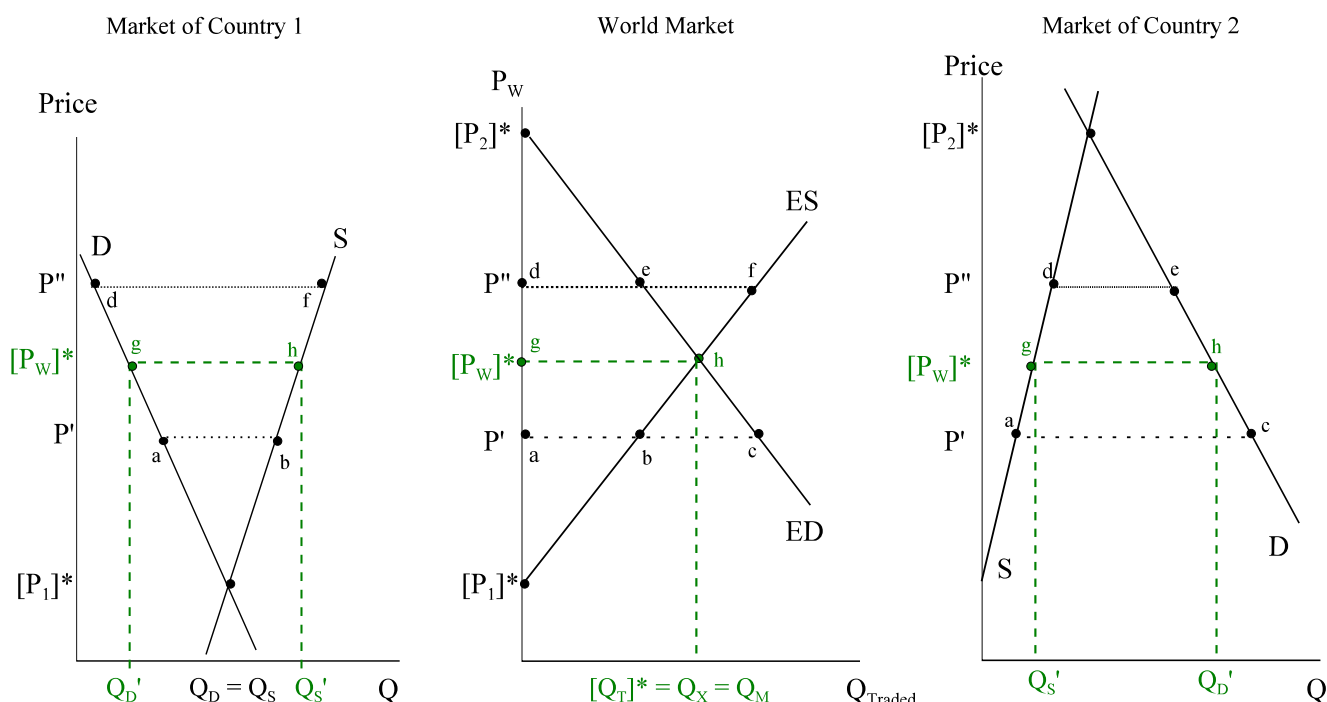


Partial equilibrium analysis: Why do nations trade?



This is an example of a two-country, one-product trade model. To analyze the world market situation, it is necessary to determine the excess supply and excess demand. This permits an analysis of equilibrium world price and quantities traded.

ES: excess supply or the exportable surplus

$ES = [S - D]$ in the exporting country

The willingness of the exporting nation to take various quantities of a specific commodity to the world market, per unit of time, at all relevant prices (e.g., all prices greater than $[P_1]^*$ which is the autarky price), all else held constant.

ED: excess demand or the import demand

$ED = [D - S]$ in the importing country

The willingness of the importing nation to take various quantities of a specific commodity off of the world market, per unit of time, at all relevant prices (e.g., all prices less than $[P_2]^*$ which is the autarky price), all else held constant.

LOOP: law of one price

There is one world price at which the quantity exported is exactly equal to the quantity imported and in which all markets are in equilibrium. This is expected to occur under the following assumptions: (1) markets are competitive; (2) the good is identical in all markets; (3) there is no government policy or regulation affecting prices, and (4) no transactions or transportation costs.