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Week #9

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Lecture Nine: International Trade and Protectionism

NAFTA, GATT and the Euro. Tariffs, quotas, and trade deficits. Dumping, non tariff barriers, and protectionism. This is the language of international economics, and people all across the globe are speaking it in newspapers, corporate offices, retail stores, and union halls.

In the next two lectures, we are going to look very closely at some important issues in international trade. To begin this lecture, we will look from a theoretical perspective at why nations trade. In doing so, we will learn about Adam Smith's theory of absolute advantage and its much more compelling cousin, David Ricardo's theory of comparative advantage. We will also demonstrate the gains from trade.

Once we get these concepts down, we will turn to the thorny issue of trade barriers and protectionism, taking special care to explain the important economic and political differences between protectionist tools such as tariffs, quotas, and non-tariff barriers. After a discussion of the pros and cons of protectionism, we will then end the lecture with an examination of important multi-lateral trade agreements such as those embodied in NAFTA and the GATT.

Key Questions Lecture Nine: International Trade and Protectionism

1. Explain the theory of absolute advantage.
2. Explain the theory of comparative advantage.
3. What is the difference between a tariff and a quota?
4. Illustrate the deadweight loss of a tariff versus a quota.
5. Why, from a political perspective, are quotas often preferred to tariffs?
6. Briefly summarize the six major arguments in support of protectionism.
7. When does dumping occur?
8. Provide several examples of non-tariff barriers to trade.
9. What is the GATT?
10. What is NAFTA?
11. Describe the European Union.

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Created Mon 1 Apr 2013 3:17 PM PDT

Last Modified Mon 6 Jan 2014 1:17 AM PST

