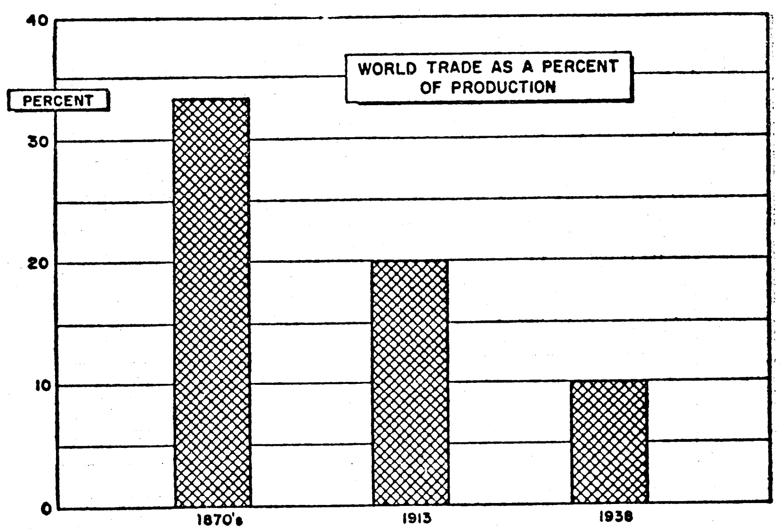

Figure 5

Objectives of Foreign Trade

When we examine the objectives of trade, foreign or domestic, we find that individuals trade to increase the range of choices and, hopefully, to lower the cost of satisfying human wants. How does trade lower costs? To answer this question, we shall need to examine some fundamental economics.

The basic economic problem consists in this: Man has limitless wants; he seeks to satisfy them with limited resources.

Man, being a rational animal having the power of memory, reason, and imagination, persists in forever visualizing new wants which he would like to have satisfied. The natural resources and the human energy available to satisfy these wants are limited.

Faced with this basic dilemma, man must make choices. He must decide how he will allocate the scarce resources and toward what ends. He must make decisions on what will be produced, and then other decisions about how the production will be divided between the members of society.

It is true that man has aspirations and objectives that are noneconomic, but most of them have economic consequences. For example, if he wishes to take time out to enjoy a beautiful sunset or to vacation in the mountains, he must forgo the rewards from productive effort that he could have had.

The Exchange Equation

"Trade" is the term we use to describe the exchange process; the act whereby we increase the variety of goods that we may enjoy. It is an essential part of that production technique called "division of labor" that permits specialization and large increases in efficiencies.

In a division-of-labor society, some workers produce a given goods or service and exchange this with other workers for the products of