COMPETITION IN THE GLOBAL ECONOMY

In this section we examine how international competition affects prices in the nation, how the value of the nation's currency affects the nation's international competitiveness, and how a competitive firm in the nation adjusts to international competition.

Domestic Demand and Supply, Imports, and Prices

Domestic firms in most industries face a great deal of competition from abroad. Most U.S.-made goods today compete with similar goods from abroad and, in turn, compete with foreign-made goods in foreign markets. Steel, textiles, cameras, wines, automobiles, television sets, computers, and aircraft are but a few of the domestic products that compete with foreign products for consumers' dollars in the U.S. economy today. International competition affects the price and the quantity of commodities sold by domestic firms, as shown by Figure 9-4.[5]

In Figure 9-4, D_X and S_X refer to the domestic market demand and supply curves of commodity X. In the absence of trade, the equilibrium price is given by the intersection of D_X and S_X at point E, so that domestic consumers purchase $400X$ (all of which are produced domestically) at $P_X = \$5$. With free trade at the world price of $P_X = \$3$, the price of

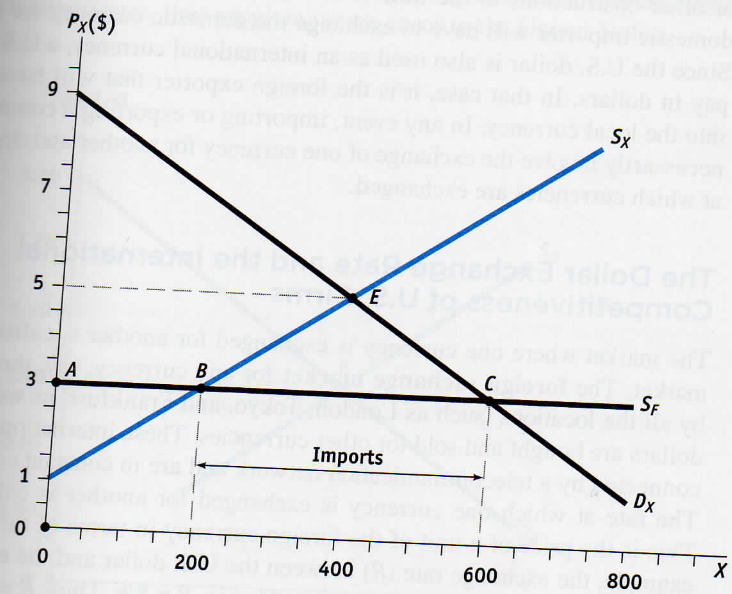

FIGURE 9-4 Consumption, Production, and Imports under Free Trade In the absence of trade, equilibrium is at point E, where D_X and S_X intersect, so that $P_X = \$5$ and $Q_X = 400$. With free trade at the world price of $P_X = \$3$, domestic consumers purchase $AC = 600X$, of which $AB = 200X$ are produced domestically and $BC = 400X$ are imported.

Figure 9-4 is similar to Panel A of Figure 2-9 and is used to extend the analysis of Section 2-6.