## Chapter 20

[1](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idm84908672).

This is the opposite case of the Work It Out feature. A reduced tariff is like a decrease in the cost of production, which is shown by a downward (or rightward) shift in the supply curve.

[2](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idp4521984).

A subsidy is like a reduction in cost. This shifts the supply curve down (or to the right), driving the price of sugar down. If the subsidy is large enough, the price of sugar can fall below the cost of production faced by foreign producers, which means they will lose money on any sugar they produce and sell.

[3](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idm98979792).

Trade barriers raise the price of goods in protected industries. If those products are inputs in other industries, it raises their production costs and then prices, so sales fall in those other industries. Lower sales lead to lower employment. Additionally, if the protected industries are consumer goods, their customers pay higher prices, which reduce demand for other consumer products and thus employment in those industries.

[4](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idm28666880).

Trade based on comparative advantage raises the average wage rate economy-wide, though it can reduce the incomes of import-substituting industries. By moving away from a country’s comparative advantage, trade barriers do the opposite: they give workers in protected industries an advantage, while reducing the average wage economy-wide.

[5](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idp7397200).

By raising incomes, trade tends to raise working conditions also, even though those conditions may not (yet) be equivalent to those in high-income countries.

[6](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idm109502416).

They typically pay more than the next-best alternative. If a Nike firm did not pay workers at least as much as they would earn, for example, in a subsistence rural lifestyle, they many never come to work for Nike.

[7](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idp33287152).

Since trade barriers raise prices, real incomes fall. The average worker would also earn less.

[8](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idm66227568).

Workers working in other sectors and the protected sector see a decrease in their real wage.

[9](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idp111414224).

If imports can be sold at extremely low prices, domestic firms would have to match those prices to be competitive. By definition, matching prices would imply selling under cost and, therefore, losing money. Firms cannot sustain losses forever. When they leave the industry, importers can “take over,” raising prices to monopoly levels to cover their short-term losses and earn long-term profits.

[10](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idp22929616).

Because low-income countries need to provide necessities—food, clothing, and shelter—to their people. In other words, they consider environmental quality a luxury.

[11](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idp41927136).

Low-income countries can compete for jobs by reducing their environmental standards to attract business to their countries. This could lead to a competitive reduction in regulations, which would lead to greater environmental damage. While pollution management is a cost for businesses, it is tiny relative to other costs, like labor and adequate infrastructure. It is also costly for firms to locate far away from their customers, which many low-income countries are.

[12](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idm25520848).

The decision should not be arbitrary or unnecessarily discriminatory. It should treat foreign companies the same way as domestic companies. It should be based on science.

[13](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idm9931232).

Restricting imports today does not solve the problem. If anything, it makes it worse since it implies using up domestic sources of the products faster than if they are imported. Also, the national security argument can be used to support protection of nearly any product, not just things critical to our national security.

[14](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idm106000144).

The effect of increasing standards may increase costs to the small exporting country. The supply curve of toys will shift to the left. Exports will decrease and toy prices will rise. Tariffs also raise prices. So the effect on the price of toys is the same. A tariff is a “second best” policy and also affects other sectors. However, a common standard across countries is a “first best” policy that attacks the problem at its root.

[15](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idm85088304).

A free trade association offers free trade between its members, but each country can determine its own trade policy outside the association. A common market requires a common external trade policy in addition to free trade within the group. An economic union is a common market with coordinated fiscal and monetary policy.

[16](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idm70234560).

International agreements can serve as a political counterweight to domestic special interests, thereby preventing stronger protectionist measures.

[17](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idm125679440).

Reductions in tariffs, quotas, and other trade barriers, improved transportation, and communication media have made people more aware of what is available in the rest of the world.

[18](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idm150665440).

Competition from firms with better or cheaper products can reduce a business’s profits, and may drive it out of business. Workers would similarly lose income or even their jobs.

[19](http://openstax.org/books/principles-microeconomics-3e/pages/20-self-check-questions#fs-idm132633744).

Consumers get better or less expensive products. Businesses with the better or cheaper products increase their profits. Employees of those businesses earn more income. On balance, the gains outweigh the losses to a nation.