REVENUE TARIFFS are levied as a way to raise money or a major source of income.

PROTECTIVE TARIFFS are levied to **protect** a domestic industry from foreign competition. The goal is to make the foreign product more expensive than a similar item produced in a country so people will stop buying the foreign-made items.

QUOTAS. Restrictions on the numbers of specified goods that can enter the country from abroad.

Answer the following questions.

1. How do you understand the process called “international trade”?
2. Look around in your house and say if all the goods you have are produced in one country.
3. What is international trade based on?
4. What absolute advantage does your region have?
5. What is the main idea of comparative advantage?
6. Why do many countries restrict international trade?
7. What are the methods of restriction?

Define the following words and expressions.

national boundaries greenhouse efficiency	particular restrict protect

1.24. FINANCING INTERNATIONAL TRADE

If you have ever traveled to another country you have noticed that some hotels, stores and restaurants don’t want your money which you use in your home country, because every nation has its own form of money. Sellers in each country expect to be paid in their own **currency** for the goods they sell to other countries. As a result, exporters and importers must be able to exchange currencies easily and efficiently.

Exchange rates and the foreign exchange market of Foreign currency (or foreign exchange) are bought and sold by currency dealers and banks around the country. These bankers and currency dealers make up the foreign exchange market. **Exchange rates** were not always **determined** in this manner. From 1944 until 1970s most nations operated under a system of **fixed exchange rates,** That is, they agreed to exchange their currency for any other foreign currency at an established rate, which in most cases was expressed in dollars. So, the French would exchange their francs at the rate of five to dollar; the Swiss at the rate of four, and so on. Likewise, the US government agreed to exchange dollars for foreign currencies or

gold at a fixed rate. By 1971 so many dollars were held by foreigners that it was impossible for the USA **to guarantee** to trade them for gold. At that point President Nixon **announced** that the dollar was no longer "**convertible**" into gold, and that its **value** would be determined by the laws of supply and demand. In other words, dollars, francs, pesos and any other currency were really **commodities** like any other **goods** that could be traded in foreign exchange markets. Exchange rates would be **determined** by the laws of supply and demand. In such a way "**flexible exchange rates**" were introduced.

Foreign Exchange Rates: 1965-1997 (in US cents per unit of foreign currency)

	1965	*1975*	*1984*	*1987*	*1992*	*1997*
Austria (schilling)	4	6	5	8	10	9.7
Canada (dollar)	93	98	77	75	84	71.3
France (franc)	20	23	12	16	20	19.7
Germany (mark)	25	23	36	54	67	69.3
Mexico (peso)	8	8	5	1	0.3	16.6
Switzer. (franc)	23	39	44	64	75	81.7

So, you see that currencies **fluctuate** in **value** because of the laws of supply and demand. The demand for a nation's currency is usually a result of the demand for its goods and services. If people in the USA are buying more goods and services from Canada, they will need additional Canadian dollars. This increased demand will raise the price of Canadian currency. Similarly, if Americans want fewer Austrian goods and services, the decreasing demand for the Austrian schilling will reduce the price of that currency.

Answer the following questions.

1. Why is it so necessary to exchange currency?
2. Who makes the foreign exchange market and for what purpose?
3. What was a system under which most nations operated from 1944 until 1970?
4. What is the meaning of fixed exchange rates?
5. How was the dollar exchanged under President Nixon?
6. Look at the table of Foreign Exchange Rates and say what currency and when was the cheapest and the most expensive?
7. Why do the currencies fluctuate?

Define the following words and expressions.

currency	fixed
convertible	exchange rate
exchange rate	fluctuate
commodity	to guarantee
determine	value
flexible	