ECONOMICS
ONLINE INSTRUCTION (WEEK ONE)

Mr. Sapia

Directions: Please **read and analyze all informational texts and documents and answer** the question sheet at the very end of the packet. The question sheet will consist of 5 questions AND a writing task.

PLEASE CLEARLY PRINT YOUR FULL NAME AND WRITE YOUR ANSWERS NEATLY. **A SCORE OF ZERO WILL BE GIVEN IF I CAN'T READ OR DECIPHER YOUR RESPONSE. THIS IS NON-NEGOTIABLE**.

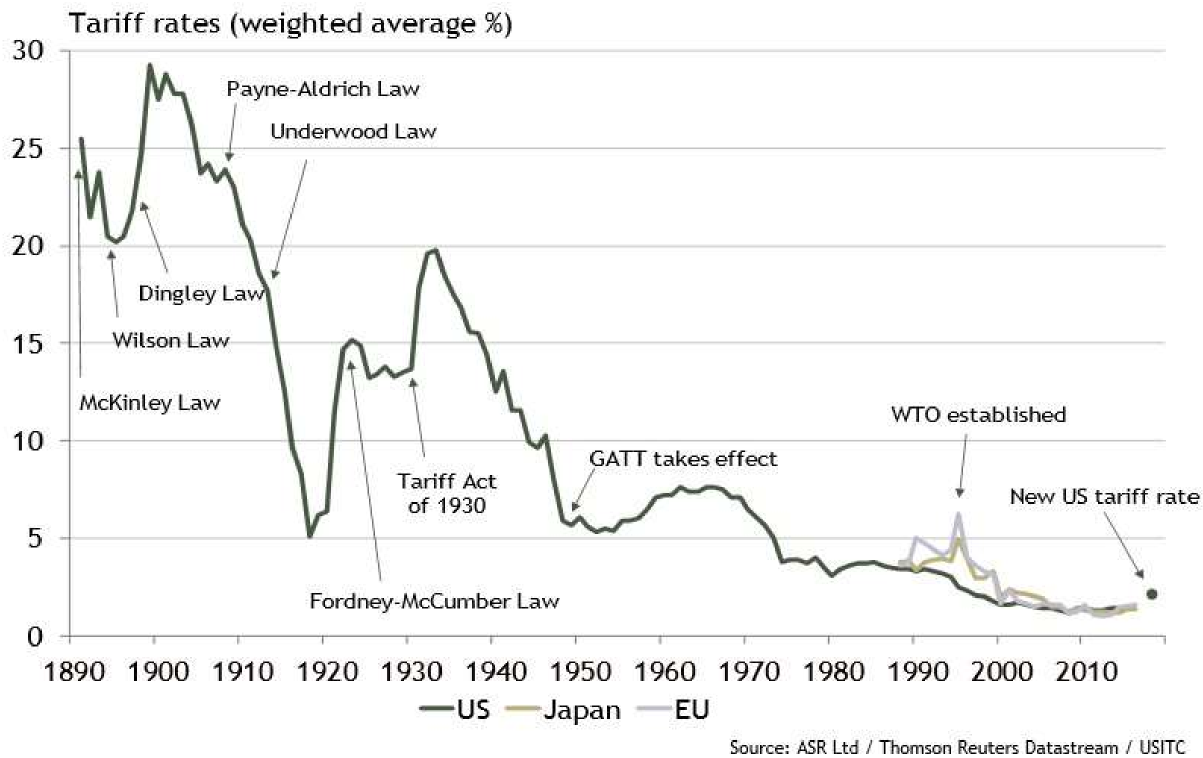
FEEL FREE TO EMAIL ME YOUR COMPLETED WORK (ONLY THE ANSWER SHEET) BEFORE THE DUE DATE.

Trade Barriers and Agreements

Today, many people favor increased foreign trade, while others fear its effects. To understand why, you need to understand the kinds of barriers that nation sometimes implement to trade.

A **trade barrier**, or trade restriction, is a means of preventing a foreign product or service from freely entering a nation's territory. Trade barriers take several forms and may be used for various purposes.

Tariffs.--- One common trade barrier is a tariff, or a tax on imported goods. Until the early 1900s, tariffs were a major tool for the United States government to raise revenue or money for the country. However, since the 1950s, average tariff rates have declined compared to the decades between 1900-1940. Still, the United States continues to collect tariffs on steel, foreign-made cars, and many other products produced overseas.



If you have traveled abroad, you may have had to pay a tax on foreign goods you brought back to United States. These custom duties are another form of tariff.

Another kind of barrier is an **import quota**. Import quotas place a limit on the amount of a good that can be imported into our country. For example, the United States limits the annual amount of raw cotton coming into the country from other nations. Many import quotas are now illegal under international trade laws.

Tariffs and quotas are laws set by the importing country. (the country that is bringing in the product or material). By contrast, a **voluntary export restraint** (VER) is a voluntary limit set by the exporting country, restricting the quantity of a product it will sell to another country. A nation that adopts a VER seeks to reduce the risk that the importing country will impose damaging trade barriers itself.

Other government actions may also create trade barriers. For example, a government may require foreign companies to obtain a license to sell goods in the country. High licensing fees and slow licensing processes act as informal trade barriers.

Health, safety, or **environmental regulation**s can also act as trade barriers. Suppose a nation treats the fruit it grows with a particular insecticide (chemical). Another nation might ban any fruit treated with that insecticide in order to discourage imports of foreign fruit. The United States anti-pollution standard that requires cars to be equipped with catalytic converters is another example. Cars that do not meet this requirement cannot be exported to the United States.

Finally, a nation may impose trade barriers and other economic sanctions for political reasons. **Sanctions** are actions a nation or group of nations take in order to punish or put pressure on another nation. For example, in the 1960s, the United States banned all trade with Cuba. The purpose of this trade embargo was to cause economic strain that might weaken Cuba's communist dictatorship. In **embargo** is an official ban on trade or other commercial (business) activity with the country.

By limiting supply, trade barriers can have very different effects on domestic producers and consumers. Trade barriers may also create tense relations between importing and exporting countries. Trade barriers can help domestic producers compete with foreign companies. By limiting imports from those firms or companies, or by making the prices of those imports higher, trade barriers give a competitive advantage to domestic or home-grown companies.

Although domestic producers may benefit, consumers can lose out. Restrictions on imports result in higher prices. For example, suppose the market price of an imported car is $20,000. If the government places a 10% tariff on all imported foreign cars, the price of the average imported car would increase from $20,000 to $22,000. Consumers who bought such a vehicle would be paying a higher price than if they had been no tariff. Also, with foreign competition limited, domestic carmakers would have no incentive to keep prices low.

Trade barriers may also feel international conflict. When one country restricts imports, it's trading partner may retaliate by placing its own restrictions on imports. If the first country responds with further trade limits, the result is a **trade war**, a cycle of escalating trade barriers. Trade wars often cause economic hardship for both sides.

Probably the most damaging trade war in American history began during the Great Depression. In 1930, Congress passed the **Smoot-Hawley Act**, raising average tariff rates on all imports to

50%. Congress hoped the tariff would protect American workers and businesses from foreign competition and help the economy rebound.

The reverse effect took place, though. Other countries responded by raising tariffs on American made goods. The resulting trade war decreased international trade and deepened the worldwide depression. Most economists blame the Smoot-Hartley tariff for increasing American unemployment.

Trade war still occur, but they usually involve a few products rather than all imports. In 2002, the United States placed temporary tariffs on imported steel to help American steelmakers recover from bankruptcy. European nations threatened to retaliate. This "steel war" ended when an international panel ruled that the tariffs were illegal.

Why does a nation impose trade barriers? One reason is **protectionism**, the use of trade barriers to shield domestic industries from foreign competition. People will support protectionism have generally used three main arguments to support their view or position: saving jobs, protecting young businesses or industries, and safeguarding national security.

One argument for protectionism is that it shelters workers in industries that may be hurt by foreign competition. Suppose that certain East Asian Nations had a competitive advantage in producing textiles. If the United States cut tariffs on textiles imports, domestic textile manufacturers might find it hard to compete with imports from East Asia. They would have to close their factories and lay off workers.

Ideally, the laid off workers would take new jobs in other industries. In practice, however, many of these workers would find relocation and retraining difficult. In addition, few industry or political leaders want to see existing industries shut down or large numbers of people lose their jobs. For this reason, public officials might favor protectionism to keep companies alive and people working.

Another argument for protectionism is that industries in the early stages of development needs time and experience to become efficient producers. Tariffs that raise the price of imported goods provide a period of time for these **infant industries** to become more competitive. Once that happens, the tariff can be eliminated.

In the early years of the United States, Alexander Hamilton favored using tariffs to protect young American businesses from European competition. Today, many developing nations adopt protectionist policies for similar reasons.

Three problems may arise with such protective tariffs, however. First, a protected infant industry may lack the incentive to "grow up" that is, to become more efficient and competitive. Second, once an industry has been given tariffs protection, lawmakers may find it difficult for political reasons to take the protections away. Third, a protected industry can keep its prices relatively high, increasing costs to consumers.

Safeguarding national security is the third primary argument supporting protectionism, as stated earlier. Certain industries may require protection because their products are essential to defending the country. In the event of a war, the United States would need an uninterrupted supply of steel, energy, and advanced technologies. For this reason, the government wants to ensure that such domestic industries remain active. Opponents of trade barriers agree that protecting defense industries is important. However, they argue that some industries that seek protection are not really essential to national security.

Name:______________________________ Mr. Sapia

ECONOMICS ANSWER SHEET

Directions: *Please record your answers in the space that is provided. Furthermore, write NEATLY. A score of zero will be given if I cannot understand your response.* **EMAIL ME BACK ONLY THE COMPLETED ANSWER SHEET. THANK YOU.**

1. How are voluntary export restraints and import quotas different? (16 points)

2. Using the graph in the reading, describe what has happened to tariff rates since 1950 versus the time period between 1900 to 1950. (16 points)

3. Why are trade wars harmful? (16 points)

4. What is the purpose of popular slogans promoted by our government, such as "Buy American"? (16 points)

5. What are the three arguments given for protectionism? (16 points)

Part Two: Write a WELL-CONSTRUCTED paragraph describing the benefits and drawbacks of raising tariff rates. (20 points)