How Monetary Policy Can Affect International Trade

**Contractionary Monetary Policy**
(Decreases rate of growth in money supply)

- Increases interest rates
- Encourages foreign financial investment in U.S.
- Strengthens the international value of the dollar
- Increases imports
- Decreases exports
- Trade balance moves toward deficit
- Employment may decrease; Inflation may decrease

**Expansionary Monetary Policy**
(Increases rate of growth in money supply)

- Decreases interest rates
- Discourages foreign financial investment in the U.S.
- Weakens the international value of the dollar
- Decreases imports
- Increases exports
- Trade balance moves toward surplus
- Employment may increase; Inflation may increase