

- People and nations trade to improve their standard of living.
- Because trade is the voluntary exchange of goods and services, the decision to trade will occur only if both parties to the exchange expect to gain from it.
- Voluntary trade promotes economic progress because it allows people and nations to specialize in what they do best.
- The law of comparative advantage explains why there are mutual gains from specialization and trade. Through specialization and trade, nations are able to get beyond, or outside of, their production possibilities curve.
- A nation has an absolute advantage over another nation in the production of a good when it can produce more of that good using the same amount of resources.
- Comparative advantage occurs when a nation can produce a good at a lower opportunity cost than another nation. Relative costs determine comparative advantage.
- Every nation has a comparative advantage in some good or service.
- Trade barriers such as tariffs and quotas limit the potential gains from trade. These barriers generally protect domestic sellers at the expense of domestic buyers. Trade barriers reduce efficiency in the allocation of scarce resources and slow economic progress.
- The balance of payments is a broader measure of international transactions than the balance of trade. The balance of trade considers only a nation's exports and imports of goods, while the balance of payments considers all international economic transactions including the current account, the capital account and official reserves.
- There are three accounts within the balance of payments. The current account records a nation's exports and imports of goods, services, net investment income and net transfers. The capital account records the flows of money from the purchase and sale of real and financial assets domestically and abroad. The official transactions account is an offsetting account for government controls.
- For the current and capital accounts, if foreign currency is used to complete the international transaction, the transaction is a debit (negative). If the transaction earns foreign currency, it is a credit (positive).
- To trade, nations must exchange currencies. An exchange rate is the price of one currency in terms of another and is generally set by supply and demand.
- Appreciation is an increase in the value of a nation's currency in foreign-exchange markets. Appreciation of a nation's currency tends to reduce exports and increase imports.
- Depreciation is a decrease in the value of a nation's currency in foreign-exchange markets. Depreciation of a nation's currency tends to increase exports and reduce imports.
- Monetary and fiscal policies can affect exchange rates, the international balance of trade and the balance of payments.
- Domestic economic policies affect international trade, and international trade affects the domestic economy, influencing economic growth, unemployment and the rate of inflation.