

# 2.2.5 Net Trade

## Net Trade Overview

- Net trade is the balance between the value of exports and imports
- It is calculated by subtracting the value of imports from the value of exports ( $X-M$ )
- UK net trade is usually negative as we tend to import more than we export
- A decrease in Imports is a leakage and can lead to a decrease in AD

## Real Income as an Influence on Net Trade

- A rise in incomes can lead to a reduction in exports as companies may sell domestically instead (which contributes to consumer expenditure)

- A rise in incomes can lead to UK citizens increasing demand for imports (depends on marginal propensity to import)

## **Exchange Rates as an Influence on Net Trade**

- Remember SPICED acronym
- If exchange rate rises (pound becomes stronger) exports fall due to UK becoming less competitive and offering more expensive imports. Foreign goods also become cheaper
- In the SR a stronger exchange rate can actually increase exports since demand for X and M is price inelastic in short run due to time lags associated with spending patterns

## **State of World Economy as an Influence on Net Trade**

- Value of UK exports highly dependent on economic growth rates of other nations
- During covid global recession, demand for UK exports fell as recessions in other countries lead to greater unemployment leading to lower incomes leading to less demand for UK goods

## **Degree of Protectionism as an Influence on Net Trade**

- Tariffs and other restrictions on trade can make it difficult for UK firms to export to certain countries (Chinese tariffs on UK goods makes it difficult for UK to export to China)

## **Non-Price Factors as an Influence on Net Trade**

- Changes in Quality and Design
- Changes in Transport costs

- Changes in Reliability
- Changes in After-sales service