

3.1 International Trade

Free trade	Refers to international trade that takes place without any trade barriers.
WTO	<p><u>Aim:</u> Promote free trade by abolishing tariffs and other trade barriers and resolving trade disputes</p> <p><u>Functions and objectives:</u></p> <ol style="list-style-type: none">1. Reduce trade barriers (e.g. anti-dumping, subsidies, protect standards)2. Settle trade disputes between governments and organise trade negotiations3. Administer and monitor the application of WTO's rules for trade4. Monitor and review the trade policies of members, ensure trade agreements are clear
Protectionism	Refers to partial or complete protection of domestic industries from foreign competitors in domestic markets.
Tariffs	Tax on imported goods imposed by the government. Purpose: 1. Raise revenue 2. Restrict imports
Dumping	Refers to the practice of selling a good in international markets below the cost of production.
Quotas	Restriction on the maximum quantity of imports.
Subsidies	Grants given by government to lower costs of production and increase output.
Infant industry	New domestic industry that has not had the time to establish itself and achieve efficiencies in production, and hence unable to compete with more 'mature' competitor firms from abroad.
Economic diversification	Increasing the variety of goods and services produced. [Diversification: change involving greater variety.]

3.2 Exchange rates

Exchange rate	Price of one currency in terms of another currency.
Free floating ER	Exchange rate is determined by market demand and supply of the currency.
Appreciation	A rise in ER; for the same given domestic dollar, it can buy more units of foreign currency.
Depreciation	A fall in ER; for the same given domestic dollar, it can buy less units of foreign currency.
Fixed ER	Government fixes the ER under decree, and commits to a particular ER.
Revaluation	Officially announced raising of the value of the domestic currency in relation to foreign currencies.

Devaluation	Officially announced lowering of the value of the domestic currency in relation to foreign currencies.
Managed float ER	ER determined by demand and supply, but the government intervenes periodically to prevent excessive fluctuations.