

Factors Affecting International Trade Flows

a) Impact of Inflation

- A relative increase in a country's inflation rate will decrease its current account, as imports increase and exports decrease.

b) Impact of National Income

- A relative increase in a country's income level will decrease its current account, as imports increase.

c) Impact of Government Restrictions

- A government may reduce its country's imports by imposing a tariff on imported goods, or by enforcing a quota.
- Some trade restrictions may be imposed on certain products for health and safety reasons.

d) Impact of Exchange Rates

-When a country's currency appreciates, current account balance tends to decrease as a result of imports > exports.

-One reason for this is that when currency appreciates, local products and services will be perceived as expensive compared to international imported products. Hence local community prefer to purchase imported products over local products.

-The other reason is that when currency appreciates, exports will be perceived to be expensive for the international buyers hence they will be discouraged to invest in appreciated currency production and consumption.