

The background of the slide features a stylized globe in the upper right corner, showing the Americas. A horizontal orange line spans the width of the slide, passing behind the globe. The background is a dark blue gradient with a faint grid of light blue lines.

## LECTURE NINE - PART THREE

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## The Politics of Trade

### **TRADE BARRIERS AND PROTECTIONISM**

## Back to Our Time Machine!

- It's two years after European trade ministers voiced their support for free trade based on Ricardo's persuasive arguments

There has been a flood of American  
food imports into Europe.

## The Politics of Protectionism

- The European clothing industry has grown dramatically.
- There are record profits because of heavy exports to America.
- **BUT** thousands of European farmers have been put out of work.
- Political unrest is growing!

## **Throw the Rascals Out!**

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- Newspapers have written scathing editorials:
- Throw out the political rascals!
- Replace them with leaders who will protect the European economy!!
- Supporting strict quotas on American food imports !!!

## **An Age-Old Political Problem**

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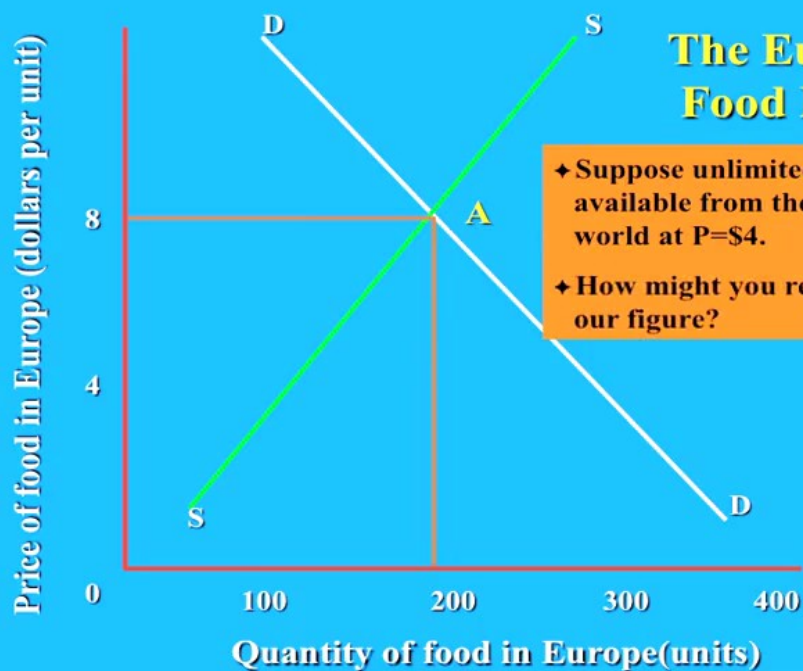
- **Winners:** Free trade creates thousands of jobs in export industries.
- **Losers:** Free trade can just as easily destroy jobs domestically in import-competing industries.

## Tariffs Versus Quotas

- Let's analyze the two most common ways of restricting trade.

### Question

Why are quotas often preferred to tariffs by the country subject to the tariffs or quotas?



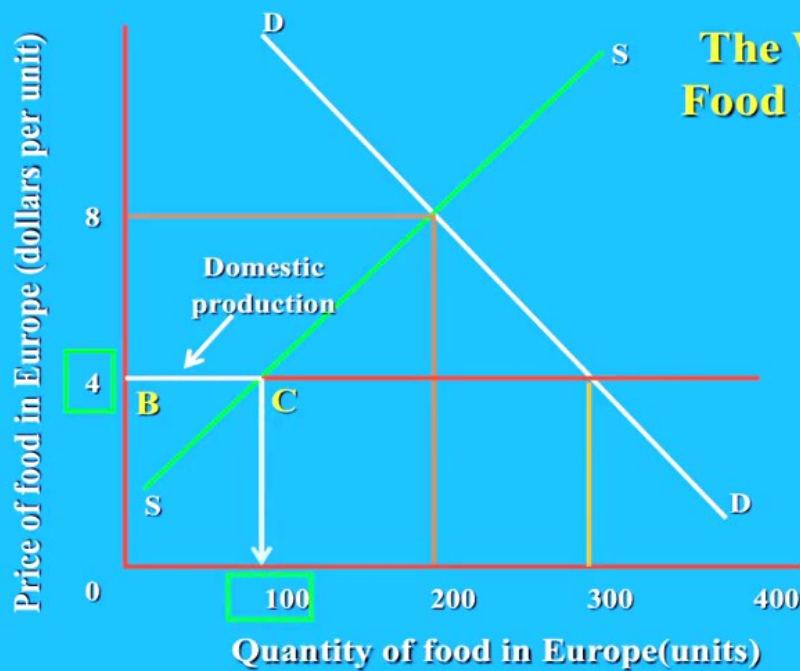
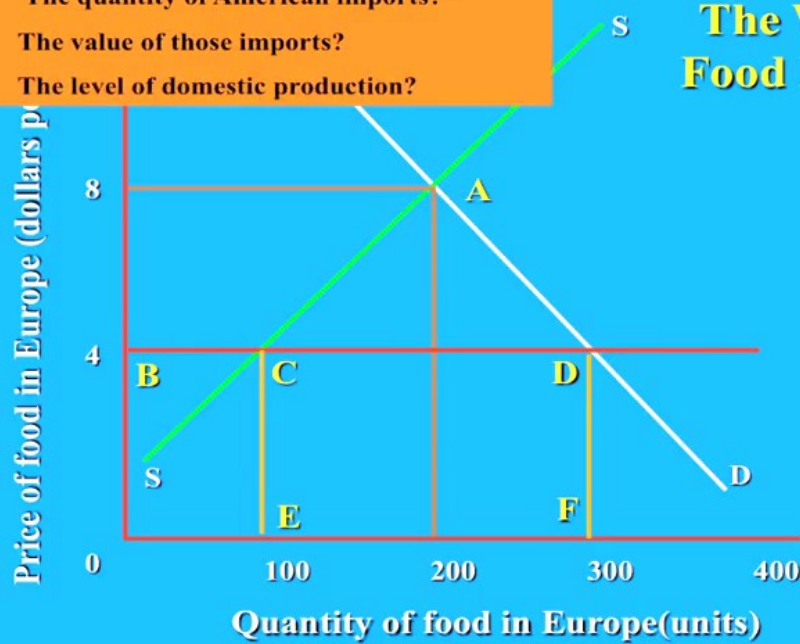
### The European Food Market

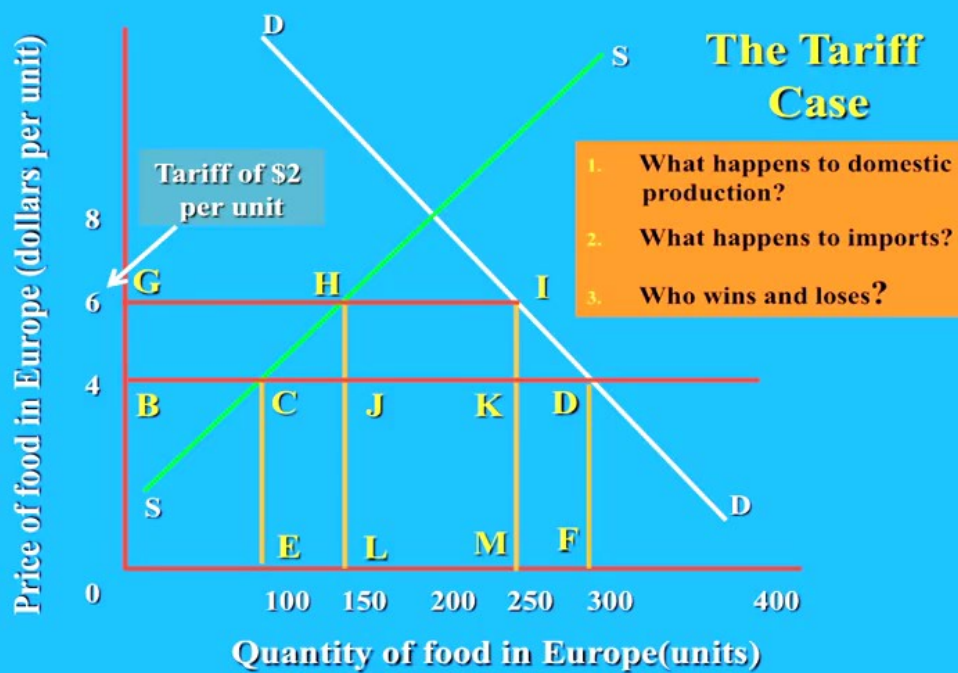
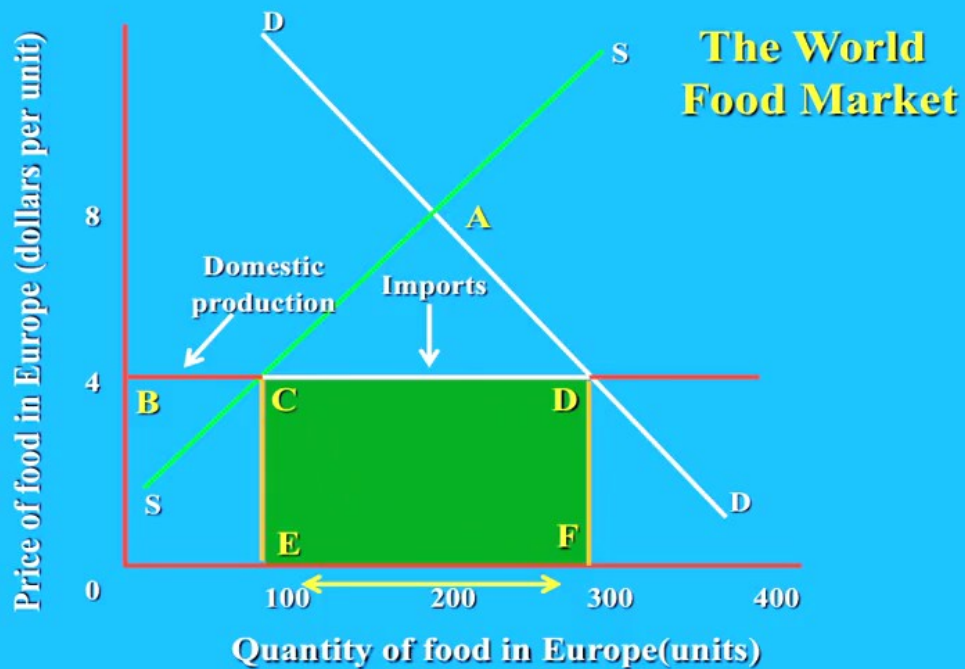
- ✦ Suppose unlimited food is available from the rest of the world at  $P=\$4$ .
- ✦ How might you represent this in our figure?

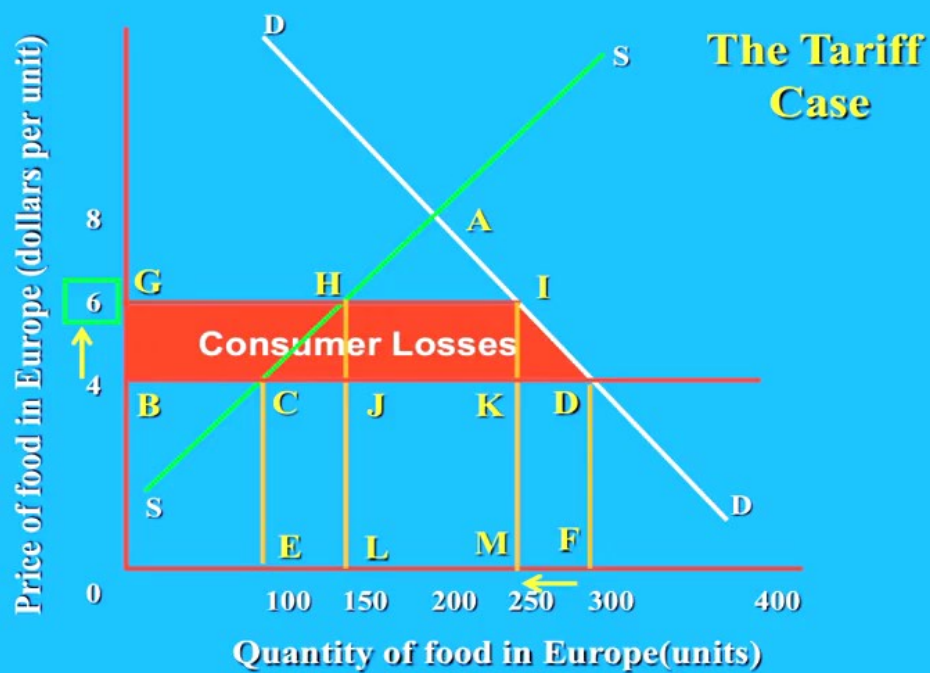
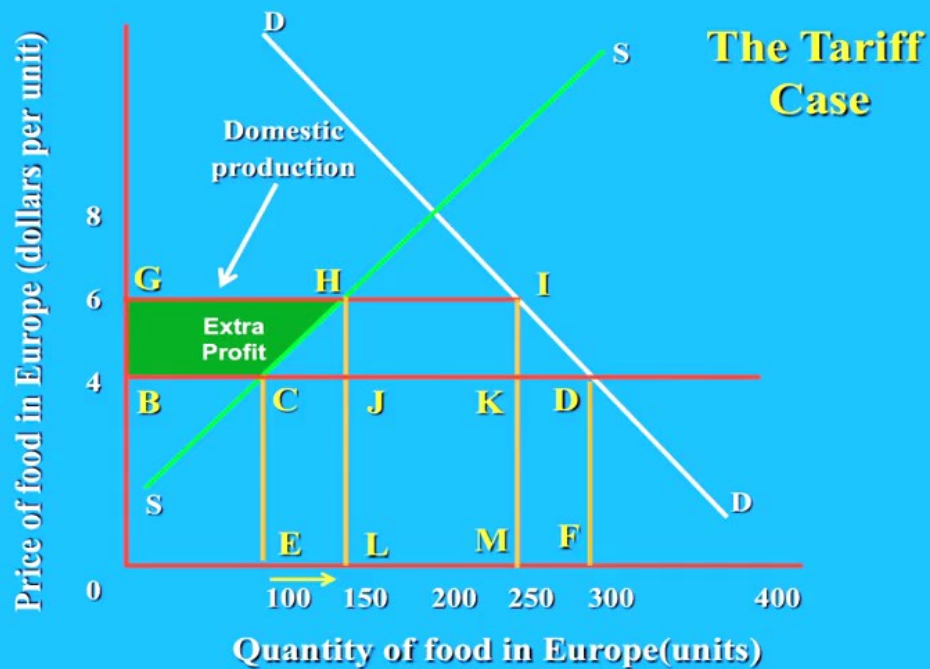


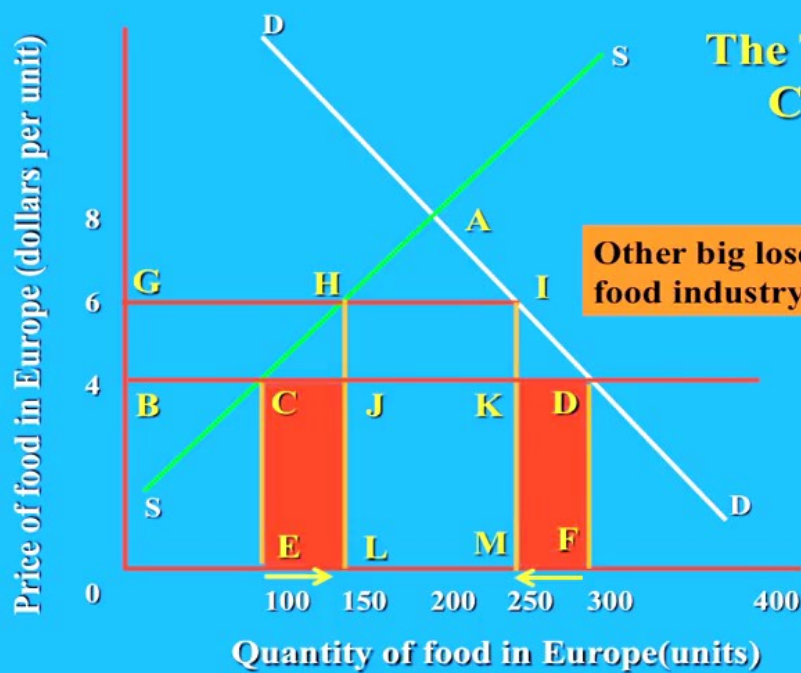
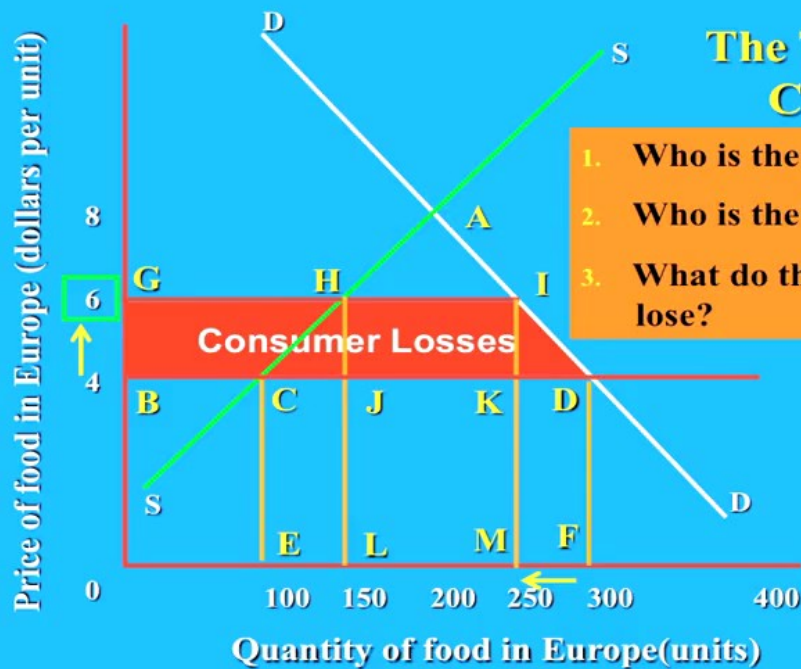
1. What will be food price to Europeans?
2. The quantity of American imports?
3. The value of those imports?
4. The level of domestic production?

## The World Food Market

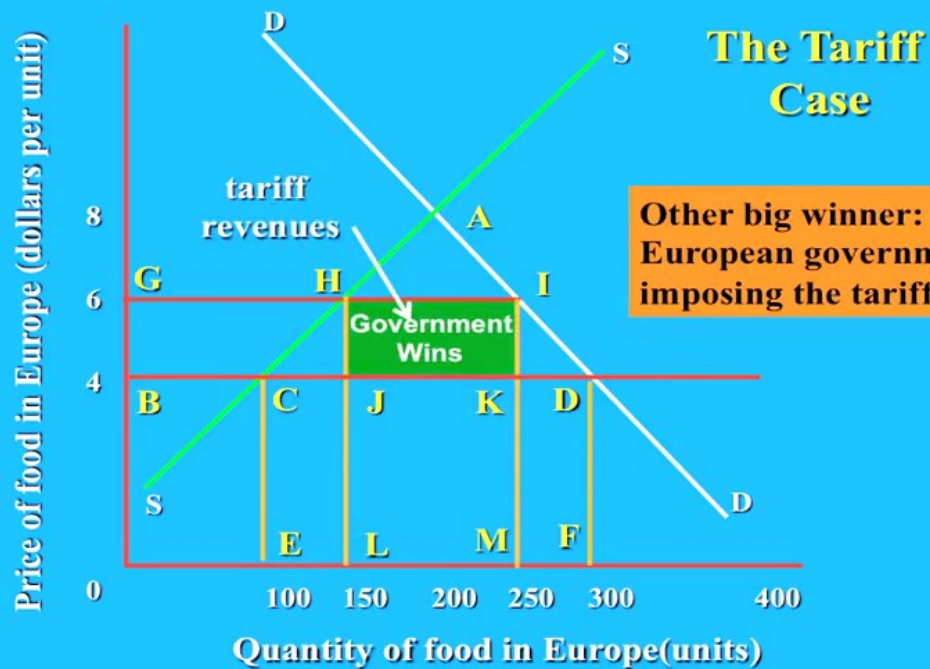












## The Politics of Tariffs

- A small group of European farmers gain.
- A big group of European consumers lose.
- A small group of American farmers lose.

### Question

What do you think will happen in American politics as a result of farmer discontent?

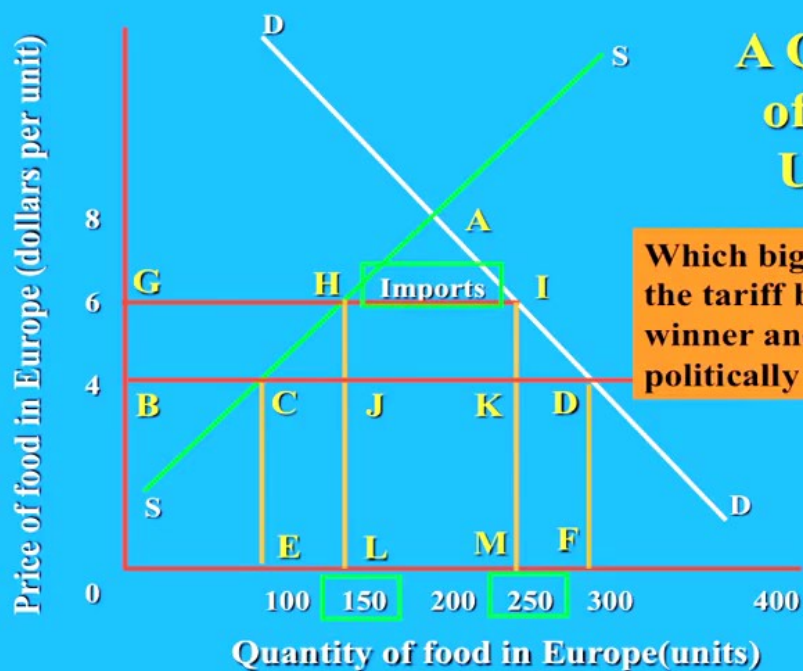
## Why Quotas Trump Tariffs Politically

- Pressure will build in America to retaliate against European food tariffs.
- **One possible solution:** Protectionist tariffs on European clothing imports.

### Question

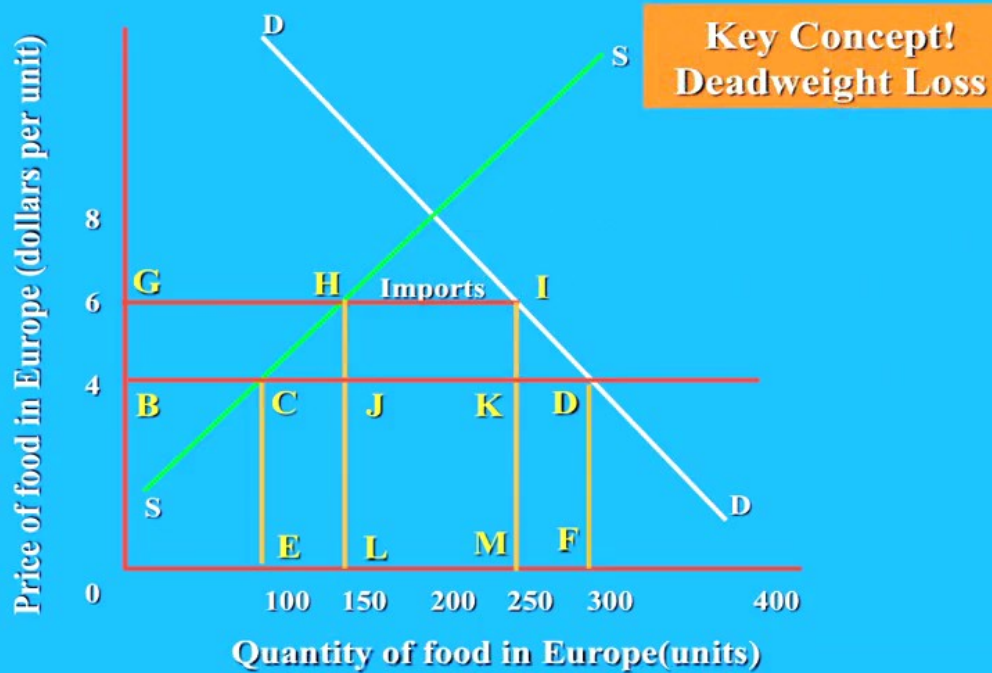
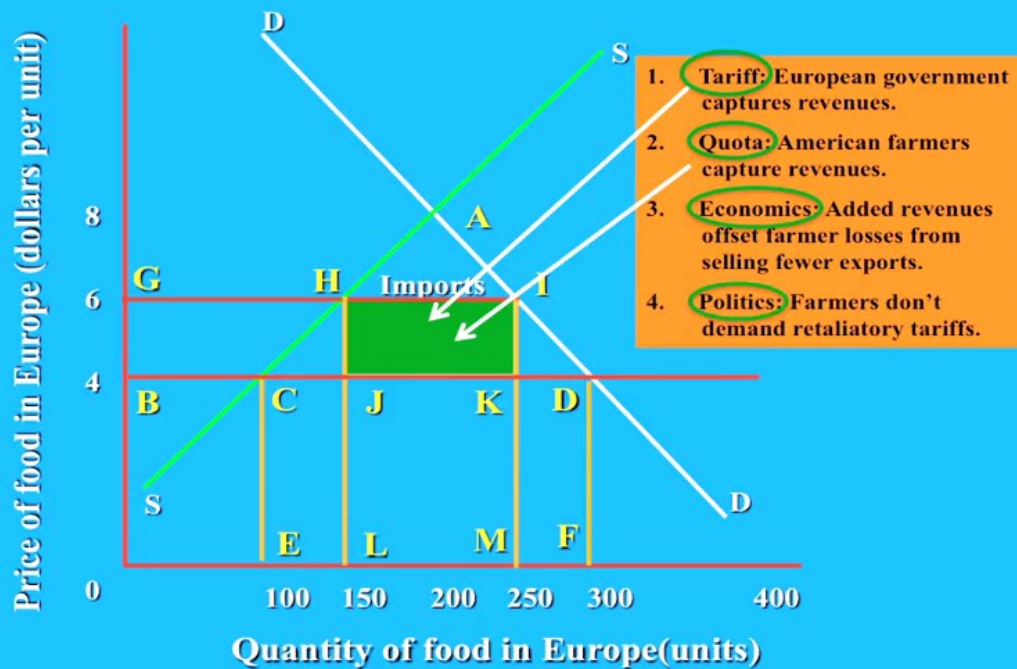
Why might replacing the European **tariff** on food with an equivalent **quota** avert a trade war???

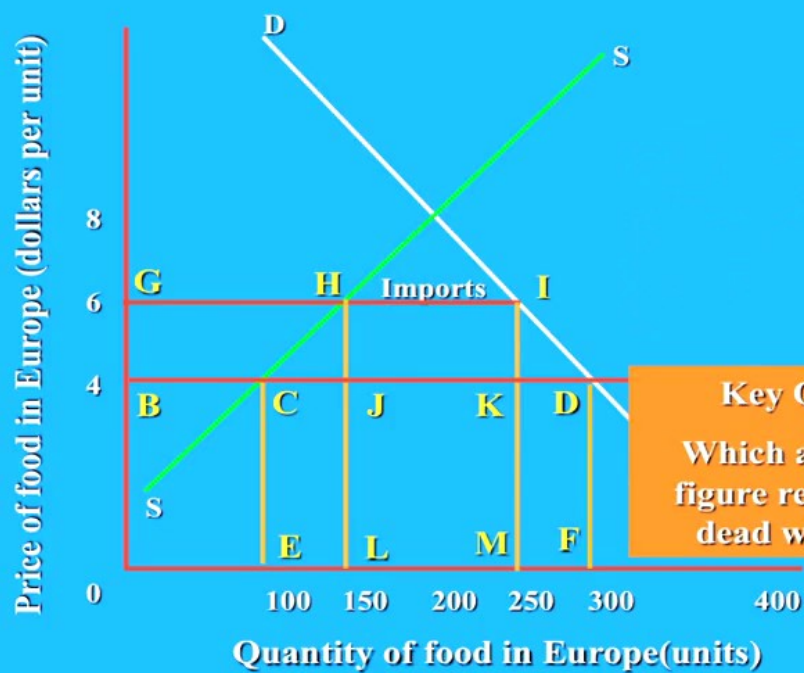
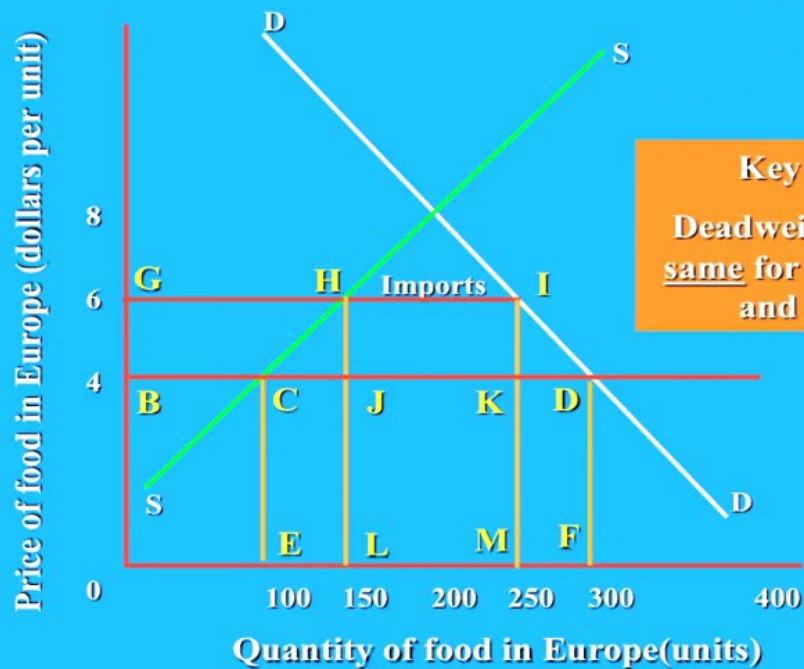
**Quota:** A quantity limit on imports.



**A Quota  
of 100  
Units**

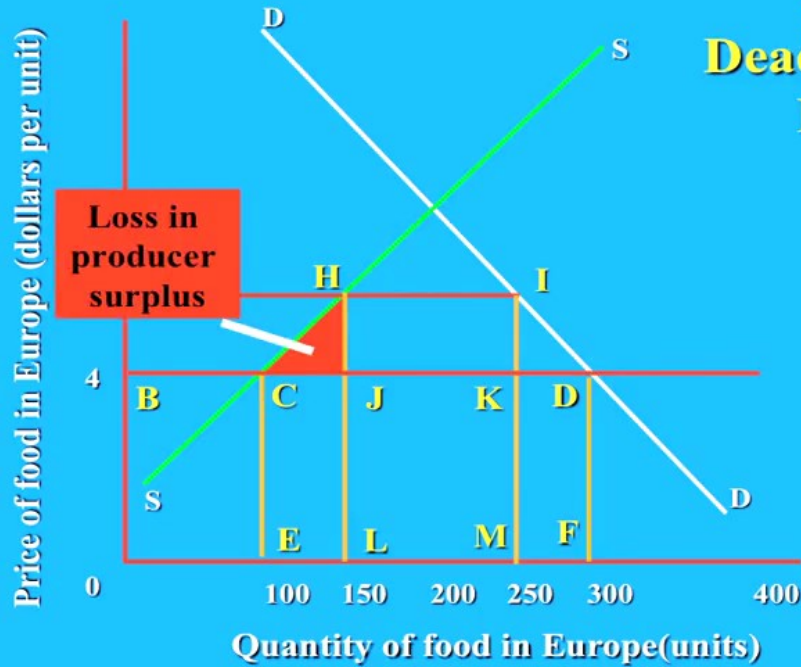
Which big loser from the tariff becomes a big winner and why is that politically important?







## The Deadweight Loss



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