

International Trade and its impacts

Econ 1101

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Announcements

Midterm 1 results are posted

- Moodle grade-book has the scores, your answers and HW scores
- Specific link in moodle explaining how everything works (week 6)
http://www.econ.umn.edu/econ1101/midterm1_results.html
- Platform debate today in recitation

Assignment: for next week reading 5 (trade policy and china)
<http://www.econ.umn.edu/econ1101/reading5.html>

ECON 1101 Lecture 7.1

1. Comments on carbon policy

(see slides in website - lec 7.i)

2. New Issue: International Trade

3. Impact of tariffs and quotas

(application: sugar)

ECON 1101 Lecture 7.1

1. Comments on carbon policy

Comments on carbon policy

In the first part of slides of lec 7.i (also in website) you can find:

- (A) Gas tax
- (B) Cap and trade SO_2 in the U.S.
- (C) Regulation of CO_2 : U.S. vs Europe
 - (c1) Europe (cap and trade)
 - (c2) United States (policies)
 - (c3) Subsidies (green energy) in the US
- (D) Why does U.S. have substantial regulation of SO_2 , but minimal regulation of CO_2 ?

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2. International Trade

International Trade

- Opening the economy to international trade
EconLand (small economy - price taker, perfectly competitive)
 - In class: Price world $<$ Price (autarky): importer
 - In recitation: Price world $>$ Price(autarky): exporter
- What is the new allocation when free trade
 - Price of equilibrium, $Q(s)$, $Q(d)$, imports
- Welfare analysis when free trade (surpluses)

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3. Impacts of tariffs and quotas

Impacts of tariffs and quotas

- From previous analysis: when EconLand is an importer, free trade reduces producer surplus
- Two policies that the government can use to protect domestic producers from imports:
 - Tariffs
 - Quotas
- How to get new allocation with each policy (price, $Q(s)$, $Q(d)$, imports)
- Welfare analysis (show DWL)
- Application: quotas and sugar industry

Application: quotas and sugar industry

Real world example: quotas and sugar industry in U.S:

- Sugar quotas have been around for a long time
- The impact of quota on a price increase, nearly twice as high than the world price
- What are other negative effects:
 - Food makers face higher input costs
 - We consume less sugar (example: we don't use it to sweeten soft drinks like the rest of the world)

Application: Sugar

Why protect them?

- Supporters: argue that
 - sugar program (quota) does not require direct payments from taxpayers
 - provides many jobs and adds to the national economy
- This is it creates jobs and PS

(1) What would happen if the quota were lifted?

- Increase in imports will cut down the size of the sugar industry and people will lose jobs
 - but there will be increase in total surplus (from previous analysis)

(2) What can be done about the unemployed? ...

Application: Sugar

(2) What can be done about the unemployed?

- with a bigger pie (more TS) we can compensate them (redistribute the pie towards them)
- In reality the government has programs to help workers affected by trade (trade adjustment assistance)
 - payments for retaining another job
 - <http://www.taacenters.org/>

(3) But there might be offsetting job gains (from lifting the quota)...

Application: Sugar

(3) But there might be offsetting job gains (from lifting the quota):

- The NAFTA ensures nearly zero tariffs for trade between Canada, U.S and Mexico

Consider for example the industry of candies:

- With NAFTA it makes sense to shut down candy factories here, build them in Mexico or Canada where sugar is cheap, then import the candy in to the U.S, tariff free. (Sugar has a different deal in NAFTA than candy)
- Removing quota and lowering sugar cost can prevent this types of business form going abroad so jobs would remain in the U.S.

Notes

- For this lecture: we worked mainly in the whiteboard
- Slides are not self contained for this particular class
- To see more slides about this topic look at moodle lec 7(i) and first part of 7(ii)