# ECON 151

# Prepare: Chapter 7

**Name:**

**Section:**

In order to get full credit, answer all questions in either **bold font** or red font.

**Read Chapter 7 in the Hubbard/O’Brien text.**

1. In Section 7.1, “The United States in International Trade,” on pp. 216-218, which point or fact most strikes you?

**The fact that the smaller countries GDP is greater with exports than the leading countries of exports, China and the United States. The United States count as a high income country compared to China, but both have similar percentage in the amount of international exports. Smaller countries rely on exports unlike the United States, but still do not produce and export as much.**

1. How does trade create both winners and losers? Give a specific example to illustrate your point. (see pp. 224-225)

**Because countries specialize in different productions they both win by trading with one another. Those firms who specialized like their country did win while the firms in those countries that produce the item being imported are the losers. These firms have competition and are run out of business.**

1. In the subsection “Where Does Comparative Advantage Come From?” (pp. 225-226) the authors discuss four sources of comparative advantage. List and very briefly describe each source. Next, using the subsection on p. 226, briefly explain how comparative advantage can change over time using the US consumer electronics industry as an example.

**Climate and natural resources, countries often have a comparative advantage when the resources is easily accessible to them like land.**

**Relative abundance of labor and capital, different countries have different types of workers, unskilled and skilled, and by using these with the lowest opportunity cost it produces the most.**

**Technology, countries either focus on improving already existing products or create new ones.**

**External economies, when it has been established in an area it increases.**

1. In the example of the market for ethanol on pp. 228-229, which group gains from international trade in ethanol and which group loses? Does international trade in ethanol increase or decrease economic surplus (consumer surplus plus producer surplus) in the US?

**With trade the consumers win because of the price decrease. The firms in the United States will lose because of the cheaper competition from Brazil. This increases economic surplus.**

1. A tariff or quota on ethanol imports hurts what group and helps what group? Does the tariff or quota increase or decrease economic surplus? (see pp. 228-229)

**The tariff hurts consumers and helps producers. This causes a decrease in the economic surplus.**

1. As reported on Figure 7.7 on p. 229 and on p. 230, how much was the estimated total loss of US consumers from the sugar quota in 2014? For the roughly 3,000 jobs saved in the US sugar industry by the sugar quota, how much does the sugar quota cost US consumers per job saved? Why does Hubbard assert that this cost is an underestimate? $**2.59 Billion. $860,000 per year. It’s an understatement because with the eliminations more jobs would be created.**
2. As you read pp. 232–234 and examine Table 7.5 and the table on p. 233, what fact most strikes you? Next, would the US gain from the unilateral elimination of tariffs and quotas, or would we only gain if other countries eliminate their tariffs and quotas also?

**The fact that when tariffs are placed they either help the consumers or the producers and neither of them win at the same time. We would only gain with the unilateral elimination of tariffs.**

1. Define protectionism. What do you consider to be Hubbard’s strongest point against the *saving-jobs* argument for trade barriers?

**Protectionism- using barriers to protect domestic firms from foreign competition.**

**The high wages argument. This shows that yes by only domestically producing products it helps increase jobs, but eventually can put other firms out of business and thus workers losing jobs.**

1. What do you consider to be Hubbard’s strongest point against the *protecting-high-wages* argument for trade barriers?

**With protectionism there is an increase in the standards of living an by not participating in free trade it decreases the standards of living. The opportunity cost also increases since the resources for some products becomes unattainable.**

1. What do you consider to be Hubbard’s strongest point against the *infant-industries* argument for trade barriers?

**With free trade the infant industries are unable to compete because the cost of their production is so high and thus, they charge higher prices and do not produce as much. With protectionism the infant industries can grow and become more efficient and then lower their prices.**

1. Define dumping. What problems are there in using tariffs to offset the effects of dumping?

**Dumping is selling a product for a price below the cost of production. Determining if a country or firm is dumping is difficult to calculate not making it accurate to use tariffs. Sometimes it helps business to sell at a lower price and is a strategy.**