and services to other countries.

Importing = refers to buying foreign produced goods and services.

Benefits and costs of international trade

- Growing infrastructure needs
- Skilled labour shortage
- Skill Mismatch
- Increased overheads
- Ireland's dependence on foreign markets.

How does specialization encourage international trade?

- Greater interdependence
- Increased wealth and rising aggregate demands
- Lower costs and prices
- Division of labour
- Economies of scale.

What factors enhance the competitiveness of a country involved in international trade?

- Labour Costs
- Supply Chain costs
- Infrastructure costs
- Transport costs
- Exchange rate of the domestic currency against other currencies

- Rate of domestic inflation v's the rate of inflation in competitor countries.

The Law of comparative advantage states that assuming there is free trade, a country should specialize in the production of those goods and services in which it is relatively most efficient and trade for the remainder of its requirements.

Sources of Irelands competitive advantage

- Climate
- Raw materials
- Educated and skilled workforce
- Low taxes on profit
- Free Trade and government intervention
- No barriers to the movement of goods and services between countries.

Arguments in favour of trade protectionism

- Create or protect domestic employment
- Protect against low – wage competition\Increase Government revenue
- Retain wealth
- Prevent dumping
- Political reasons

Barriers to trade

Protectionism refers to any effort by a government to restrict free trade, particularly imports.

- **Tariff** is a tax on imports. Makes the imports more expensive
- **Quota** is a physical limit placed by a government on the amount of a certain good allowed enter the country.
- **Administrative barriers** are obstacles including paperwork. These can be off-putting

- **Regulatory Standards**- High standards, European Food safety authority
- **Trade Embargoes** are a complete ban on importing a good/ goods.
- **Trading Bloc**-Group of countries sharing free trade agreement with each other.
- **Exchange rate**-Price of one currency in terms of another.

Factors affecting the exchange rate

Foreign trade: If payments into the currency bloc (e.g. Eurozone) are greater than payments outside, there will be more demand for the currency Euros and it would appreciate.

Interest rate: If a country can offer a high interest rate, money will likely flow into that country to avail of high return on investment. This leads to an increase in the exchange rate.

Level of Money Supply: Lots of Euro available = decrease in value of currency leading to an increase in imports and increase in demand for foreign currencies.

Quantitative Easing: Printing more money – this floods markets and increases supply and devalues currency. Aim to increase the demand by exports.

Role of Speculators: People who participate in the currency market simply to make a profit on exchange rate movements.

Purchasing Power Parity Theory: In a free market, the exchange rate between one currency and another currency is in equilibrium when their domestic purchasing powers at that rate of exchange are equivalent.

How would devaluation impact the Irish economy

The decrease in the value of one currency relative to that of others.

- Imports from non-EU countries = More expensive. If Imports from non-EU countries = More expensive. If euro falls – Irish consumers will need to spend more to obtain the same amount. It is also more expensive to travel abroad.
- Exports to non-EU countries will be cheaper: Spend less to get the same amount. Increase in demand for exports. Injection into circular flow.
- Increases in Prices will drive inflation: Increase in imports leads to an increase in prices of those that use these goods and services.
- Trade and employment Boost: Exports increase = more demand for Irish goods.

- More tourists visiting Ireland.
- Increase in COP

WTO: promotes international trade by minimizing trade barriers.

World bank: provides loans to developing countries

IMF: Provides funding to countries in economic crisis.

ILO: Establishes emergency labour standards and holds countries accountable.

OEDC: Promotes economic and social wellbeing in the 36 countries in the OEDC area.