# International Trade
## Review of Key Concepts

1. A country's balance of payments accounts are a summary of all of the country's transactions with other countries.

2. There are two important accounts within the balance of payments: the current account and the financial account (formerly known as the capital account). The current account records a country's exports and imports of goods and services, net investment income, and net transfers. The financial account records the difference between a country's sale of assets to foreigners and its purchase of assets from foreigners.

3. The current account includes the country's trade balance (net exports).

4. The financial account measures capital inflows in the form of foreign savings that finance domestic investment and government borrowing.

5. The current account and the financial account must sum to zero

6. Capital inflows between countries occur when the loanable funds markets in the two countries establish different equilibrium real interest rates. Financial capital will flow into the country where the real interest rate is higher.

7. Trade barriers such as tariffs and quotas limit the gains from trade. These barriers generally protect domestic sellers at the expense of domestic buyers.

8. To trade, nations must exchange currencies.

9. An exchange rate is the price of one currency in terms of another. Foreign exchange markers use supply and demand to set exchange rates.

10. Appreciation is an increase in the value of a nation's currency in foreign exchange markets. Appreciation of a nation's currency decreases exports and increases imports.

11. Depreciation is a decrease in the value of a nation's currency in foreign exchange markets. Depreciation of a nation's currency increases exports and decreases imports.

12. Monetary and fiscal policies can affect exchange rates, the international balance of trade, and the balance of payments.

13. Domestic economic policies affect international trade, and international trade affects the domestic economy. The international sector influences unemployment, inflation, and economic growth.

# Economic Growth – Review of Key Concepts

1. Economic growth is measured by changes in real gross domestic product or by changes in real GDP per capita.

2. Long run economic growth can be illustrated using a production possibilities curve or a long run aggregate supply curve. It is shown graphically as a rightward shift of the nation's long-run aggregate supply curve or a rightward shift of its production possibilities curve.

3. Long-run economic growth is concerned with increasing an economy's total productive capacity at full employment, also known as its natural rate of output. This output is represented by a vertical long-run aggregate supply curve.

4. The rate of economic growth depends largely on increasing productivity. Productivity affected by a variety of factors including investment in physical capital, increases in human capital, and technological progress.

5. Governments can promote economic growth by promoting productivity growth including:

    - Investing in physical capital (e.g., providing infrastructure – roads, bridges, power lines, information networks

    - Providing for the development of human capital (e.g., education and training)

    - Facilitating technological progress (e.g., research and development)

    - Providing political stability enforcing property rights, and providing the optimal amount of government intervention.