Offer Curves

Course Title: International Economics

Course Code: ECON3019

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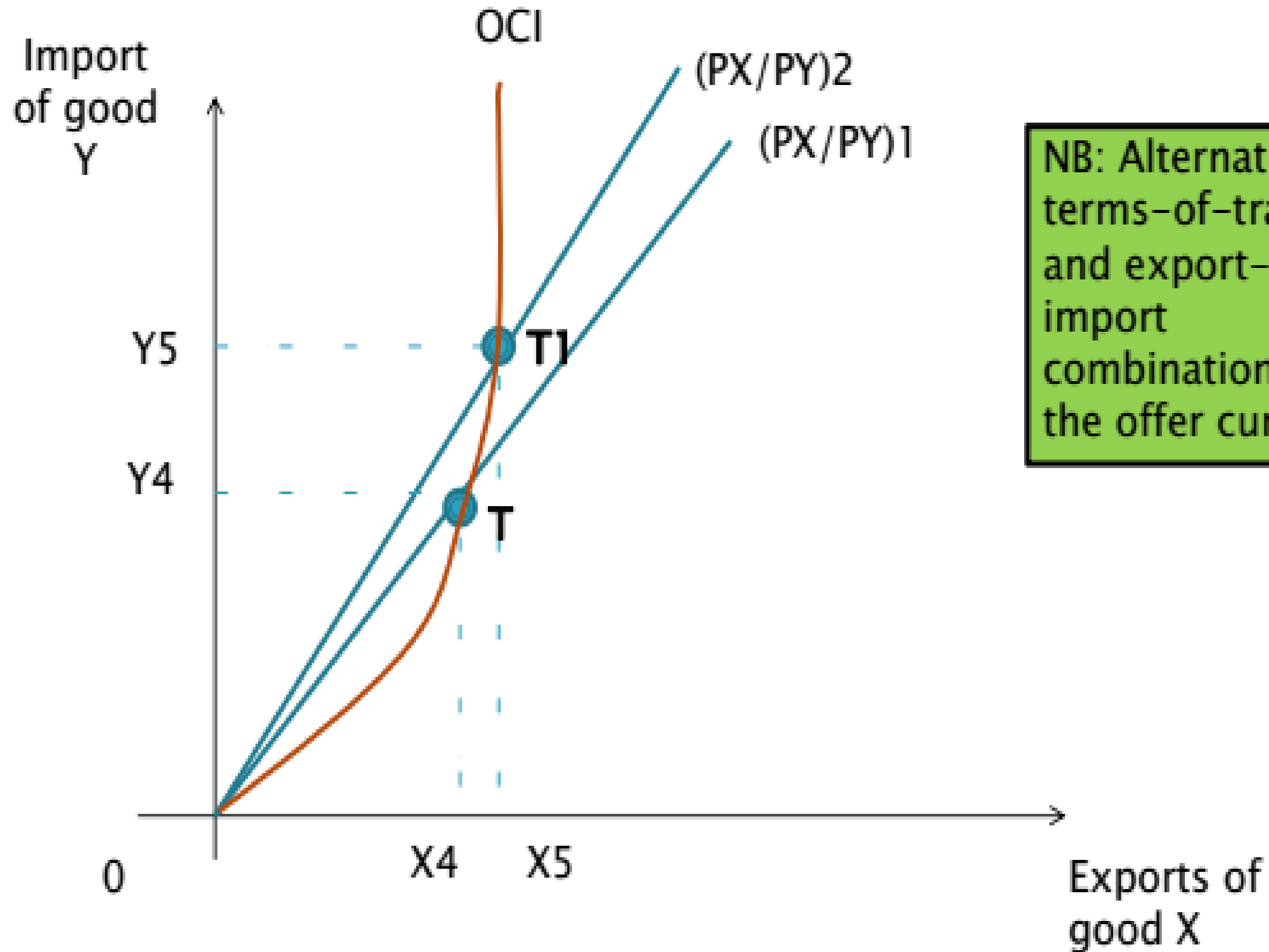
- An offer curve is alternatively called the reciprocal demand curve of a country.
- It indicates the quantity of imports and exports that a country is willing to buy and sell on the world market at all possible relative prices.
- More specifically, the curve shows the county’s willingness to trade at various possible terms-of-trade.

- The offer curve is a combination of the demand for imports and the supply of exports.
- Assuming that two countries; i.e. I and II are involved in international trade and two goods, X and Y.
- Therefore, we can draw the offer curves in respect of the two countries as follows:

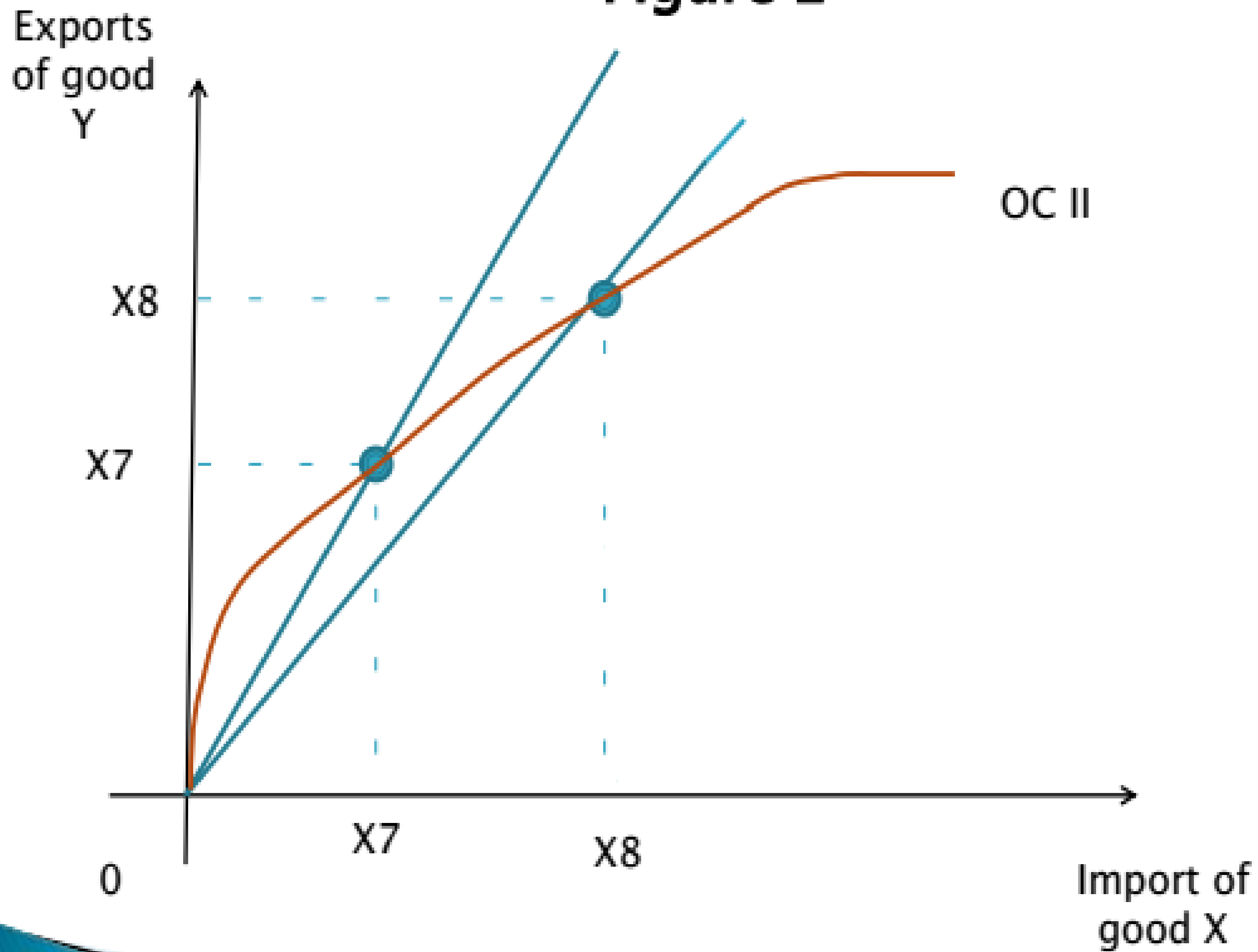
Figure 1



- Point T corresponds to the volume of trade associated with (PX/PY)1 price ratio. At point T county I exports quantity 0X4 of good X and imports 0Y4 of good Y. The price ratio could also be regarded as the terms-of-trade.
- Point T1 corresponds to the volume of trade associated with the (PX/PY)2 price ratio. At point T1 county 1 exports 0X5 of good X and imports 0Y5 of good Y.
- (PX/PY)2 in the figure above is represented by a steeper price line and, therefore, a higher relative price ratio. Hence, we expect country II to respond by increasing the quantities of good X that are exported. Similarly, country II's offer curve can be drawn as follows:

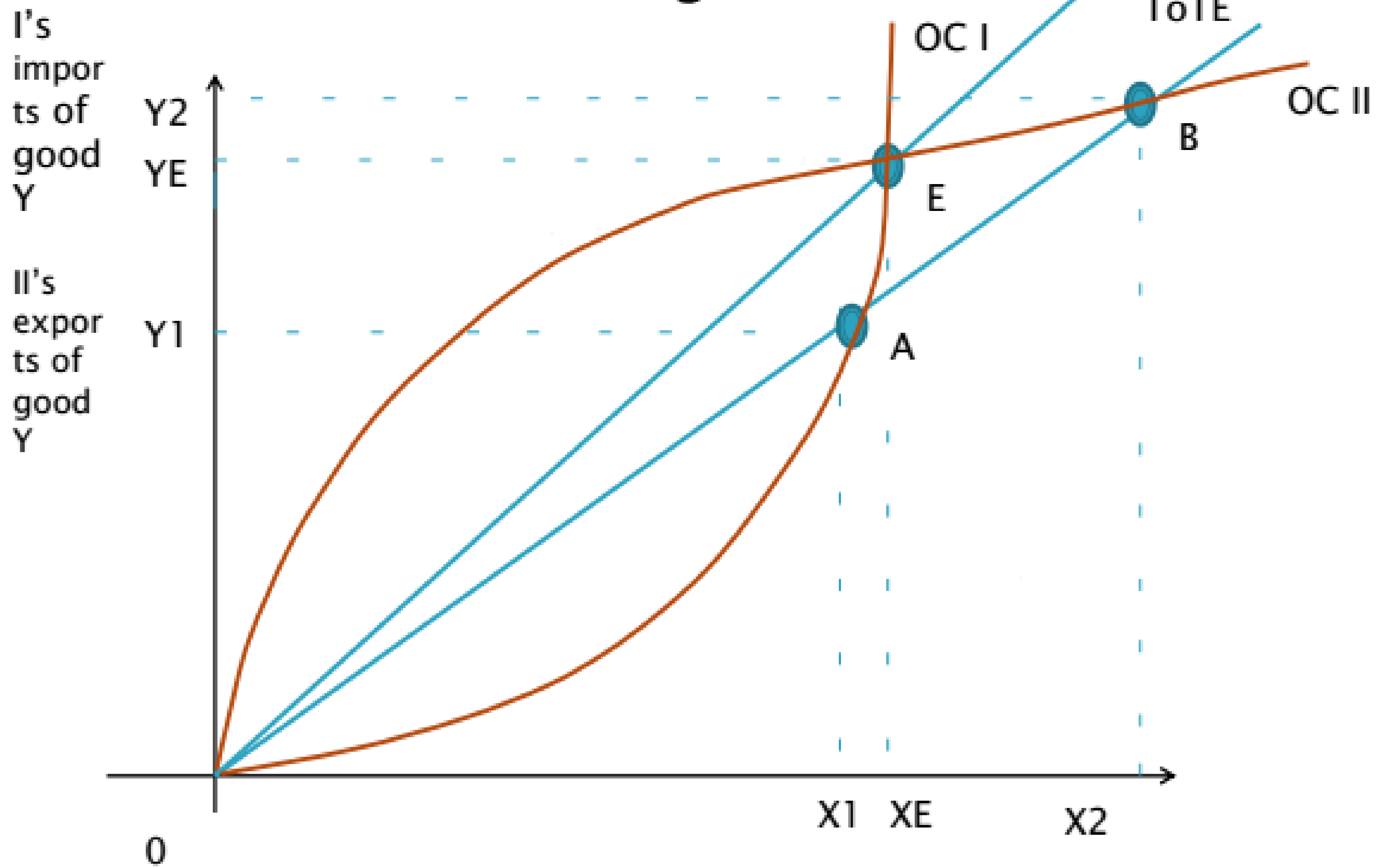
The same logic that was used in explaining figure 1 can also be extended to figure 2.

Figure 2



- Next, we bring together the two countries offer curves in order to establish the trading equilibrium, as well as the equilibrium terms of trade for both countries.

Figure 3



I's exports of good X,
II's imports of good X

- Trading equilibrium occurs at point E. This is because at point E, the quantity of good X (0XE) that country I wishes to export equals the quantity that country II wishes to import.
- In addition, the quantity of good Y that country I wishes to import (0YE) equals the quantity of good Y that country CII wants to export.
- The equilibrium terms of trade is denoted by (PX/PY)E or ToTE.